



SECOND QUARTER FINANCIAL REPORT
JUNE 30, 2019

TORONTO HYDRO CORPORATION

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GLOSSARY

CDM – Conservation and Demand Management

CIR – Custom Incentive Rate-setting

City – City of Toronto

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

Corporation – Toronto Hydro Corporation

ECA – Energy Conservation Agreement

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

ERP – Enterprise resource planning

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

LDC – Toronto Hydro-Electric System Limited

LRAM – Lost revenue adjustment mechanism

MD&A – Management's Discussion and Analysis

OEB – Ontario Energy Board

PP&E – Property, plant and equipment

TH Energy – Toronto Hydro Energy Services Inc.

WMS – Wholesale Market Service



MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2019 AND 2018

Executive Summary

- Net income after net movements in regulatory balances for the three and six months ended June 30, 2019 was \$46.1 million and \$88.7 million, respectively, compared to \$42.5 million and \$85.0 million for the comparable periods in 2018;
- Capital expenditures were primarily related to the renewal of the electricity infrastructure of LDC and were \$135.5 million and \$233.7 million for the three and six months ended June 30, 2019, respectively, compared to \$118.1 million and \$227.6 million for the comparable periods in 2018;
- On July 30, 2019, 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 21, 2019, the Board of Directors of the Corporation declared dividends in the amount of \$25.1 million with respect to the third quarter of 2019 (third quarter of 2018 - \$23.5 million), payable to the City by September 30, 2019.

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, 2019 and 2018 (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, 2018 and 2017 (the "2018 Annual Financial Statements");
- 2018 Annual Financial Statements; and
- the Corporation's MD&A for the years ended December 31, 2018 and 2017 (the "2018 Annual MD&A") including the sections titled "Electricity Distribution – Industry Overview", "Legal Proceedings", "Share Capital", and "Transactions with Related Parties", 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:

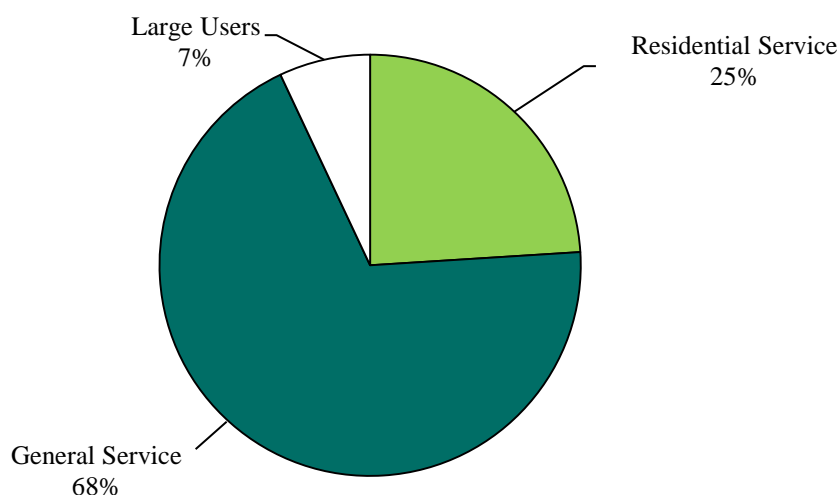
- LDC - distributes electricity; and
- TH Energy - provides street lighting and expressway lighting services in the City.

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 774,000 customers located in the City. 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, 2019, LDC earned energy sales and distribution revenue of \$1,657.5 million from general service users¹, residential service users² and large users³.

LDC Energy Sales and Distribution Revenue by Class

Six months ended June 30, 2019



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 twelve-month period.

