TORONTO HYDRO Corporation

SECOND QUARTER FINANCIAL REPORT
JUNE 30, 2021

TORONTO HYDRO CORPORATION

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GLOSSARY

CDM – Conservation and Demand Management

CEAP – COVID-19 Emergency Assistance Program

CEAP-SB – CEAP for Small Business

CEO – Chief Executive Officer

CFO – Chief Financial Officer

CIR – Custom Incentive Rate-setting

City – City of Toronto

Corporation – Toronto Hydro Corporation

COVID-19 – Coronavirus disease 2019

ECA – Energy Conservation Agreement

Electricity Act – *Electricity Act, 1998* [Ontario], as amended

GAAP – Generally Accepted Accounting Principles

HONI – Hydro One Networks Inc.

IAS – International Accounting Standard

IASB – International Accounting Standards Board

IESO – Independent Electricity System Operator

IFRS – International Financial Reporting Standards

kW – Kilowatt

kWh – Kilowatt hour

LDC – Toronto Hydro-Electric System Limited

LRAM – Lost revenue adjustment mechanism

MD&A – Management's Discussion and Analysis

OCI – Other comprehensive income

OEB – Ontario Energy Board

OPEB – Other post-employment benefits

PP&E – Property, plant and equipment

RPP – Regulated Price Plan

TH Energy – Toronto Hydro Energy Services Inc.

Toronto Hydro – Toronto Hydro Corporation and its subsidiaries

TOU – Time-of-use

WMS – Wholesale Market Service

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2021 AND 2020

Executive Summary

- During the COVID-19 pandemic, the Corporation has maintained the full range of its services while focusing on the health and safety of its employees and the community. The Corporation has continued with critical work in its grid investment plan to maintain safety and reliability, support a growing city, and meet customer service needs;
- Net income after net movements in regulatory balances for the three and six months ended June 30, 2021 was $37.9 million and $73.7 million, respectively, compared to $36.0 million and $71.4 million for the comparable periods in 2020;
- Capital expenditures were primarily related to the renewal of the electricity infrastructure of LDC and were $159.7 million and $309.9 million for the three and six months ended June 30, 2021, respectively, compared to $169.7 million and $300.0 million for the comparable periods in 2020;
- On July 29, 2021, the Corporation filed a base shelf prospectus 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; and
- On August 18, 2021, the Board of Directors of the Corporation declared a quarterly dividend in the amount of $17.6 million with respect to the third quarter of 2021 [third quarter of 2020 - $23.2 million], payable to the City by September 30, 2021.

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 and six months ended June 30, 2021 and 2020 [the "Interim Financial Statements], which were prepared in accordance with IAS 34 *Interim Financial Reporting*. The Interim Financial Statements have been prepared following the same accounting policies and methods of computation as described in note 25 to the Corporation's audited consolidated financial statements as at and for the years ended December 31, 2020 and 2019 [the "2020 Annual Financial Statements"];

- 2020 Annual Financial Statements; and

- the Corporation's MD&A for the years ended December 31, 2020 and 2019 [the "2020 Annual MD&A"] including the sections titled "Electricity Distribution – Industry Overview", "Corporate Developments – COVID-19 Pandemic Considerations", "Legal Proceedings", "Share Capital", "Transactions with Related Parties", and "Risk Management and Risk Factors", which remain substantially unchanged as at the date hereof, except as may be noted below or as updated in the Corporation's Interim Financial Statements.

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

Business of Toronto Hydro Corporation

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

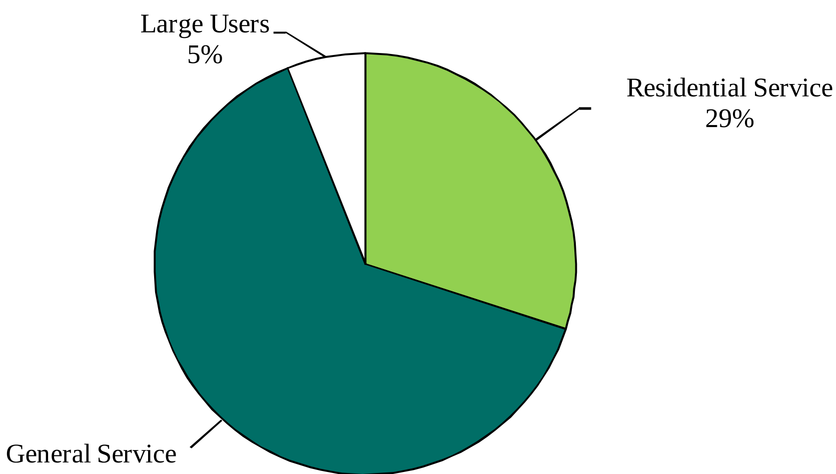
- LDC - distributes electricity; and
- TH Energy - provides street lighting and expressway lighting services in the city of Toronto.

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

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 784,000 customers located in the city of Toronto. LDC serves the largest city 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 electricity distributors in Ontario. For the six months ended June 30, 2021, LDC recognized energy sales and distribution revenue of $1,691.6 million from general service users[1], residential service users[2] and large users[3].

LDC Energy Sales and Distribution Revenue by Class

Six months ended June 30, 2021



[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 less than 5,000 kW averaged over a 12-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 greater averaged over a 12-month period.

Results of Operations

Net Income after Net Movements in Regulatory Balances

Interim Consolidated Statements of Income
Three months ended June 30
[in millions of Canadian dollars]

	2021 **$**	**2020** **$**	**Change** **$**
Revenues			
Energy sales	643.3	670.8	(27.5)
Distribution revenue	188.5	158.8	29.7
Other	26.2	22.7	3.5
	858.0	852.3	5.7
Expenses			
Energy purchases	701.8	690.2	11.6
Operating expenses	77.8	87.0	(9.2)
Depreciation and amortization	72.1	65.0	7.1
	851.7	842.2	9.5
Finance costs	(19.5)	(18.9)	(0.6)
Loss before income taxes	(13.2)	(8.8)	(4.4)
Income tax expense	(11.7)	(6.5)	(5.2)
Net loss	(24.9)	(15.3)	(9.6)
Net movements in regulatory balances	54.7	43.3	11.4
Net movements in regulatory balances arising from deferred taxes	8.1	8.0	0.1
Net income after net movements in regulatory balances	37.9	36.0	1.9

As it did in 2020, the COVID-19 pandemic continues to have a significant impact on the economy, affecting the financial health of individuals and businesses, and the financial results of the Corporation.

For the three months ended June 30, 2021, net income after net movements in regulatory balances was higher by $1.9 million compared to the similar period in 2020 mainly due to higher distribution revenue, partially offset by higher expenses related to ancillary costs and higher depreciation and amortization.

The net increase in distribution revenue [$29.7 million] was mainly due to higher OEB-approved rate riders [$15.2 million], higher 2021 distribution rates [$8.9 million] and higher electricity consumption [$4.9 million]. The rate riders do not impact net income after net movements in regulatory balances as there is a corresponding offset in net movements in regulatory balances.

Operating expenses were $9.2 million lower compared to the similar period in 2020. For the three months ended June 30, 2021, the Corporation recorded an incremental bad debt expense of $0.3 million [June 30, 2020 – $18.1 million] as a result of the COVID-19 pandemic. After normalizing operating expenses for the three months ended June 30, 2021 and 2020 for the variance in incremental bad debt expense of $17.8 million, operating expenses were higher compared to the similar period in 2020 by $8.6 million mainly due to higher ancillary costs. The incremental bad debt expense as at June 30, 2020 was initially recorded in the COVID-19 Emergency Deferral Account with an offsetting credit in net movements in regulatory balances. The COVID-19 Emergency Deferral Account balance was subsequently reversed as at December 31, 2020 [refer to note 8[q] to the Annual 2020 Financial Statements for further details on the COVID-19 Emergency Deferral Account]. No amounts have been recorded in the COVID-19 Emergency Deferral Account as at June 30, 2021 [refer to "COVID-19 Pandemic Considerations" below].

For the three months ended June 30, 2021, the increase in depreciation and amortization of $7.1 million was mainly due to higher in-service additions.

Interim Consolidated Statements of Income
Six months ended June 30
[in millions of Canadian dollars]

	2021 $	2020 $	Change $
Revenues			
Energy sales	1,320.5	1,470.9	(150.4)
Distribution revenue	371.1	345.8	25.3
Other	48.0	43.5	4.5
	1,739.6	1,860.2	(120.6)
Expenses			
Energy purchases	1,361.3	1,499.7	(138.4)
Operating expenses	153.7	162.8	(9.1)
Depreciation and amortization	139.7	128.0	11.7
	1,654.7	1,790.5	(135.8)
Finance costs	(38.9)	(38.8)	(0.1)
Gain on disposals of PP&E	1.8	—	1.8
Income before income taxes	47.8	30.9	16.9
Income tax expense	(22.3)	(16.1)	(6.2)
Net income	25.5	14.8	10.7
Net movements in regulatory balances	32.7	41.4	(8.7)
Net movements in regulatory balances arising from deferred taxes	15.5	15.2	0.3
Net income after net movements in regulatory balances	73.7	71.4	2.3

As it did in 2020, the COVID-19 pandemic continues to have a significant impact on the economy, affecting the financial health of individuals and businesses, and the financial results of the Corporation.

For the six months ended June 30, 2021, net income after net movements in regulatory balances was higher by $2.3 million compared to the similar period in 2020 mainly due to higher distribution revenue and lower amounts deferred into regulatory accounts, partially offset by higher depreciation and amortization, and higher expenses related to system maintenance costs.

The net increase in distribution revenue [$25.3 million] was mainly due to higher OEB-approved rate riders [$12.8 million] and higher 2021 distribution rates [$11.8 million]. The rate riders do not impact net income after net movements in regulatory balances as there is a corresponding offset in net movements in regulatory balances.

For the six months ended June 30, 2021, lower amounts were deferred into regulatory accounts [$13.0 million] for future refunds to customers when compared to the similar period in 2020, mainly related to capital account deferrals and foregone revenue.

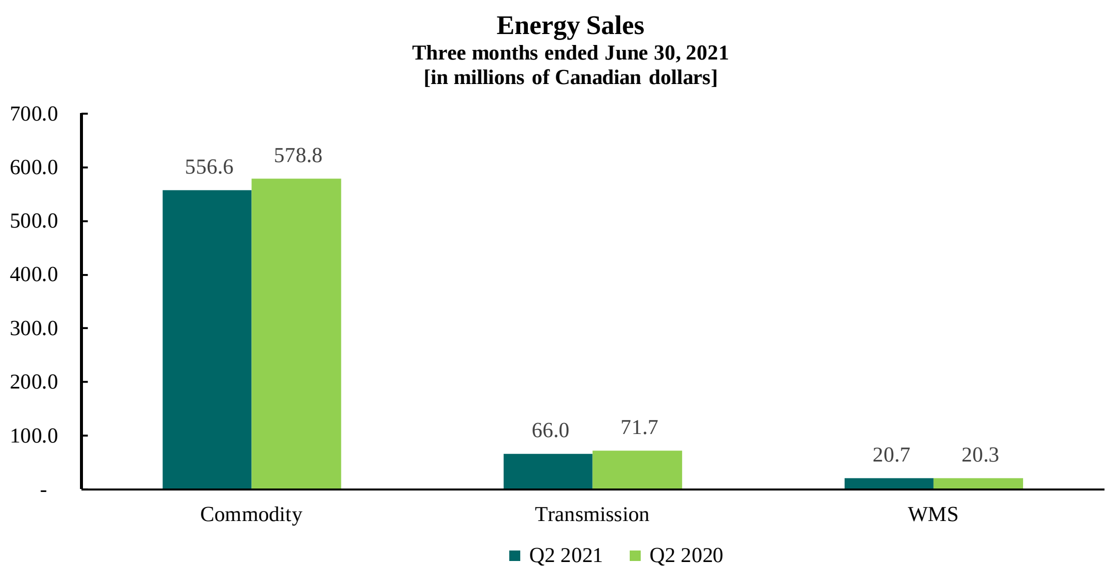
For the six months ended June 30, 2021, the increase in depreciation and amortization of $11.7 million was mainly due to higher in-service additions.