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

³ “Large Users” means a service provided to a customer with a monthly peak demand of 5,000 kW or greater averaged over a twelve-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)			
	2019	2018	Change
	\$	\$	\$
Revenues			
Energy sales	602.6	660.4	(57.8)
Distribution revenue	198.3	162.9	35.4
Other	23.3	28.0	(4.7)
	824.2	851.3	(27.1)
Expenses			
Energy purchases	646.9	684.8	(37.9)
Operating expenses	75.4	82.9	(7.5)
Depreciation and amortization	60.4	58.0	2.4
	782.7	825.7	(43.0)
Finance costs	(20.0)	(18.6)	(1.4)
Gain on disposal of PP&E	2.2	108.2	(106.0)
Income before income taxes	23.7	115.2	(91.5)
Income tax expense	(18.3)	(23.1)	4.8
Net income	5.4	92.1	(86.7)
Net movements in regulatory balances	28.2	(58.9)	87.1
Net movements in regulatory balances arising from deferred tax assets	12.5	9.3	3.2
Net income after net movements in regulatory balances	46.1	42.5	3.6

The increase in net income after net movements in regulatory balances for the three months ended June 30, 2019 was primarily due to higher 2019 electricity distribution rates (\$10.3 million) and lower operating expenses (\$7.5 million) mainly due to a decrease in emergency power restorations in the current year, partially offset by lower electricity consumption (\$4.8 million), lower other revenue (\$4.7 million) primarily related to the additional CDM mid-term incentive achieved in 2018 and higher depreciation (\$2.4 million) related to new in-service asset additions.

The variance in gain on disposal is primarily due to the gain realized on a property sale in 2018, which is being refunded to customers. The gain on disposal does not impact net income after net movements in regulatory balances as there is a corresponding offset in net movements in regulatory balances, given IFRS treatment.

Interim Consolidated Statements of Income
Six months ended June 30
(in millions of Canadian dollars)

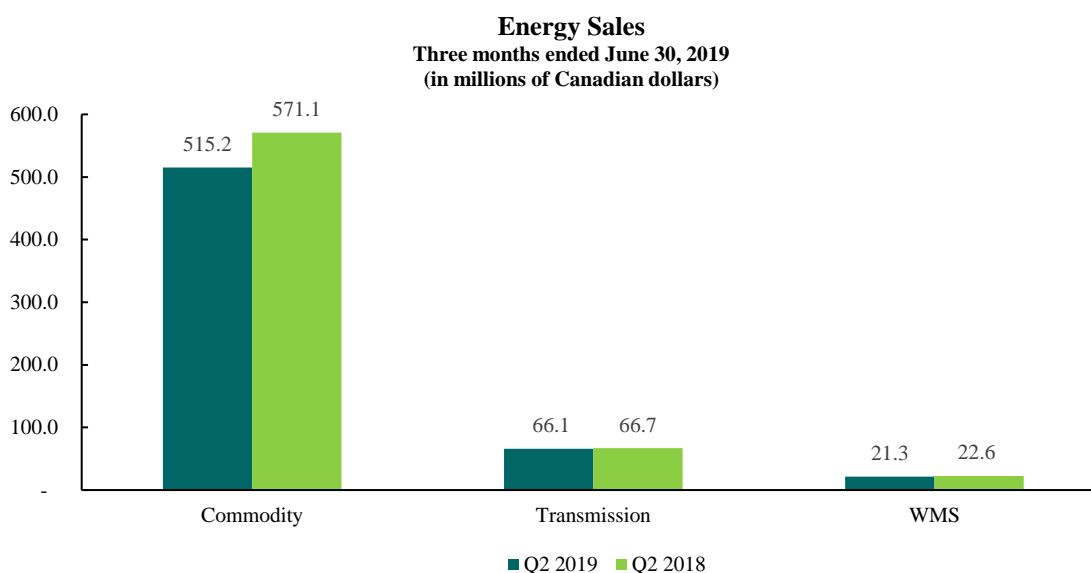
	2019 \$	2018 \$	Change \$
Revenues			
Energy sales	1,266.3	1,302.8	(36.5)
Distribution revenue	391.2	334.5	56.7
Other	43.7	49.3	(5.6)
	1,701.2	1,686.6	14.6
Expenses			
Energy purchases	1,316.4	1,331.7	(15.3)
Operating expenses	151.4	157.5	(6.1)
Depreciation and amortization	118.0	112.3	5.7
	1,585.8	1,601.5	(15.7)
Finance costs	(39.9)	(37.5)	(2.4)
Gain on disposal of PP&E	2.2	108.2	(106.0)
Income before income taxes	77.7	155.8	(78.1)
Income tax expense	(35.8)	(38.2)	2.4
Net income	41.9	117.6	(75.7)
Net movements in regulatory balances	27.5	(50.4)	77.9
Net movements in regulatory balances arising from deferred tax assets	19.3	17.8	1.5
Net income after net movements in regulatory balances	88.7	85.0	3.7