Operating expenses were $9.1 million lower compared to the similar period in 2020. For the six months ended June 30, 2021, the Corporation recorded an incremental bad debt expense of $1.2 million [June 30, 2020 – $18.6 million] as a result of the COVID-19 pandemic. After normalizing operating expenses for the year-over-year variance in incremental bad debt expense of $17.4 million, operating expenses were higher compared to the similar period in 2020 by $8.3 million mainly due to higher system maintenance costs. The incremental bad debt expense as at June 30, 2020 was initially recorded in the COVID-19 Emergency Deferral Account with an offsetting credit in net movements in regulatory balances. The COVID-19 Emergency Deferral Account balance was subsequently reversed as at December 31, 2020 [refer to note 8[q] to the Annual 2020 Financial Statements for further details on the COVID-19 Emergency Deferral Account]. No amounts have been recorded in the COVID-19 Emergency Deferral Account as at June 30, 2021 [refer to "COVID-19 Pandemic Considerations" below].

The gain on disposals of PP&E [$1.8 million] was primarily due to a property sale [$1.5 million]. The gain on property disposal is being refunded to customers and does not impact net income after net movements in regulatory balances as there is a corresponding offset in net movements in regulatory balances.

Energy Sales

LDC's energy sales arise from charges to customers for electricity consumed, based on regulated rates. Energy sales include amounts billed or billable to customers for commodity charges, retail transmission charges, and WMS charges at current rates. These charges are passed through to customers over time and are considered revenue by LDC. For any given period, energy sales should be equal to the cost of energy purchased. 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, representing amounts to be recovered from or refunded to customers through future rates approved by the OEB. In accordance with IFRS 14 *Regulatory Deferral Accounts* ["IFRS 14"], this settlement variance is presented within regulatory balances on the Corporation's interim consolidated balance sheets ["Consolidated Balance Sheets"] and within net movements in regulatory balances on the Corporation's interim consolidated statements of income ["Consolidated Statements of Income"].



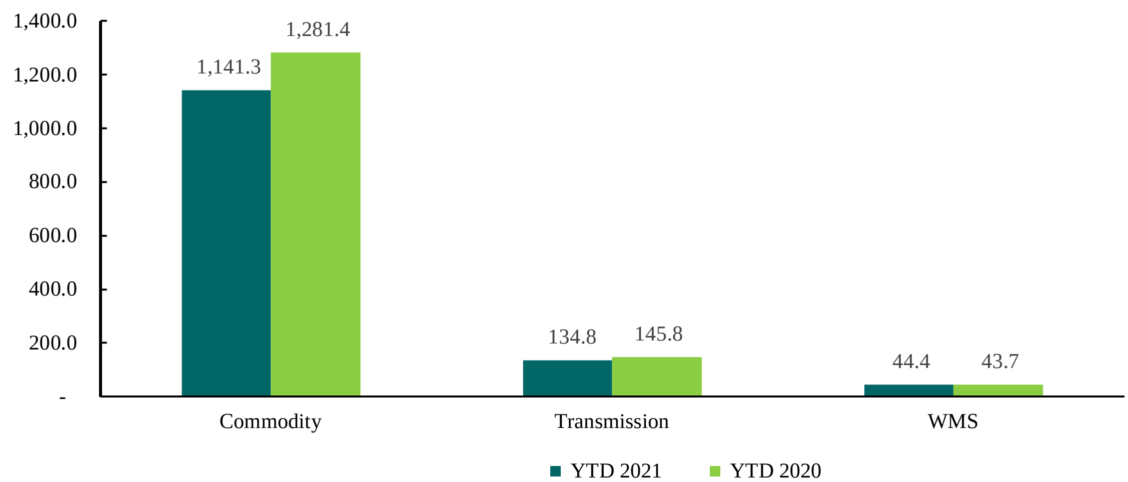
Energy sales for the three months ended June 30, 2021 were $643.3 million, compared to $670.8 million for the comparable period in 2020. The decrease was primarily due to lower commodity charges [$22.2 million].

Energy Purchases, Energy Sales, and Settlement Variances
Three months ended June 30, 2021
[in millions of Canadian dollars]

	Energy Purchases $	Energy Sales $	Settlement Variances $
Commodity charges	597.8	556.6	41.2
Retail transmission charges	82.0	66.0	16.0
WMS charges	22.0	20.7	1.3
Total	701.8	643.3	58.5

For the three months ended June 30, 2021, LDC recognized $643.3 million in energy sales to customers and was billed $701.8 million for energy purchases from the IESO. The difference between energy sales and energy purchases represents a $58.5 million settlement variance for the period. The settlement variance was recorded as a decrease to the regulatory credit balance [$58.6 million including carrying charges on the accumulated settlement variance balance] on the Consolidated Balance Sheets, and presented within net movements in regulatory balances on the Consolidated Statements of Income.

Energy Sales
Six months ended June 30, 2021
[in millions of Canadian dollars]



Energy sales for the six months ended June 30, 2021 were $1,320.5 million, compared to $1,470.9 million for the comparable period in 2020. The decrease was primarily due to lower commodity charges [$140.1 million].

Energy Purchases, Energy Sales, and Settlement Variances
Six months ended June 30, 2021
[in millions of Canadian dollars]

	Energy Purchases $	Energy Sales $	Settlement Variances $
Commodity charges	1,150.1	1,141.3	8.8
Retail transmission charges	160.9	134.8	26.1
WMS charges	50.3	44.4	5.9
Total	1,361.3	1,320.5	40.8

For the six months ended June 30, 2021, LDC recognized $1,320.5 million in energy sales to customers and was billed $1,361.3 million for energy purchases from the IESO. The difference between energy sales and energy purchases represents a $40.8 million settlement variance for the period. The settlement variance was recorded as an increase to the regulatory debit balance [$41.0 million including carrying charges on the accumulated settlement variance balance; refer to the regulatory debit balance table in note 6 to the Interim Financial Statements] on the Consolidated Balance Sheets, and presented within net movements in regulatory balances on the Consolidated Statements of Income.

Distribution Revenue

Distribution revenue is recorded based on OEB-approved distribution rates to recover the costs incurred by LDC in delivering electricity to customers and includes revenue collected through OEB-approved rate riders.

Distribution revenue for the three and six months ended June 30, 2021 was $188.5 million and $371.1 million, respectively, compared to $158.8 million and $345.8 million for the comparable periods in 2020.

The increase in distribution revenue for the three months ended June 30, 2021 was primarily due to higher revenue collected through OEB-approved rate riders [$15.2 million], higher 2021 distribution rates [$8.9 million] and higher electricity consumption [$4.9 million].

The increase in distribution revenue for the six months ended June 30, 2021 was primarily due to higher revenue collected through OEB-approved rate riders [$12.8 million] and higher 2021 distribution rates [$11.8 million].

Commercial electricity consumption increased in the second quarter of 2021 compared to the similar period in 2020 as Ontario moved through the stages of its reopening plan. However, commercial consumption is still below pre-pandemic levels and the Corporation's revenues continue to be impacted by the COVID-19 pandemic. The Corporation continues to track lost revenues related to lower commercial electricity consumption and the late payment charge reductions resulting from the Corporation's decision to provide direct relief to customers impacted by COVID-19. These amounts have not been recorded in the COVID-19 Emergency Deferral Account as at June 30, 2021 [refer to "COVID-19 Pandemic Considerations" below].

Other Revenue

Other revenue includes revenue from services ancillary to electricity distribution, delivery of street lighting services, pole and duct rentals, other regulatory service charges and capital contributions.

Other revenue for the three and six months ended June 30, 2021 was $26.2 million and $48.0 million, respectively, compared to $22.7 million and $43.5 million for the comparable periods in 2020.

The increase in other revenue for the three and six months ended June 30, 2021 was primarily due to higher revenue from ancillary services in 2021.

Operating Expenses

Operating expenses for the three and six months ended June 30, 2021 were $77.8 million and $153.7 million, respectively, compared to $87.0 million and $162.8 million for the comparable periods in 2020.

The decrease in operating expenses for the three months ended June 30, 2021 was primarily due to lower incremental bad debt expense recorded in 2021, partially offset by higher ancillary costs.

The decrease in operating expenses for the six months ended June 30, 2021 was primarily due to lower incremental bad debt expense recorded in 2021, partially offset by higher system maintenance costs.

The incremental bad debt expense as a result of the COVID-19 pandemic for the three and six months ended June 30, 2021 was $0.3 million and $1.2 million, respectively, compared to $18.1 million and $18.6 million for the comparable periods in 2020.

The incremental bad debt expense represents management's best estimate of the impact of the COVID-19 pandemic on the expected credit losses. The Corporation adjusted the expected credit loss provision based on the Corporation's current estimates and assumptions including but not limited to recent trends for customer collections and current and forecasted economic conditions, to account for the higher level of expected customer defaults due to the COVID-19 pandemic. The Corporation continues to actively monitor its exposure to credit risk as a result of the COVID-19 pandemic [refer to note 10[b] to the Interim Financial Statements].

For the three and six months ended June 30, 2021 the Corporation incurred $0.5 million and $1.6 million, respectively [June 30, 2020 – $1.5 million and $1.8 million] in operating expenses for COVID-19 testing kits, cleaning supplies, protective equipment and other support costs directly related to the implementation of safety measures as a result of the COVID-19 pandemic.

As at June 30, 2021 the incremental bad debt expense and operating expenses related to the COVID-19 pandemic have not been recorded in the COVID-19 Emergency Deferral Account [refer to "COVID-19 Pandemic Considerations" below].

Depreciation and Amortization

Depreciation and amortization expense, which includes derecognition of assets removed from service, for the three and six months ended June 30, 2021 was $72.1 million and $139.7 million, respectively, compared to $65.0 million and $128.0 million for the comparable periods in 2020. The increase was primarily due to new in-service asset additions and higher derecognition of assets removed from service, partially offset by certain assets being fully depreciated.

Finance Costs

Finance costs for the three and six months ended June 30, 2021 were $19.5 million and $38.9 million, respectively, and were in line with $18.9 million and $38.8 million for the comparable periods in 2020.

Gain on Disposals of PP&E

Gain on disposals of PP&E for the three and six months ended June 30, 2021 was $nil and $1.8 million, respectively, compared to $nil for the comparable periods in 2020.