The increase in net income after net movements in regulatory balances for the six months ended June 30, 2019 was primarily due to higher 2019 electricity distribution rates (\$16.0 million) and lower operating expenses (\$6.1 million) mainly due to a decrease in emergency power restorations in the current year, partially offset by higher depreciation (\$5.7 million) related to new in-service asset additions, lower other revenue (\$5.6 million) mainly due to the additional CDM mid-term incentive achieved in 2018, and lower electricity consumption (\$3.2 million).

The variance in gain on disposal is primarily due to the gain realized on a property sale in 2018, which is being refunded to customers. The gain on disposal does not impact net income after net movements in regulatory balances as there is a corresponding offset in net movements in regulatory balances, given IFRS treatment.

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 consolidated balance sheets ("Consolidated Balance Sheets") and within net movements in regulatory balances on the Corporation's consolidated statements of income and comprehensive income ("Consolidated Statements of Income").



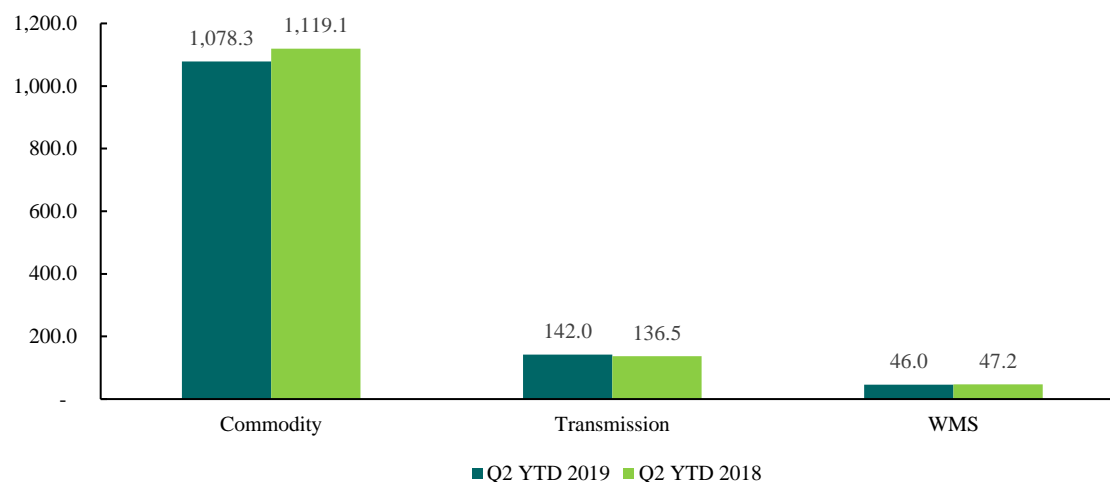
Energy sales for the three months ended June 30, 2019 were \$602.6 million compared to \$660.4 million for the comparable period in 2018. The decrease was primarily due to lower commodity charges (\$55.9 million).

Energy Purchases, Energy Sales, and Settlement Variances
Three months ended June 30, 2019
(in millions of Canadian dollars)

	Energy Purchases \$	Energy Sales \$	Settlement Variances \$
Commodity charges	562.4	515.2	47.2
Retail transmission charges	67.7	66.1	1.6
WMS charges	16.8	21.3	(4.5)
Total	646.9	602.6	44.3

For the three months ended June 30, 2019, LDC recognized \$602.6 million in energy sales to customers and was billed \$646.9 million for energy purchases from the IESO. The difference between energy sales and energy purchases represents a \$44.3 million settlement variance for the period. The settlement variance was recorded as an increase to the regulatory debit balance (\$44.4 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, 2019
(in millions of Canadian dollars)



Energy sales for the six months ended June 30, 2019 were \$1,266.3 million compared to \$1,302.8 million for the comparable period in 2018. The decrease was due to lower commodity charges (\$40.8 million), partially offset by higher retail transmission charges (\$5.5 million).