The increase in gain on disposals of PP&E for the six months ended June 30, 2021 was primarily related to the sale of a property in the first quarter of 2021 [$1.5 million]. The gain on sale of property was recorded as a regulatory credit on the Consolidated Balance Sheets to reduce future electricity distribution rates, with a corresponding offset in net movements in regulatory balances.

Income Tax Expense and Income Tax Recorded in Net Movements in Regulatory Balances

Income tax expense [recovery] and income tax recorded in net movements in regulatory balances for the three and six months ended June 30, 2021 was $3.6 million and $6.8 million, respectively, compared to $[1.5] million and $0.9 million for the comparable periods in 2020.

The unfavourable variance for the three months ended June 30, 2021 was primarily due to higher income before taxes, the tax impact of lower incremental bad debt provision due to COVID-19, and lower net deductions in permanent and temporary differences between accounting and tax treatments.

The unfavourable variance for the six months ended June 30, 2021 was primarily due to higher income before taxes, the tax impact of lower incremental bad debt provision due to COVID-19, lower net deductions in permanent and temporary differences between accounting and tax treatments, and higher tax recognized on property dispositions.

Net Movements in Regulatory Balances

In accordance with IFRS 14, the Corporation separately presents regulatory balances and related net movements on the Consolidated Balance Sheets and Consolidated Statements of Income.

The increase in the regulatory debit [$13.4 million] and decrease in the regulatory credit [$16.4 million] balances for the six months ended June 30, 2021 equals the sum [$29.8 million] of net movements in regulatory balances, net movements in regulatory balances arising from deferred taxes and net movements in regulatory balances related to OCI, shown for the period [refer to "Financial Position" below]. Energy purchases record the actual cost of power purchased which varies from month to month. Since the selling price of power within energy sales is fixed for set periods of time, a gain or loss usually results, and is part of the calculation of net income. However, per OEB regulations, such gains or losses on energy sales are deferred within regulatory variance accounts for later disposition to or from rate payers via rate riders after approval by the OEB. Deferrals of gains or losses on energy sales [refer to discussion on settlement variance under "Results of Operations" above], or disposition of past deferrals in electricity rates will usually represent the largest single element of the net movements in regulatory balances for a given period.

Net movements in regulatory balances for the three and six months ended June 30, 2021 were a recovery of $54.7 million and $32.7 million, respectively, compared to a recovery of $43.3 million and $41.4 million for the comparable periods in 2020. The recovery of $54.7 million and $32.7 million for the three and six months ended June 30, 2021 was primarily due to the settlement variance between the electricity costs billed monthly by the IESO and LDC's billing to customers, partially offset by amounts disposed through OEB-approved rate riders.

The recovery of $43.3 million for the three months ended June 30, 2020 was primarily due to the settlement variance between the electricity costs billed monthly by the IESO and LDC's billing to customers, incremental bad debt expense recorded to the COVID-19 Emergency Deferral Account, which was subsequently reversed in the fourth quarter of 2020, and amounts disposed through OEB-approved rate riders. The recovery of $41.4 million for the six months ended June 30, 2020 was primarily due to the settlement variance between the electricity costs billed monthly by the IESO and LDC's billing to customers, incremental bad debt expense recorded to the COVID-19 Emergency Deferral Account, which was subsequently reversed in the fourth quarter of 2020, and amounts disposed through OEB-approved rate riders, partially offset by amounts being deferred into capital-related regulatory accounts and foregone revenue for future refunds to customers.

Summary of Quarterly Results of Operations

The table below presents a summary of the Corporation's results of operations for eight quarters including and immediately preceding June 30, 2021.

Summary of Quarterly Results of Operations
[in millions of Canadian dollars]

	June 30, 2021 $	March 31, 2021 $	December 31, 2020 $	September 30, 2020 $
Energy sales	643.3	677.2	783.1	888.5
Distribution revenue	188.5	182.6	169.4	179.2
Other	26.2	21.8	24.3	24.9
Revenues	858.0	881.6	976.8	1,092.6
Net income (loss) after net movements in regulatory balances	37.9	35.8	(2.0)	47.7
	June 30, 2020 $	**March 31, 2020 $**	**December 31, 2019 $**	**September 30, 2019 $**
Energy sales	670.8	800.1	776.2	737.2
Distribution revenue	158.8	187.0	200.5	207.5
Other	22.7	20.8	25.1	25.6
Revenues	852.3	1,007.9	1,001.8	970.3
Net income after net movements in regulatory balances	36.0	35.4	15.5	50.2

The Corporation's revenues, all other things being equal, are impacted by temperature fluctuations and unexpected weather conditions, including increased frequency of extreme weather events as a result of climate change, such as heat waves, intense rain events, and higher average temperatures. 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 revenues are also impacted by fluctuations in electricity prices and the timing and recognition of regulatory decisions. The variation from the seasonal trend for the first quarter of 2021 was due to lower commodity charges charged by the IESO and for the fourth quarter of 2019 was due to higher commodity charges charged by the IESO.

Financial Position

The following table outlines the significant changes in the Consolidated Balance Sheet as at June 30, 2021 as compared to the Consolidated Balance Sheet as at December 31, 2020.

Consolidated Balance Sheet Data
[in millions of Canadian dollars]

Balance Sheet Account	Increase (Decrease) $	Explanation of Significant Change
Assets		
Accounts receivable and unbilled revenue	34.8	The increase was primarily due to timing of billing and collection activities and higher pass-through costs, partially offset by lower electricity consumption.
PP&E and intangible assets	169.2	The increase was primarily due to capital expenditures [refer to "Investing Activities" below], partially offset by depreciation including derecognition.
Liabilities and Equity		
Commercial paper	135.0	The increase was primarily due to the issuances of commercial paper required for general corporate purposes [refer "Liquidity and Capital Resources" below].
Accounts payable and accrued liabilities	21.4	The increase was primarily due to higher electricity costs payable to the IESO.
Deferred revenue	49.5	The increase was primarily due to capital contributions received.
Deferred tax liabilities	22.4	The increase was primarily due to lower tax values as compared to accounting values of PP&E and intangible assets, and the deferral of tax related to the actuarial gain recorded in OCI.
Post-employment benefits	(24.0)	The decrease was primarily due to the recognized actuarial gain incurred as a result of the higher discount rate as at June 30, 2021.
Retained earnings	38.6	The increase was due to net income after net movements in regulatory balances [$73.7 million], offset by dividends paid [$35.1 million].

Consolidated Balance Sheet Data
[in millions of Canadian dollars]

Balance Sheet Account	Increase (Decrease) $	Explanation of Significant Change
Regulatory Balances		
Regulatory debit balances	13.4	The increase was primarily due to the settlement variance between the electricity costs billed monthly by the IESO and LDC's billing to customers and deferred taxes, partially offset by the recognized actuarial gain resulting from the remeasurement of post-employment benefit obligation to reflect the higher discount rate and amounts disposed through OEB-approved rate riders.
Regulatory credit balances	(16.4)	The decrease was primarily due to amounts disposed through OEB-approved rate riders.

Liquidity and Capital Resources

The Corporation's current assets and current liabilities amounted to $548.2 million and $1,122.0 million, respectively, as at June 30, 2021, resulting in a working capital deficit of $573.8 million. The deficit is primarily attributable to the Series 7 debentures repayment becoming due on November 18, 2021 for $300.0 million and the Corporation's preference for utilizing its Commercial Paper Program [defined in "Financing Activities" below] and Working Capital Facility [defined below] before issuing additional debentures to fulfill the Corporation's ongoing liquidity requirements, including funding of significant capital spending. The Corporation seeks to maintain an optimal mix of short-term and long-term debt in order to lower overall financing costs and to enhance borrowing flexibility.

The Corporation's primary sources of liquidity and capital resources are cash provided by operating activities, issuance 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, for energy purchases and to meet financing obligations.

The amount available under the Revolving Credit Facility [defined in "Financing Activities" below] as well as outstanding borrowings under the Revolving Credit Facility and Commercial Paper Program are as follows:

[in millions of Canadian dollars]	Revolving Credit Facility Limit $	Revolving Credit Facility Borrowings $	Commercial Paper Outstanding $	Revolving Credit Facility Availability $
June 30, 2021	800.0	—	295.0	505.0
December 31, 2020	800.0	—	160.0	640.0

The Corporation is a party to a $20.0 million demand facility with a Canadian chartered bank for the purpose of working capital management ["Working Capital Facility"]. As at June 30, 2021, no amount had been drawn under the Working Capital Facility, compared to $6.2 million as at December 31, 2020. On the consolidated statements of cash flows, cash and cash equivalents [working capital facility] includes bank overdrafts that are repayable on demand and form an integral part of the Corporation's cash management.

Consolidated Statements of Cash Flow Data
[in millions of Canadian dollars]

	Three months ended June 30,		Six months ended June 30,	
	2021 $	2020 $	2021 $	2020 $
Cash and cash equivalents (Working capital facility), beginning of period	(5.4)	21.4	(6.2)	(1.0)
Net cash provided by operating activities	111.9	201.6	244.2	302.7
Net cash used in investing activities	(147.5)	(152.9)	(292.3)	(355.1)
Net cash provided by (used in) financing activities	45.6	(75.9)	58.9	47.6
Cash and cash equivalents (Working capital facility), end of period	4.6	(5.8)	4.6	(5.8)

Operating Activities

Net cash provided by operating activities for the three and six months ended June 30, 2021 was $111.9 million and $244.2 million, respectively, compared to $201.6 million and $302.7 million for the comparable periods in 2020.

The decrease in net cash provided by operating activities for the three months ended June 30, 2021 was primarily due to timing differences in the settlement of receivables and payables.

The decrease in net cash provided by operating activities for the six months ended June 30, 2021 was primarily due to timing differences in the settlement of receivables and payables and lower capital contributions received, partially offset by lower income taxes paid and higher net income before net movements in regulatory balances.

Investing Activities

Net cash used in investing activities for the three and six months ended June 30, 2021 was $147.5 million and $292.3 million, respectively, compared to $152.9 million and $355.1 million for the comparable periods in 2020.

Electricity distribution is a capital-intensive business. As the municipal electricity distribution company serving the largest city in Canada, LDC continues to invest in the renewal of existing aging infrastructure to address safety, reliability and customer service requirements. During the COVID-19 pandemic crisis, LDC has deployed health and safety equipment and measures to protect its employees, its partners and the public, and continued to deliver its capital infrastructure development and maintenance work in accordance with its plans.

The following table summarizes the Corporation's capital expenditures [on an accrual basis] for the periods indicated [refer to note 14 to the Interim Financial Statements for cash basis].

Capital Expenditures
[in millions of Canadian dollars]

	Three months ended June 30,		Six months ended June 30,	
	2021 **$**	**2020** **$**	**2021** **$**	**2020** **$**
Regulated LDC				
Distribution system				
Planned [1]	132.4	129.4	260.1	210.1
Reactive	10.1	16.7	20.6	26.8
Technology assets	10.6	11.2	15.8	18.5
Other [2]	5.2	2.6	10.6	3.2
Regulated capital expenditures	158.3	159.9	307.1	258.6
Unregulated capital expenditures [3]	1.4	9.8	2.8	41.4
Total capital expenditures	159.7	169.7	309.9	300.0

1 Includes, among other initiatives, the replacement of underground and overhead infrastructures, station programs, delivery of customer connections and customer-initiated plant relocations and expansions.
2 Includes fleet capital and building enhancements.
3 Primarily relates to behind-the-meter battery storage projects, street lighting and generation equipment.