Energy Purchases, Energy Sales, and Settlement Variances
Six months ended June 30, 2019
(in millions of Canadian dollars)

	Energy Purchases \$	Energy Sales \$	Settlement Variances \$
Commodity charges	1,126.9	1,078.3	48.6
Retail transmission charges	142.4	142.0	0.4
WMS charges	47.1	46.0	1.1
Total	1,316.4	1,266.3	50.1

For the six months ended June 30, 2019, LDC recognized \$1,266.3 million in energy sales to customers and was billed \$1,316.4 million for energy purchases from the IESO. The difference between energy sales and energy purchases represents a \$50.1 million settlement variance for the period. The settlement variance was recorded as an increase to the regulatory debit balance (\$50.3 million including carrying charges on the accumulated settlement variance balance; see 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, 2019 was \$198.3 million and \$391.2 million, respectively, compared to \$162.9 million and \$334.5 million for the comparable periods in 2018.

The net increase in distribution revenue for the three months ended June 30, 2019 was primarily due to higher revenue collected through OEB-approved rate riders (\$29.8 million) and higher 2019 electricity distribution rates (\$10.3 million), partially offset by lower electricity consumption (\$4.8 million).

The net increase in distribution revenue for the six months ended June 30, 2019 was primarily due to higher revenue collected through OEB-approved rate riders (\$43.6 million) and higher 2019 electricity distribution rates (\$16.0 million), partially offset by lower electricity consumption (\$3.2 million).

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, 2019 was \$23.3 million and \$43.7 million, respectively, compared to \$28.0 million and \$49.3 million for the comparable periods in 2018.

The decrease in other revenue for the three and six months ended June 30, 2019 was primarily due to lower revenue from ancillary services and the additional CDM mid-term incentive achieved in 2018.

Operating Expenses

Operating expenses for the three and six months ended June 30, 2019 were \$75.4 million and \$151.4 million, respectively, compared to \$82.9 million and \$157.5 million for the comparable periods in 2018.

The decrease in operating expenses for the three and six months ended June 30, 2019 was primarily due to lower costs related to emergency power restorations and lower ancillary service costs, partially offset by higher costs associated with the maintenance and post go-live support of the ERP system implemented in late 2018.

Depreciation and Amortization

Depreciation and amortization expense for the three and six months ended June 30, 2019 was \$60.4 million and \$118.0 million, respectively, compared to \$58.0 million and \$112.3 million for the comparable periods in 2018. The increase was primarily due to new in-service asset additions, partially offset by certain assets being fully depreciated and lower derecognition of assets removed from service.

Finance Costs

Finance costs for the three and six months ended June 30, 2019 were \$20.0 million and \$39.9 million, respectively, compared to \$18.6 million and \$37.5 million for the comparable periods in 2018. The increase was primarily due to lower capitalized borrowing costs in 2019.

Gain on Disposals of PP&E

Gain on disposals of PP&E for the three and six months ended June 30, 2019 was \$2.2 million compared to \$108.2 million for the comparable periods in 2018.

The decrease in gain on disposals of PP&E for the three and six months ended June 30, 2019 was primarily due to a higher gain realized in connection with the disposal of a property in the second quarter of 2018 which is being refunded to customers.

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

Income tax expense and income tax recorded in net movements in regulatory balances for the three and six months ended June 30, 2019 was \$5.8 million and \$16.5 million, respectively, compared to \$13.8 million and \$20.4 million for the comparable periods in 2018. The favourable variance was primarily due to lower tax recognized on property dispositions compared to 2018, offset by lower net deductions for permanent and temporary differences between accounting and tax treatments.

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 (\$46.2 million) and decrease in the regulatory credit (\$0.6 million) balances for the six months ended June 30, 2019 equals the sum (\$46.8 million) of net movements in regulatory balances and net movements in regulatory balances arising from deferred tax assets for the period (see “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 balance sheet 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 (see 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, 2019 was a recovery of \$28.2 million and \$27.5 million, respectively, compared to a charge of \$58.9 million and \$50.4 million for the comparable periods in 2018. The recovery of \$28.2 million and \$27.5 million for the three and six months ended June 30, 2019 was primarily due to the timing difference between the electricity costs billed monthly by the IESO and LDC’s billing to customers and LRAM, partially offset by amounts being deferred into capital-related regulatory accounts for future refunds to customers and amounts disposed through OEB-approved rate riders. The charge of \$58.9 million and \$50.4 million for the three and six months ended June 30, 2018 was primarily due to the gain realized on disposal of a property in the second quarter of 2018, partially offset by amounts disposed through OEB-approved rate riders and the timing difference between the electricity costs billed monthly by the IESO and LDC’s billing 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, 2019.

Summary of Quarterly Results of Operations (in millions of Canadian dollars)				
	June 30, 2019	March 31, 2019	December 31, 2018	September 30, 2018
	\$	\$	\$	\$
Energy sales	602.6	663.7	660.2	741.1
Distribution revenue	198.3	192.9	163.9	175.8
Other	23.3	20.4	23.4	21.7
Revenues	824.2	877.0	847.5	938.6
Net income after net movements in regulatory balances	46.1	42.6	31.9	50.4
	June 30, 2018	March 31, 2018	December 31, 2017	September 30, 2017
	\$	\$	\$	\$
			<i>[Restated]</i> ¹	<i>[Restated]</i> ¹
Energy sales	660.4	642.4	638.9	738.4
Distribution revenue	162.9	171.6	181.7	186.1
Other	28.0	21.3	27.7	36.6
Revenues	851.3	835.3	848.3	961.1
Net income after net movements in regulatory balances	42.5	42.5	35.1	46.8

¹ These numbers have been restated to account for the impact of adopting IFRS 15 *Revenue from Contracts with Customers* ("IFRS 15"). Additional details on IFRS 15 were discussed in note 25(q) to the 2018 Annual Financial Statements.

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 variation from the seasonal trend for the second quarter of 2018 was due to higher commodity charges charged by the IESO, partially offset by lower distribution revenue due to amounts disposed through OEB approved rate riders.

Financial Position

The following table outlines the significant changes in the Consolidated Balance Sheets as at June 30, 2019 as compared to the Consolidated Balance Sheets as at December 31, 2018.

Consolidated Balance Sheets Data (in millions of Canadian dollars)		
Balance Sheet Account	Increase (Decrease) \$	Explanation of Significant Change
Assets		
PP&E and intangible assets	115.2	The increase was primarily due to capital expenditures (see “Investing Activities” below), partially offset by depreciation and derecognition.
Liabilities and Equity		
Commercial paper	137.0	The increase was primarily due to issuances required for general corporate purposes (see “Liquidity and Capital Resources” below).
Accounts payable and accrued liabilities	(65.8)	The decrease was primarily due to timing of payments and lower electricity cost.
Deferred revenue	50.4	The increase was primarily due to capital contributions received.
Deferred tax liabilities	19.4	The increase was primarily due to lower tax values as compared to accounting values of PP&E and intangible assets.
Retained earnings	38.5	The increase was due to net income after net movements in regulatory balances (\$88.7 million), offset by dividends paid and declared (\$50.2 million).
Regulatory Balances		
Regulatory debit balances	46.2	The increase was primarily due to the timing difference between the electricity costs billed monthly by the IESO and LDC’s billing to customers and deferred tax assets, partially offset by amounts disposed through OEB-approved rate riders.

Liquidity and Capital Resources

The Corporation's current assets and current liabilities amounted to \$523.5 million and \$1,042.5 million, respectively, as at June 30, 2019, resulting in a working capital deficit of \$519.0 million. The deficit is attributable to the Corporation's preference for utilizing its Commercial Paper Program and Working Capital Facility (both defined in "Financing Activities" below) before issuing additional debentures to fulfill the Corporation's ongoing liquidity requirements, including funding of significant capital spending in the current year. The Corporation seeks to maintain an optimal mix of short-term and long-term debt in order to lower 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) and the 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, 2019	800.0	-	250.0	550.0
December 31, 2018	800.0	-	113.0	687.0

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, 2019, \$2.0 million had been drawn under the Working Capital Facility, compared to \$12.6 million as at December 31, 2018.