The total regulated capital expenditures for the three and six months ended June 30, 2021 were $158.3 million and $307.1 million, respectively, compared to $159.9 million and $258.6 million for the comparable periods in 2020.

For the three months ended June 30, 2021, the decrease in regulated capital expenditures was primarily due to lower spending on reactive projects [$6.6 million] and underground infrastructure [$4.5 million], partially offset by higher spending on overhead infrastructure [$3.8 million] and facility and building security improvements [$3.7 million].

For the six months ended June 30, 2021, the increase in regulated capital expenditures was primarily due to higher spending on station programs [$17.5 million], customer connections [$7.6 million] and a non-recurring transfer of behind-the-meter battery storage expenditures from regulated to unregulated expenditures in 2020 as a result of the 2020-2024 CIR decision and rate order [$22.7 million].

For the six months ended June 30, 2021, the decrease in unregulated capital expenditures was primarily due to a non-recurring transfer of behind-the-meter battery storage expenditures from regulated to unregulated expenditures in 2020 as a result of the 2020-2024 CIR decision and rate order [$22.7 million].

The largest capital initiatives in 2021 include the delivery of customer connections, station programs, replacement of overhead and underground infrastructures and customer-initiated plant relocations and expansions.

The delivery of customer connections includes spending related to new service and upgrades to existing service for specific commercial customers. For the six months ended June 30, 2021, capital expenditures for the delivery of customer connections were $54.3 million.

The station programs focus on station renewal and station expansion. Station renewal targets the aging station infrastructure to reduce the risk of power outages and maximize useful life. Station expansion addresses medium to long-term system capacity needs on the distribution system. For the six months ended June 30, 2021, capital expenditures for station programs were $40.1 million.

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, transformers, switches and other aging underground infrastructure. Both initiatives will allow LDC to continue to provide ongoing safe and reliable service to its customers. For the six months ended June 30, 2021, capital expenditures for overhead and underground infrastructures were $41.8 million and $37.2 million, respectively.

Customer-initiated plant relocations and expansions include relocating infrastructure to accommodate construction by third parties. For the six months ended June 30, 2021, capital expenditures for customer-initiated plant relocations and expansions were $33.9 million.

Financing Activities

Net cash provided by [used in] financing activities for the three and six months ended June 30, 2021 was $45.6 million and $58.9 million, respectively, compared to $[75.9] million and $47.6 million for the comparable periods in 2020.

The decrease in cash used in financing activities for the three months ended June 30, 2021 was primarily due to higher net commercial paper issuances in the second quarter of 2021.

The increase in cash provided by financing activities for the six months ended June 30, 2021 was primarily due to lower dividend payments in 2021.

The Corporation is a party to a credit agreement with a syndicate of Canadian chartered banks which established a revolving credit facility expiring on October 10, 2024 ["Revolving Credit Facility"], pursuant to which it may borrow up to $800.0 million, of which up to $210.0 million is available in the form of letters of credit. As at June 30, 2021, 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 $750.0 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 used for general corporate purposes. Borrowings under the Commercial Paper Program bear interest based on the prevailing market conditions at the time of issuance.

Additionally, the Corporation is a party to a $75.0 million demand facility with a Canadian chartered bank for the purpose of issuing letters of credit mainly to support LDC's prudential requirements with the IESO ["Prudential Facility"]. As at June 30, 2021, $32.9 million of letters of credit had been issued against the Prudential Facility.

Subsequent to June 30, 2021, additional letters of credit of $26.2 million were issued against the Prudential Facility to support the post-employment benefit obligations for the plan amendments [refer to note 13[a] to the 2020 Annual Financial Statements].

The Corporation filed a base shelf prospectus dated July 29, 2021 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. The full amount of the debenture offering capacity remains available to the Corporation under the base shelf prospectus.

As at June 30, 2021, the Corporation had debentures outstanding in the principal amount of $2.4 billion. These debentures will mature between 2021 and 2063. As at June 30, 2021, the Corporation was in compliance with all covenants included in its trust indenture and supplemental trust indentures.

The following table sets out the current credit ratings of the Corporation.

Credit Ratings
As at June 30, 2021

	DBRS		**Standard & Poor's**	
	Credit Rating	Trend	Credit Rating	Outlook
Issuer rating	A	Stable	A	Stable
Senior unsecured debentures	A	Stable	A	—
Commercial paper	R-1 [low]	Stable	—	—

The Corporation believes that it has sufficient available sources of liquidity and capital to satisfy working capital requirements for the next 12 months.

On March 3, 2021, the Board of Directors of the Corporation declared a quarterly dividend in the amount of $17.6 million with respect to the first quarter of 2021 [first quarter of 2020 – $25.0 million], paid to the City on March 31, 2021.

On May 12, 2021, the Board of Directors of the Corporation declared a quarterly dividend in the amount of $17.5 million with respect to the second quarter of 2021 [second quarter of 2020 – $21.3 million], paid to the City on June 30, 2021.

On August 18, 2021, the Board of Directors of the Corporation declared a quarterly dividend in the amount of $17.6 million with respect to the third quarter of 2021 [third quarter of 2020 – $23.2 million], payable to the City by September 30, 2021.

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 June 30, 2021
[in millions of Canadian dollars]

	Total $	2021[1] $	2022/2023 $	2024/2025 $	After 2025 $
Commercial paper[2]	295.0	295.0	—	—	—
Debentures – principal repayment	2,395.0	300.0	250.0	—	1,845.0
Debentures – interest payments	1,459.7	39.9	134.7	123.8	1,161.3
Capital projects[3] and other	56.4	17.5	37.3	1.6	—
Leases	0.3	—	0.1	0.2	—
Total contractual obligations and other commitments	4,206.4	652.4	422.1	125.6	3,006.3

[1] Due over the period from July 1, 2021 to December 31, 2021.
[2] The notes under the Commercial Paper Program were issued at a discount and are repaid at their principal amount.
[3] Primarily commitments for construction services.

Corporate Developments

COVID-19 Pandemic Considerations

On March 11, 2020, the World Health Organization declared that the COVID-19 outbreak was a global pandemic. The COVID-19 pandemic has had, and as at the date of the Interim Financial Statements continues to have, a significant impact on the Corporation. Refer to "COVID-19 Pandemic Considerations" in the 2020 Annual MD&A for further information.

On March 26, 2021, the Ontario government committed an additional $6.0 million from the 2020-2021 budget and a further $17.0 million from the 2021-2022 budget for CEAP and CEAP-SB, continuing financial support for residential and small business customers during the COVID-19 pandemic. Through successive announcements on March 26, April 19, and April 21, 2021, the OEB determined that LDC's additional collective allocation for CEAP and CEAP-SB is $0.9 million. As of July 26, 2021, LDC has disbursed all of its allocated financial support funding. There was no net income impact to the Corporation.

On April 21, 2021, the OEB extended the existing ban on disconnecting residential customers until May 19, 2021, which was further extended on May 14, 2021 until June 2, 2021, in light of the stay-at-home order issued by the Ontario Government under its State of Emergency declaration. The restriction also applied to the issuance of any post-dated disconnection notices during that period. The Corporation continues to voluntarily extend its ban on disconnecting residential and low volume customers until further notice.

On June 17, 2021, the OEB issued the final report on the COVID-19 Emergency Deferral Account consultation. The report adopts OEB Staff's December 16, 2020 proposal which led to management's decision to reverse all amounts recorded in the COVID-19 Emergency Deferral Account as at December 31, 2020. At this time, management's assessment on the recoverability of costs and lost revenues associated with the pandemic remains unchanged [refer to "COVID-19 Pandemic Considerations" in the 2020 Annual MD&A for further information]. Consequently, no amounts have been recorded in the COVID-19 Emergency Deferral Account as at June 30, 2021.

City of Toronto Climate Objectives

At its meeting held on April 7 and 8, 2021, a resolution was passed by City Council concerning opportunities for Toronto Hydro for acceleration, investments, reporting and collaboration with City divisions and agencies to achieve outcomes in the following areas:

- electric vehicle-charging infrastructure;
- modernization of outdoor lighting, including street lighting;
- implementation and facilitation of renewable energy and energy storage; and
- attracting revenue through non-rate sources of capital funding, such as grants, funding and financing from governments and agencies, and revenues generated through unregulated affiliates.

Toronto Hydro intends to report back to the City Manager on current work and an action plan in accordance with this resolution by the end of the third quarter of 2021.

Electricity Distribution Rates

On December 19, 2019, the OEB issued its 2020-2024 CIR Decision and on February 20, 2020, the OEB issued its CIR Final Rate Order, both in relation to the rate application filed on August 15, 2018 ["2020-2024 CIR decision and rate order"]. The 2020-2024 CIR decision and rate order approved a revenue requirement of $750.2 million for 2020, and rates calculated on that basis. The rates for 2020 were implemented on March 1, 2020, with an effective date of January 1, 2020. The 2020-2024 CIR decision and rate order approved funding for capital and operating expenditures of approximately $3.8 billion for the 2020-2024 period. In addition, the 2020-2024 CIR decision and rate order approved subsequent annual rate adjustments based on a custom index for the period commencing on January 1, 2021 and ending on December 31, 2024.

On August 24, 2020, LDC filed its 2021 rate application seeking the OEB's approval to finalize distribution rates and other charges for the period commencing on January 1, 2021 and ending on December 31, 2021. On December 10, 2020, the OEB issued a decision and rate order approving LDC's 2021 rates and providing for other deferral and variance account dispositions.

CDM Activities

On March 21, 2019, the Government of Ontario issued ministerial directives to the IESO related to the delivery of CDM programs. Previously, LDC and other distributors delivered the CDM programs; under the new directives, the IESO became responsible for delivering the CDM programs.

Under its ECA with the IESO, LDC had a joint CDM plan with Oakville Hydro Electricity Distribution Inc. for the delivery of CDM programs over the 2015-2020 period. As part of implementing its new mandate, the IESO terminated the ECA effective June 20, 2019. LDC was required to cease marketing and business development for all CDM programs immediately and make commercially reasonable efforts to wind down the delivery of programs. Under the ECA, LDC was entitled to reimbursement from the IESO of its eligible expenses and administrative costs relating to the wind-down of its role in the CDM programs. Participant agreements with customers for many of the CDM programs that were in effect before April 1, 2019 remained in effect notwithstanding the termination of the ECA and LDC remains responsible for its obligations under such agreements. On June 10, 2021, the Government of Ontario issued ministerial directives to the IESO directing it to extend the deadline by which participants are to complete the projects from June 30, 2021 to December 31, 2021. Amounts received from the IESO for the funding of the projects under the participant agreements, but not yet spent, are presented on the Corporation's Consolidated Balance Sheets under current liabilities as deferred conservation credit.

Controls and Procedures

For purposes of certain Canadian securities regulations, the Corporation is a "Venture Issuer". As such, it is exempt from certain requirements of National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings. The CEO and CFO have reviewed the Interim Financial Statements and the MD&A for the three and six months ended June 30, 2021 and 2020. 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 requires management to make judgments, estimates and assumptions which affect the application of accounting policies, reported assets, liabilities and regulatory balances, and the disclosure of contingent assets and liabilities at the date of the Interim Financial Statements, and the reported 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. The assessment of the duration and severity of the COVID-19 pandemic is subject to significant uncertainty; accordingly, judgments, estimates and assumptions related to the impact of the COVID-19 pandemic made by management in the preparation of the Corporation's Interim Financial Statements are also subject to significant uncertainty. The extent of the future impact of the COVID-19 pandemic on the Corporation's financial results and business operations is not known at this time. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively.

Future Accounting Pronouncements

Rate-Regulated Accounting

On January 28, 2021, the IASB published the Exposure Draft *Regulatory Assets and Regulatory Liabilities*, with comments requested by July 30, 2021. The IASB proposes an accounting model under which an entity subject to rate regulation that meets the scope criteria would recognize regulatory assets and liabilities. Movements in regulatory assets and liabilities would give rise to regulatory income and expense. If finalized as a new IFRS standard, the IASB's proposals would replace IFRS 14 *Regulatory Deferral Accounts* ["IFRS 14"], an interim standard that permits, but does not require, a first-time adopter of IFRS to continue using previous GAAP to account for regulatory deferral account balances. Under the current proposal, an entity would apply the final IFRS standard retrospectively to annual reporting periods beginning 18 to 24 months after the new IFRS standard is issued.

The Corporation reviewed the proposals in the Exposure Draft and submitted its comments on July 30, 2021.

The IASB has issued a number of standards and amendments to existing standards that are not yet effective. The Corporation continues to analyze these pronouncements and has determined that the following amendments could have an impact on the Corporation's consolidated financial statements when adopted.

Classification of Liabilities as Current or Non-current [Amendments to IAS 1 Presentation of Financial Statements ["IAS 1"]]

In January 2020, the IASB issued amendments to IAS 1 relating to the classification of liabilities as current or non-current. Specifically, the amendments clarify one of the criteria in IAS 1 for classifying a liability as non-current - that is, the requirement for an entity to have the right to defer settlement of the liability for at least 12 months after the reporting period. The amendments are effective for annual reporting periods beginning on or after January 1, 2023, with early adoption permitted. The amendments are to be applied retrospectively.

Onerous Contracts - Cost of Fulfilling a Contract [Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets ["IAS 37"]]

In May 2020, the IASB issued amendments to IAS 37 regarding costs that should be included as the cost of fulfilling a contract when assessing whether a contract is onerous. The amendments clarify that the cost of fulfilling the contract comprises all costs that relate directly to the contract. Such costs include both the incremental costs of fulfilling that contract and an allocation of other costs that relate directly to fulfilling contracts. The amendments apply to contracts existing at the date when the amendments are first applied. The amendments are effective for annual reporting periods beginning on or after January 1, 2022, with early adoption permitted.

Definition of Accounting Estimates [Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors ["IAS 8"]]

In February 2021, the IASB issued amendments to IAS 8 to introduce a definition of "accounting estimates" and include other amendments to help entities distinguish changes in accounting estimates from changes in accounting policies. The amendments are effective for annual reporting periods beginning on or after January 1, 2023, with early adoption permitted. The amendments are to be applied prospectively.

Disclosure of Accounting Policies [Amendments to IAS 1]

In February 2021, the IASB issued amendments to IAS 1 requiring an entity to disclose its material accounting policies, rather than its significant accounting policies. Additional amendments were made to explain how an entity can identify a material accounting policy. The amendments are effective for annual reporting periods beginning on or after January 1, 2023, with early adoption permitted.

Deferred Tax related to Assets and Liabilities arising from a Single Transaction [Amendments to IAS 12 Income Taxes ["IAS 12"]]

In May 2021, the IASB issued amendments to IAS 12. The amendments clarify how companies should account for deferred tax on certain transactions such as leases and decommissioning obligations. The amendments narrow the scope of the initial recognition exemption, so that it does not apply to transactions that give rise to equal and offsetting temporary differences. As a result, companies will need to recognize both a deferred tax asset and a deferred tax liability when accounting for such transactions. The amendments are effective for annual reporting periods beginning on or after January 1, 2023, with early adoption permitted.

The Corporation is currently assessing the impact of the above amendments on the Corporation's consolidated financial statements.

Forward-Looking Information

Certain information included in this MD&A constitutes "forward-looking information" within the meaning of applicable securities legislation. The purpose of the forward-looking information is to provide the Corporation's current expectations regarding future results of operations, performance, business prospects and opportunities and may not be appropriate for other purposes. All information, other than statements of historical fact, which address activities, events or developments that we expect or anticipate may or will occur in the future, are forward-looking information. The words "anticipates", "believes", "can", "continue", "could", "estimates", "expects", "focus", "forecasts", "future", "further-notice", "impact", "intends", "may", "plans", "propose", "projects", "should", "trend", "will", "would", "objective", "ongoing", or the negative or other variations of these words or other comparable words or phrases, are intended to identify forward-looking information, although not all forward-looking information contains these identifying words. The forward-looking information reflects the Corporation's current beliefs and is based on information currently available to the Corporation.

Specific forward-looking information in the MD&A includes, but is not limited to, the statements regarding the settlement variance and other regulatory balance variances as described in the section entitled "Results of Operations"; the consideration of forecasted economic factors in determining the impact of the COVID-19 pandemic on expected credit losses as set out in the section entitled "Results of Operations"; the use of the gain on sale of property to reduce future electricity distribution rates for customers as set out in the section entitled "Results of Operations"; the effect of changes in energy consumption on future revenue as described in the section entitled "Summary of Quarterly Results of Operations"; the Corporation's plans to lower overall financing costs and enhance borrowing flexibility as described in the section entitled "Liquidity and Capital Resources"; the effect of overhead and underground infrastructure initiatives on LDC's ability to provide service to its customers, as described in the section entitled "Liquidity and Capital Resources"; the Corporation's available sources of liquidity and capital resources and the sufficiency thereof to satisfy working capital requirements for the next 12 months 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 ability of the Corporation, during the COVID-19 pandemic crisis, to continue to deliver its capital infrastructure development and maintenance work in accordance with its plans, as described in "Liquidity and Capital Resources"; the effects of the Corporation's strategic plan on its ability to deliver long-term benefits to customers, stakeholders, its shareholder and investors, as described in the section entitled "Corporate Developments"; electricity distribution rates and rate applications as described in the section entitled "Corporate Developments"; work and a related action plan to be reported back to the City Manager in accordance with the City of Toronto climate objectives resolution, as described in the section entitled "Corporate Developments"; the termination of the ECA, the continuance of participant agreements that were in effect before April 1, 2019, the extension of the date by which participants are to complete the projects thereunder and LDC's continued responsibility for its obligations under the participant agreements as described in the section entitled "Corporate Developments"; and the Corporation's assessment of the impact on adoption of the amendments to IAS 1, IAS 8, IAS 12, IAS 37, and IFRS 14, if any, as described in the section entitled "Future Accounting Pronouncements".

The forward-looking information is based on estimates and assumptions made by the Corporation's management in light of past experience and perception of historical trends, current conditions and expected future developments, as well as other factors that management believes to be reasonable in the circumstances, including, but not limited to, the amount of indebtedness of the Corporation, changes in funding requirements, the future course of the economy and financial markets, no unforeseen delays and costs in the Corporation's capital projects, no unforeseen changes to project plans, no significant changes to the seasonal weather patterns in accordance with historical seasonal trends because of climate change, no unforeseen changes in the legislative and operating framework for electricity distribution in Ontario, the receipt of applicable regulatory approvals and requested rate orders, no unexpected delays in obtaining required approvals, the ability of the Corporation to obtain and retain qualified staff, materials, equipment and services in a timely and cost efficient manner, continued contractor performance and compliance with covenants, the receipt of favourable judgments, no unforeseen changes in electricity distribution rate orders or rate setting methodologies, no unfavourable changes in environmental regulation, the ratings issued by credit rating agencies, the level of interest rates and the Corporation's ability to borrow and assumptions regarding general business and economic conditions. These assumptions are based upon the scope of the COVID-19 pandemic as currently understood, including in respect of its duration, as well as the severity of the impacts of government and business mitigation measures on the Corporation, all of which are subject to significant uncertainty.

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, risks associated with the execution of LDC's capital and maintenance programs necessary to maintain the performance of aging distribution assets and make required infrastructure improvements; risks associated with capital projects; risks associated with electricity industry regulatory developments and other governmental policy changes, including factors relating to LDC's distribution activities and to climate change; risks associated with increased competition from regulated and unregulated entities; risks associated with the timing and results of regulatory decisions regarding LDC's revenue requirements, cost recovery and rates; risks associated with information system security and with maintaining complex information technology systems; risks associated with maintaining the security of the Corporation's information assets, including but not limited to the collection, use and disclosure of personal information; risk of external threats to LDC's facilities, infrastructure and operations posed by unexpected weather conditions caused by climate change and other factors; risks associated with changing weather patterns due to climate change and resultant impacts to electricity consumption based on historic seasonal trends; risks related to terrorism and pandemics, including but not limited to COVID-19, and LDC's limited insurance coverage for losses resulting from these events; risks related to COVID-19, including but not limited to restrictive measures affecting the mobility and availability of human and non-human resources, operational disruptions, electricity consumption levels, customer payments and the availability of financing; risk to the Corporation's employees and the general public of serious/fatal injuries and illnesses relating to or impacting upon its activities; risks of municipal government activity, including the risk that the City could introduce rules, policies or directives that can potentially limit the Corporation's ability to meet its business objectives as laid out in the Shareholder Direction principles; risks related to LDC's work force demographic and its potential inability to train, upskill and retain skilled employees; risks of being unable to retain necessary qualified external contracting forces relating to its capital, maintenance and reactive infrastructure program; risks associated with possible labour disputes and LDC's ability to negotiate appropriate collective agreements; risk that the Corporation may fail to monitor the external environment and or develop and pursue strategies through appropriate business models, thus failing to gain a strategic advantage; risk that the Corporation is not able to arrange sufficient and cost-effective debt financing to repay maturing debt and to fund capital expenditures and other obligations; risk that the Corporation is unable to maintain its financial health and performance at acceptable levels; risk that insufficient debt or equity financing will be available to meet the Corporation's requirements, objectives, or strategic opportunities; risk of downgrades to the Corporation's credit rating; risks relating to the finance market and credit rating agency view of the electricity industry generally and the impact on the availability and cost of capital; risks related to the timing and extent of changes in prevailing interest rates and discounts rates and their effect on future revenue requirements and future post-employment benefit obligations; risk associated with the impairment to the Corporation's image in the community, public confidence or brand; risk associated with the Corporation failing to meet its material compliance obligations under legal and regulatory instruments; risk of substantial and currently undetermined or underestimated environmental costs and liabilities; risk that assumptions that form the basis of LDC's recorded environmental liabilities and related regulatory balances may change; risk that the presence or release of hazardous or harmful substances could lead to claims by third parties and/or governmental orders and other factors which are discussed in more detail under the section entitled "Risk Management and Risk Factors" in this MD&A and in the 2020 Annual MD&A. Please review the section "Risk Management and Risk Factors" in this MD&A and in the 2020 Annual MD&A in detail. These risks are based upon the scope of the COVID-19 pandemic as currently understood, including in respect of its duration, as well as the severity of the impacts of government and business mitigation measures on the Corporation, all of which are subject to significant uncertainty. All of the forward-looking information included in this MD&A is qualified by the cautionary statements in this "Forward-Looking Information" section and the "Risk Management and Risk Factors" section in this MD&A and in the 2020 Annual MD&A. These factors are not intended to represent a complete list of the factors that could affect the Corporation; however, these factors should be considered carefully and readers should not place undue reliance on forward-looking information made herein. Furthermore, the forward-looking information contained herein is dated as of the date of this MD&A or as of the date specified in this MD&A, as the case may be, and the Corporation has no intention and undertakes no obligation to update or revise any forward-looking information, whether as a result of new information, future events or otherwise, except as required by law.

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

August 18, 2021

UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2021 AND 2020

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

CONDENSED INTERIM CONSOLIDATED BALANCE SHEETS

[in millions of Canadian dollars, unaudited]

	Note	**As at June 30, 2021 $**	As at December 31, 2020 $
ASSETS			
Current			
Cash and cash equivalents		**4.6**	-
Accounts receivable and unbilled revenue	*10[b]*	**504.0**	469.2
Income tax receivable		**8.3**	12.4
Materials and supplies		**10.2**	9.8
Other assets		**21.1**	16.7
Total current assets		**548.2**	508.1
Property, plant and equipment	*4*	**5,211.1**	5,039.2
Intangible assets	*5*	**340.4**	343.1
Other assets		**7.2**	8.2
Total assets		**6,106.9**	5,898.6
Regulatory balances	*6*	**183.8**	170.4
Total assets and regulatory balances		**6,290.7**	6,069.0
LIABILITIES AND EQUITY			
Current			
Working capital facility	*7*	**-**	6.2
Commercial paper	*7*	**295.0**	160.0
Accounts payable and accrued liabilities		**427.5**	406.1
Customer deposits		**61.4**	44.9
Deferred revenue	*8*	**26.4**	18.1
Deferred conservation credit	*3[c]*	**11.9**	16.0
Debentures	*9*	**299.8**	299.8
Total current liabilities		**1,122.0**	951.1
Debentures	*9*	**2,082.7**	2,082.4
Customer deposits		**5.7**	18.7
Deferred revenue	*8*	**579.4**	538.2
Post-employment benefits		**308.7**	332.7
Deferred tax liabilities		**69.5**	47.1
Other liabilities		**5.1**	3.4
Total liabilities		**4,173.1**	3,973.6
Equity			
Share capital	*11*	**817.8**	817.8
Retained earnings		**1,132.8**	1,094.2
Total equity		**1,950.6**	1,912.0
Total liabilities and equity		**6,123.7**	5,885.6
Regulatory balances	*6*	**167.0**	183.4
Total liabilities, equity and regulatory balances		**6,290.7**	6,069.0

Subsequent events	*2*	

See accompanying notes to the condensed interim consolidated financial statements.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF INCOME

[in millions of Canadian dollars, unaudited]

	Note	Three months ended June 30, 2021 $	Three months ended June 30, 2020 $	Six months ended June 30, 2021 $	Six months ended June 30, 2020 $
Revenues					
Energy sales	*12*	**643.3**	670.8	**1,320.5**	1,470.9
Distribution revenue	*12*	**188.5**	158.8	**371.1**	345.8
Other	*12*	**26.2**	22.7	**48.0**	43.5
		858.0	852.3	**1,739.6**	1,860.2
Expenses					
Energy purchases		**701.8**	690.2	**1,361.3**	1,499.7
Operating expenses		**77.8**	87.0	**153.7**	162.8
Depreciation and amortization	*4, 5*	**72.1**	65.0	**139.7**	128.0
		851.7	842.2	**1,654.7**	1,790.5
Finance costs		**(19.5)**	(18.9)	**(38.9)**	(38.8)
Gain on disposals of property, plant and equipment		**-**	-	**1.8**	-
Income (loss) before income taxes		**(13.2)**	(8.8)	**47.8**	30.9
Income tax expense	*13*	**(11.7)**	(6.5)	**(22.3)**	(16.1)
Net income (loss)		**(24.9)**	(15.3)	**25.5**	14.8
Net movements in regulatory balances	*6*	**54.7**	43.3	**32.7**	41.4
Net movements in regulatory balances arising from deferred taxes	*6*	**8.1**	8.0	**15.5**	15.2
Net income after net movements in regulatory balances		**37.9**	36.0	**73.7**	71.4

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

[in millions of Canadian dollars, unaudited]

	Note	Three months ended June 30, 2021 $	Three months ended June 30, 2020 $	Six months ended June 30, 2021 $	Six months ended June 30, 2020 $
Net income after net movements in regulatory balances		**37.9**	36.0	**73.7**	71.4
Other comprehensive income					
Items that will not be reclassified to income or loss					
Remeasurements of post-employment benefits, net of tax [2021 - $3.3, ($6.6), 2020 - $14.4, $4.3]		**(9.1)**	(39.9)	**18.4**	(12.0)
Net movements in regulatory balances related to OCI, net of tax [2021 - $3.3, ($6.6), 2020 - $14.4, $4.3]	*6*	**9.1**	39.9	**(18.4)**	12.0
Other comprehensive income, net of tax		**-**	-	**-**	-
Total comprehensive income		**37.9**	36.0	**73.7**	71.4

See accompanying notes to the condensed interim consolidated financial statements.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

[in millions of Canadian dollars, unaudited]

		Three months ended June 30,		Six months ended June 30,	
		2021	2020	**2021**	2020
	Note	**$**	$	**$**	$
Share capital		**817.8**	817.8	**817.8**	817.8
Retained earnings, beginning of period		**1,112.4**	1,080.1	**1,094.2**	1,069.7
Net income after net movements in regulatory balances		**37.9**	36.0	**73.7**	71.4
Dividends	*11*	**(17.5)**	(21.3)	**(35.1)**	(46.3)
Retained earnings, end of period		**1,132.8**	1,094.8	**1,132.8**	1,094.8
Total equity		**1,950.6**	1,912.6	**1,950.6**	1,912.6

See accompanying notes to the condensed interim consolidated financial statements.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

[in millions of Canadian dollars, unaudited]

		Three months ended June 30,		Six months ended June 30,	
		2021	2020	**2021**	2020
	Note	**$**	$	**$**	$
OPERATING ACTIVITIES					
Net income after net movements in regulatory balances		**37.9**	36.0	**73.7**	71.4
Net movements in regulatory balances	*6*	**(54.7)**	(43.3)	**(32.7)**	(41.4)
Net movements in regulatory balances arising from deferred taxes	*6*	**(8.1)**	(8.0)	**(15.5)**	(15.2)
Adjustments					
Depreciation and amortization	*4, 5*	**72.1**	65.0	**139.7**	128.0
Amortization of deferred revenue	*8*	**(2.9)**	(1.9)	**(5.5)**	(3.6)
Finance costs		**19.5**	18.9	**38.9**	38.8
Income tax expense		**11.7**	6.5	**22.3**	16.1
Post-employment benefits		**0.6**	1.5	**1.0**	2.8
Gain on disposals of property, plant and equipment		**-**	-	**(1.8)**	-
Other		**0.1**	0.2	**0.5**	0.2
Capital contributions received	*8*	**19.0**	25.8	**41.1**	82.4
Net change in other non-current assets and liabilities		**0.3**	(1.0)	**1.1**	(1.1)
Increase in customer deposits		**1.7**	1.5	**3.5**	5.4
Changes in non-cash operating working capital balances	*14*	**14.7**	106.8	**(22.1)**	34.1
Income tax paid		**-**	(6.4)	**-**	(15.2)
Net cash provided by operating activities		**111.9**	201.6	**244.2**	302.7
INVESTING ACTIVITIES					
Purchase of property, plant and equipment	*14*	**(136.9)**	(144.8)	**(277.3)**	(341.1)
Purchase of intangible assets	*14*	**(10.6)**	(8.1)	**(16.8)**	(14.1)
Proceeds on disposals of property, plant and equipment		**-**	-	**1.8**	0.1
Net cash used in investing activities		**(147.5)**	(152.9)	**(292.3)**	(355.1)
FINANCING ACTIVITIES					
Increase (decrease) in commercial paper, net	*7*	**90.0**	(28.0)	**135.0**	136.0
Dividends paid	*11*	**(17.5)**	(21.3)	**(35.1)**	(46.3)
Interest paid		**(26.9)**	(26.6)	**(41.0)**	(42.1)
Net cash provided by (used in) financing activities		**45.6**	(75.9)	**58.9**	47.6
Net change in cash and cash equivalents during the period		**10.0**	(27.2)	**10.8**	(4.8)
Cash and cash equivalents (working capital facility), beginning of period		**(5.4)**	21.4	**(6.2)**	(1.0)
Cash and cash equivalents (working capital facility), end of period		**4.6**	(5.8)	**4.6**	(5.8)

See accompanying notes to the condensed interim consolidated financial statements.

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 and its subsidiaries distribute electricity to customers and provide street lighting and expressway lighting services in the city of Toronto.

2. BASIS OF PRESENTATION

The Corporation's unaudited condensed interim consolidated financial statements as at and for the three and six months ended June 30, 2021 and 2020 ["Interim Financial Statements"] have been prepared in accordance with IAS 34 *Interim Financial Reporting*. The notes presented in these Interim Financial Statements include only significant transactions and changes occurring for the six months since the year-end of December 31, 2020. The disclosures in these Interim Financial Statements do not conform in all respects to the IFRS requirements for annual consolidated financial statements. These Interim Financial Statements have been prepared following the same accounting policies and methods of computation as described in note 25 to the Corporation's audited consolidated financial statements for the year ended December 31, 2020 ["2020 Annual Financial Statements"]. Accordingly, they should be read in conjunction with the Corporation's 2020 Annual Financial Statements.

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

The Corporation's revenues, all other things being equal, are impacted by temperature fluctuations and unexpected weather conditions. 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 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 condensed interim consolidated balance sheet date through August 18, 2021 when the Corporation's Interim Financial Statements were authorized for issuance by the 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 7, 9 and 11]*.

3. REGULATION

a) *COVID-19 Pandemic Considerations*

On March 11, 2020, the World Health Organization declared that the COVID-19 outbreak was a global pandemic. The COVID-19 pandemic has had, and as at the date of the Interim Financial Statements continues to have, a significant impact on the Corporation.

On December 22, 2020, the Ontario Government amended O. Reg. 95/05 *Classes of Consumers and Determination of Rates*, setting both the TOU rates for on-peak, mid-peak, and off-peak and tiered rates at the TOU off-peak rate of 8.5 cents per kWh. That regulatory amendment was ultimately extended until February 22, 2021. On February 23, 2021, residential and small business customers resumed paying TOU and tiered pricing under the RPP at prices that were set by the OEB on December 15, 2020. There was no net income impact to the Corporation.

On April 21, 2021, the OEB extended the existing ban on disconnecting residential customers until May 19, 2021, which was further extended on May 14, 2021 until June 2, 2021, in light of the stay-at-home order issued by the Ontario Government under its State of Emergency declaration. The restriction also applied to the issuance of any post-dated disconnection notices during that period. The Corporation continues to voluntarily extend its ban on disconnecting residential and low volume customers until further notice.

b) Electricity Distribution Rates

On December 19, 2019, the OEB issued its 2020-2024 CIR Decision and on February 20, 2020, the OEB issued its CIR Final Rate Order, both in relation to the rate application filed on August 15, 2018 ["2020-2024 CIR decision and rate order"]. The 2020-2024 CIR decision and rate order approved a revenue requirement of $750.2 million for 2020, and rates calculated on that basis. The rates for 2020 were implemented on March 1, 2020, with an effective date of January 1, 2020. In addition, the 2020-2024 CIR decision and rate order approved subsequent annual rate adjustments based on a custom index for the period commencing on January 1, 2021 and ending on December 31, 2024.

On August 24, 2020, LDC filed its 2021 rate application seeking the OEB's approval to finalize distribution rates and other charges for the period commencing on January 1, 2021 and ending on December 31, 2021. On December 10, 2020, the OEB issued a decision and rate order approving LDC's 2021 rates and providing for other deferral and variance account dispositions.

c) CDM Activities

On March 21, 2019, the Government of Ontario issued ministerial directives to the IESO related to the delivery of CDM programs. Previously, LDC and other distributors delivered the CDM programs; under the new directives, the IESO became responsible for delivering the CDM programs.

Under its ECA with the IESO, LDC had a joint CDM plan with Oakville Hydro Electricity Distribution Inc. for the delivery of CDM programs over the 2015-2020 period. As part of implementing its new mandate, the IESO terminated the ECA effective June 20, 2019. LDC was required to cease marketing and business development for all CDM programs immediately and make commercially reasonable efforts to wind down the delivery of programs. Under the ECA, LDC was entitled to reimbursement from the IESO of its eligible expenses and administrative costs relating to the wind-down of its role in the CDM programs. Participant agreements with customers for many of the CDM programs that were in effect before April 1, 2019 remained in effect notwithstanding the termination of the ECA and LDC remains responsible for its obligations under such agreements. On June 10, 2021, the Government of Ontario issued ministerial directives to the IESO directing it to extend the deadline by which participants are to complete the projects from June 30, 2021 to December 31, 2021. Amounts received from the IESO for the funding of the projects under the participant agreements, but not yet spent, are presented on the Corporation's consolidated balance sheets under current liabilities as deferred conservation credit.

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

4. PROPERTY, PLANT AND EQUIPMENT

PP&E consist of the following:

	Distribution assets $	Land and buildings $	Equipment and other $	Construction in progress $	Total $
Cost					
Balance as at December 31, 2020	4,919.9	439.8	375.2	513.3	6,248.2
Additions/(Transfers), net	**166.0**	**5.2**	**12.1**	**110.1**	**293.4**
Disposals and retirements	**(11.2)**	**—**	**(0.7)**	**—**	**(11.9)**
Balance as at June 30, 2021	**5,074.7**	**445.0**	**386.6**	**623.4**	**6,529.7**
Accumulated depreciation					
Balance as at December 31, 2020	929.9	81.2	197.9	—	1,209.0
Depreciation	**89.9**	**7.9**	**15.8**	**—**	**113.6**
Disposals and retirements	**(3.4)**	**—**	**(0.6)**	**—**	**(4.0)**
Balance as at June 30, 2021	**1,016.4**	**89.1**	**213.1**	**—**	**1,318.6**
Carrying amount					
Balance as at December 31, 2020	3,990.0	358.6	177.3	513.3	5,039.2
Balance as at June 30, 2021	**4,058.3**	**355.9**	**173.5**	**623.4**	**5,211.1**

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

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

5. INTANGIBLE ASSETS

Intangible assets consist of the following:

	Computer software $	Contributions $	Software in development $	Contributions for work in progress $	Total $
Cost					
Balance as at December 31, 2020	264.7	176.3	20.6	58.0	519.6
Additions/(Transfers), net	**6.9**	—	**4.3**	**5.3**	**16.5**
Balance as at June 30, 2021	**271.6**	**176.3**	**24.9**	**63.3**	**536.1**
Accumulated amortization					
Balance as at December 31, 2020	151.9	24.6	—	—	176.5
Amortization	**15.6**	**3.6**	—	—	**19.2**
Balance as at June 30, 2021	**167.5**	**28.2**	—	—	**195.7**
Carrying amount					
Balance as at December 31, 2020	112.8	151.7	20.6	58.0	343.1
Balance as at June 30, 2021	**104.1**	**148.1**	**24.9**	**63.3**	**340.4**

"Contributions" represent payments made to HONI for dedicated infrastructure in order to receive connections to transmission facilities.

"Software in development" and "Contributions for work in progress" additions are net of transfers to the other intangible asset categories.

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

6. REGULATORY BALANCES

Debit balances consist of the following:

	January 1, 2021 $	Balances arising in the period $	Recovery/ reversal $	Other movements $	June 30, 2021 $	Remaining recovery/ reversal period (months)	Carrying charges applicable
Deferred taxes	**47.9**	**22.1**	**—**	**—**	**70.0**	(2)	—
OPEB net actuarial loss [1]	**75.5**	**(25.0)**	**(0.5)**	**—**	**50.0**	(2)	—
Settlement variances	**3.4**	**41.0**	**(8.2)**	**—**	**36.2**	(2)	(3)
LRAM	**33.2**	**—**	**(12.8)**	**—**	**20.4**	(2)	(3)
OPEB cash versus accrual	**0.9**	**—**	**(0.5)**	**—**	**0.4**	(2)	(3)
Foregone revenue	**—**	**—**	**1.1**	**(0.9)**	**0.2**	(2)	—
Other	**9.5**	**—**	**(1.9)**	**(1.0)**	**6.6**	18	(3)
	170.4	**38.1**	**(22.8)**	**(1.9)**	**183.8**		

Credit balances consist of the following:

	January 1, 2021 $	Balances arising in the period $	Recovery/ reversal $	Other movements $	June 30, 2021 $	Remaining recovery/ reversal period (months)	Carrying charges applicable
Capital-related revenue requirement	**77.9**	**0.2**	**—**	**—**	**78.1**	(2)	(3)
Derecognition	**33.2**	**0.1**	**—**	**—**	**33.3**	(2)	(3)
Gain on disposal	**37.5**	**0.1**	**(16.1)**	**—**	**21.5**	(2)	(3)
Development charges	**14.8**	**1.3**	**(1.0)**	**—**	**15.1**	(2)	(3)
Tax-related variances	**11.2**	**—**	**—**	**—**	**11.2**	(2)	(3)
Accounts receivable credits	**3.5**	**—**	**(0.4)**	**—**	**3.1**	42	(3)
Foregone revenue	**0.9**	**—**	**—**	**(0.9)**	**—**	—	—
Other	**4.4**	**1.9**	**(0.6)**	**(1.0)**	**4.7**	6-42	(3)
	183.4	**3.6**	**(18.1)**	**(1.9)**	**167.0**		

(1) Actuarial gain of $25.0 million was recognized as a result of the increase in discount rate [June 30, 2021 – 3.00%; December 31, 2020 – 2.50%].
(2) There were no significant changes to the disposition period for the six months ended June 30, 2021. Refer to note 8 to the Corporation's 2020 Annual Financial Statements for details.
(3) Carrying charges were added to the regulatory balance in accordance with the OEB's direction, at a rate of 0.57% for January 1, 2021 to June 30, 2021 [January 1, 2020 to June 30, 2020 – 2.18%; July 1, 2020 to December 31, 2020 – 0.57%].

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 disposed through OEB-approved rate riders. The "Other movements" column consists of impairment and reclassification between the regulatory debit and credit balances. In addition, the "Other movements" column includes reclassification of regulatory deferral accounts considered to be insignificant into the "Other" categories.

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

On June 17, 2021, the OEB issued the final report on the COVID-19 Emergency Deferral Account consultation. The report adopts OEB Staff's December 16, 2020 proposal which led to management's decision to reverse all amounts recorded in the COVID-19 Emergency Deferral Account as at December 31, 2020. At this time, management's assessment on the recoverability of costs and lost revenues associated with the pandemic remains unchanged [refer to note 8[q] to the 2020 Annual Financial Statements for further information]. Consequently, no amounts have been recorded in the COVID-19 Emergency Deferral Account as at June 30, 2021.

7. SHORT-TERM BORROWINGS

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

	Revolving Credit Facility Limit $	Revolving Credit Facility Borrowings $	Commercial Paper Outstanding $	Revolving Credit Facility Availability $
June 30, 2021	800.0	—	295.0	505.0
December 31, 2020	800.0	—	160.0	640.0

As at June 30, 2021, no amount had been drawn under the Working Capital Facility [December 31, 2020 – $6.2 million] and $32.9 million of letters of credit had been issued against the Prudential Facility [December 31, 2020 – $32.9 million].

Subsequent to June 30, 2021, additional letters of credit of $26.2 million were issued against the Prudential Facility to support the post-employment benefit obligations for the plan amendments [refer to note 13[a] to the 2020 Annual Financial Statements].

8. DEFERRED REVENUE

Deferred revenue consists of the following:

	As at and six months ended June 30, 2021 $	As at and year ended December 31, 2020 $
Capital contributions, beginning of period	**553.7**	410.4
Capital contributions received [(1)]	**48.4**	151.7
Amortization	**(5.5)**	(8.2)
Other	**(0.2)**	(0.2)
Capital contributions, end of period	**596.4**	553.7
Other deferred revenue	**9.4**	2.6
Total deferred revenue	**605.8**	556.3
Less: Current portion of deferred revenue relating to:		
Capital contributions	**17.0**	15.5
Other deferred revenue	**9.4**	2.6
Current portion of deferred revenue	**26.4**	18.1
Non-current portion of deferred revenue	**579.4**	538.2

(1) Includes non-cash contributions of $7.3 million [year ended December 31, 2020 – $13.0 million].

9. DEBENTURES

The Corporation filed a base shelf prospectus dated July 29, 2021 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. The full amount of the debenture offering capacity remains available to the Corporation under the base shelf prospectus.

10. FINANCIAL INSTRUMENTS

a) Fair value

As at June 30, 2021 and December 31, 2020, the fair values of cash and cash equivalents, accounts receivable and unbilled revenue, working capital facility, commercial paper, and accounts payable and accrued liabilities approximated their carrying amounts due to the short maturity of these instruments. The fair value of customer deposits approximates their carrying amount taking into account interest accrued on the outstanding balance. Obligations under leases are measured based on a discounted cash flow analysis and fair values approximate the carrying amounts as management believes that the fixed interest rates are representative of current market rates.

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, and is included in Level 2 of the fair value hierarchy. As at June 30, 2021, the total fair value of the Corporation's debentures was determined to be approximately $2,582.0 million [December 31, 2020 – $2,785.9 million], with a total carrying amount of $2,382.5 million [December 31, 2020 – $2,382.2 million].

b) Financial risks

The following is a discussion of certain 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

As a result of the COVID-19 pandemic and material disruptions to businesses and the economy, the Corporation's credit risk has increased due to some customers not being able to pay their electricity bills when due, and LDC's security interest or other protective measures, if any, provided to LDC, such as letters of credit, cash deposits or pre-authorized payments may not be sufficient. The Corporation considers the current economic and credit conditions to determine the loss allowance of its accounts receivable and unbilled revenue. Given the high degree of uncertainty caused by the COVID-19 pandemic, the estimates and judgments made by management in the preparation of the expected credit loss allowance are subject to a high degree of estimation uncertainty. Based on the Corporation's current estimates and assumptions, including but not limited to recent trends for customer collections and current and forecasted economic conditions, the Corporation adjusted the expected credit loss provision to account for the higher level of expected customer defaults at the balance sheet date. The Corporation continues to actively monitor its exposure to credit risk, and for the six months ended June 30, 2021, recorded a net incremental provision of $1.2 million to its expected credit loss allowance as a result of the COVID-19 pandemic.

The Corporation has provided additional information on its credit risk related to accounts receivable and unbilled revenue in the Interim Financial Statements in light of the COVID-19 pandemic.

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

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

	June 30, 2021 $	December 31, 2020 $
Accounts receivable, gross		
Outstanding for not more than 30 days	**191.3**	167.1
Outstanding for more than 30 days and not more than 120 days	**33.9**	51.4
Outstanding for more than 120 days	**36.5**	26.5
Total accounts receivable, gross	**261.7**	245.0
Unbilled revenue, gross	**274.9**	254.7
Credit loss allowance	**(32.6)**	(30.5)
Total accounts receivable and unbilled revenue	**504.0**	469.2

Reconciliation between the opening and closing credit loss allowance balances for accounts receivable and unbilled revenue is as follows:

	As at and six months ended June 30, 2021 $	As at and year ended December 31, 2020 $
Balance, beginning of period	**(30.5)**	(11.8)
Additional credit loss allowance	**(4.0)**	(23.4)
Write-offs	**2.0**	5.0
Recoveries of previously written-off balances	**(0.1)**	(0.3)
Balance, end of period	**(32.6)**	(30.5)

Liquidity risk

The Corporation is exposed to liquidity risk related to its ability to fund its obligations as they become due. The Corporation relies on debt financing through the debt capital markets and existing credit facilities to finance its daily operations, repay existing indebtedness, and fund capital expenditures. The current challenging economic climate affected by factors including but not limited to the effects of the COVID-19 pandemic may lead to material adverse changes in cash flows, working capital levels and/or debt balances, which may also have a direct negative impact on the Corporation's operating results and financial position in the future. Accordingly, the Corporation continues to monitor and adapt its response plan as the economic climate evolves.

11. SHARE CAPITAL

On March 3, 2021, the Board of Directors of the Corporation declared a dividend in the amount of $17.6 million with respect to the first quarter of 2021 [first quarter of 2020 – $25.0 million], paid to the City on March 31, 2021.

On May 12, 2021, the Board of Directors of the Corporation declared a dividend in the amount of $17.5 million with respect to the second quarter of 2021 [second quarter of 2020 – $21.3 million], paid to the City on June 30, 2021.

On August 18, 2021, the Board of Directors of the Corporation declared a dividend in the amount of $17.6 million with respect to the third quarter of 2021 [third quarter of 2020 – $23.2 million], payable to the City by September 30, 2021.

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

12. REVENUES

Revenues consist of the following:

	Three months ended June 30,		Six months ended June 30,	
	2021 $	2020 $	2021 $	2020 $
Revenue from contracts with customers				
Energy sales	**643.3**	670.8	**1,320.5**	1,470.9
Distribution revenue	**188.5**	158.8	**371.1**	345.8
Street lighting service fee	**4.6**	4.5	**9.2**	9.0
Pole and duct rentals	**4.4**	5.4	**9.1**	10.1
Ancillary services revenue	**3.7**	3.0	**6.3**	5.9
Other regulatory service charges	**2.0**	1.6	**3.8**	3.7
Miscellaneous	**6.3**	4.0	**9.7**	6.7
Revenue from other sources				
Capital contributions	**2.9**	1.9	**5.5**	3.6
Other	**2.3**	2.3	**4.4**	4.5
	858.0	852.3	**1,739.6**	1,860.2

13. INCOME TAXES

The Corporation's effective tax rate after net movements in regulatory balances for the three and six months ended June 30, 2021 was 8.7% and 8.4% [three and six months ended June 30, 2020 – (4.3)% and 1.2%]. The effective tax rate for the three months ended June 30, 2021 was 13.0% higher than the three months ended June 30, 2020 primarily due to lower net deductions in permanent and temporary differences between accounting and tax treatments, and the tax impact of lower incremental bad debt provision due to COVID-19.

The effective tax rate for the six months ended June 30, 2021 was 7.2% higher than the six months ended June 30, 2020 primarily due to lower net deductions in permanent and temporary differences between accounting and tax treatments, the tax impact of lower incremental bad debt provision due to COVID-19, and higher tax recognized on property dispositions.

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

Income tax expense as presented in the condensed interim consolidated statements of income and condensed interim consolidated statements of comprehensive income are as follows:

	Three months ended June 30,		Six months ended June 30,	
	2021 $	2020 $	2021 $	2020 $
Income tax expense	**11.7**	6.5	**22.3**	16.1
Income tax recorded in net movements in regulatory balances	**(8.1)**	(8.0)	**(15.5)**	(15.2)
Income tax expense (recovery) and income tax recorded in net movements in regulatory balances	**3.6**	(1.5)	**6.8**	0.9
Income tax expense (recovery) in OCI	**(3.3)**	(14.4)	**6.6**	(4.3)
Income tax expense (recovery) in OCI recorded in net movements in regulatory balances	**3.3**	14.4	**(6.6)**	4.3
Income tax expense in OCI	**—**	—	**—**	—

14. CONSOLIDATED STATEMENTS OF CASH FLOWS

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

	Three months ended June 30,		Six months ended June 30,	
	2021 $	2020 $	2021 $	2020 $
Accounts receivable and unbilled revenue	**(9.6)**	101.6	**(34.8)**	69.3
Income tax receivable	**1.0**	(10.4)	**4.1**	(16.8)
Materials and supplies	**(0.4)**	0.1	**(0.4)**	(0.6)
Other current assets	**(2.2)**	(3.6)	**(4.4)**	(2.5)
Accounts payable and accrued liabilities	**33.6**	7.7	**9.2**	(26.7)
Deferred revenue	**(3.2)**	6.9	**8.3**	7.7
Deferred conservation credit	**(4.5)**	4.5	**(4.1)**	3.7
	14.7	106.8	**(22.1)**	34.1

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

Reconciliation between the amount presented on the condensed interim consolidated statements of cash flows and total additions to PP&E and intangible assets is as follows:

	Three months ended June 30,		Six months ended June 30,	
	2021 $	2020 $	2021 $	2020 $
Purchase of PP&E, cash basis	**136.9**	144.8	**277.3**	341.1
Net change in accounts payable and accruals related to PP&E	**8.6**	7.3	**8.1**	(64.6)
Non-cash contributed assets (1)	**3.8**	1.1	**7.3**	1.1
Other	**0.7**	0.4	**0.7**	0.6
Total additions to PP&E	**150.0**	153.6	**293.4**	278.2
Purchase of intangible assets, cash basis	**10.6**	8.1	**16.8**	14.1
Net change in accounts payable and accruals related to intangible assets	**(0.9)**	8.0	**(0.3)**	7.7
Total additions to intangible assets	**9.7**	16.1	**16.5**	21.8

(1) Comparative figures have been reclassified from amounts previously reported due to change in presentation of the condensed interim consolidated statements of cash flows for amounts between purchase of PP&E and capital contributions received of $1.1 million.

15. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Use of judgments and estimates

The preparation of the Corporation's Interim Financial Statements requires management to make judgments, estimates and assumptions which affect the application of accounting policies, reported assets, liabilities and regulatory balances, and the disclosure of contingent assets and liabilities at the date of the Interim Financial Statements, and the reported 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. The assessment of the duration and severity of the COVID-19 pandemic is subject to significant uncertainty; accordingly, judgments, estimates and assumptions related to the impact of the COVID-19 pandemic made by management in the preparation of the Corporation's Interim Financial Statements are also subject to significant uncertainty. The extent of the future impact of the COVID-19 pandemic on the Corporation's financial results and business operations is not known at this time. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively.

b) Future accounting pronouncements

The IASB has issued a number of standards and amendments to existing standards that are not yet effective. The Corporation continues to analyze these pronouncements and has determined that the following amendments could have an impact on the Corporation's consolidated financial statements when adopted.

Classification of Liabilities as Current or Non-current [Amendments to IAS 1 Presentation of Financial Statements ["IAS 1"]]

In January 2020, the IASB issued amendments to IAS 1 relating to the classification of liabilities as current or non-current. Specifically, the amendments clarify one of the criteria in IAS 1 for classifying a liability as non-current - that is, the requirement for an entity to have the right to defer settlement of the liability for at least 12 months after the reporting period. The amendments are effective for annual reporting periods beginning on or after January 1, 2023, with early adoption permitted. The amendments are to be applied retrospectively.

Onerous Contracts - Cost of Fulfilling a Contract [Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets ["IAS 37"]]

In May 2020, the IASB issued amendments to IAS 37 regarding costs that should be included as the cost of fulfilling a contract when assessing whether a contract is onerous. The amendments clarify that the cost of fulfilling the contract comprises all costs that relate directly to the contract. Such costs include both the incremental costs of fulfilling that contract and an allocation of other costs that relate directly to fulfilling contracts. The amendments apply to contracts existing at the date when the amendments are first applied. The amendments are effective for annual reporting periods beginning on or after January 1, 2022, with early adoption permitted.

Definition of Accounting Estimates [Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors ["IAS 8"]]

In February 2021, the IASB issued amendments to IAS 8 to introduce a definition of "accounting estimates" and include other amendments to help entities distinguish changes in accounting estimates from changes in accounting policies. The amendments are effective for annual reporting periods beginning on or after January 1, 2023, with early adoption permitted. The amendments are to be applied prospectively.

Disclosure of Accounting Policies [Amendments to IAS 1]

In February 2021, the IASB issued amendments to IAS 1 requiring an entity to disclose its material accounting policies, rather than its significant accounting policies. Additional amendments were made to explain how an entity can identify a material accounting policy. The amendments are effective for annual reporting periods beginning on or after January 1, 2023, with early adoption permitted.

Deferred Tax related to Assets and Liabilities arising from a Single Transaction [Amendments to IAS 12 Income Taxes ["IAS 12"]]

In May 2021, the IASB issued amendments to IAS 12. The amendments clarify how companies should account for deferred tax on certain transactions such as leases and decommissioning obligations. The amendments narrow the scope of the initial recognition exemption, so that it does not apply to transactions that give rise to equal and offsetting temporary differences. As a result, companies will need to recognize both a deferred tax asset and a deferred tax liability when accounting for such transactions. The amendments are effective for annual reporting periods beginning on or after January 1, 2023, with early adoption permitted.

The Corporation is currently assessing the impact of the above amendments on the Corporation's consolidated financial statements.