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

	Three months ended June 30,		Six months ended June 30,	
	2019 \$	2018 \$	2019 \$	2018 \$
Working capital facility, beginning of period	(5.8)	(4.8)	(12.6)	(11.7)
Net cash provided by operating activities	128.1	119.9	236.4	250.0
Net cash used in investing activities	(131.2)	(8.4)	(269.9)	(141.0)
Net cash provided by (used in) financing activities	6.9	(81.9)	44.1	(72.5)
Cash and cash equivalents (Working capital facility), end of period	(2.0)	24.8	(2.0)	24.8

Operating Activities

Net cash provided by operating activities for the three and six months ended June 30, 2019 was \$128.1 million and \$236.4 million, respectively, compared to \$119.9 million and \$250.0 million for the comparable periods in 2018.

The increase in net cash provided by operating activities for the three months ended June 30, 2019 was primarily due to changes in net income before net movements in regulatory balances and timing differences in the settlement of receivables and payables, partially offset by lower customer deposits.

The decrease in net cash provided by operating activities for the six months ended June 30, 2019 was primarily due to lower customer deposits and timing differences in the settlement of receivables, partially offset by changes in 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, 2019 was \$131.2 million and \$269.9 million, respectively, compared to \$8.4 million and \$141.0 million for the comparable periods in 2018. The increase was primarily related to proceeds received on the disposition of a property in 2018.

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.

The following table summarizes the Corporation's capital expenditures (on an accrual basis) for the periods indicated.

	Capital Expenditures			
	(in millions of Canadian dollars)			
	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
	\$	\$	\$	\$
Regulated LDC				
Distribution system				
Planned ¹	110.5	83.9	189.1	163.1
Reactive	11.6	17.0	23.2	29.8
Copeland Station	0.9	1.7	1.5	4.3
Technology assets	9.5	13.2	14.3	25.7
Other ²	0.9	1.1	2.0	1.4
Regulated capital expenditures	133.4	116.9	230.1	224.3
Unregulated capital expenditures ³	2.1	1.2	3.6	3.3
Total capital expenditures	135.5	118.1	233.7	227.6

¹ Includes, among other initiatives, the replacement of underground and overhead infrastructures, delivery of customer connections, and customer-initiated plant relocations and expansions.

² Includes fleet capital and buildings.

³ Primarily relates to street lighting and generation equipment.

The total regulated capital expenditures for the three and six months ended June 30, 2019 were \$133.4 million and \$230.1 million, respectively, compared to \$116.9 million and \$224.3 million for the comparable periods in 2018.

For the three months ended June 30, 2019, the increase in regulated capital expenditures was primarily related to higher spending on customer-initiated plant relocations and expansions (\$16.1 million).

For the six months ended June 30, 2019, the increase in regulated capital expenditures was primarily related to higher spending on customer-initiated plant relocations and expansions (\$24.1 million), partially offset by lower spending on technology assets mainly due to the completion of the ERP implementation in 2018 (\$11.4 million).

The largest capital initiatives in 2019 include the delivery of customer connections and the replacement of underground and overhead infrastructures.

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, 2019, capital expenditures for the delivery of customer connections were \$45.4 million.

The replacement of underground infrastructure includes replacing direct buried cables, transformer switches, hand-wells and other aging underground infrastructure. The replacement of overhead infrastructure includes replacing poles, overhead transformers, conductors, overhead switches and other aging overhead infrastructure and equipment. Both initiatives will allow LDC to continue to provide ongoing safe and reliable service to its customers. For the six months ended June 30, 2019, capital expenditures for the underground and overhead infrastructures were \$34.4 million and \$29.7 million, respectively.

In the second quarter of 2019, the Copeland Station construction project was completed. Two power transformers were energized and post-energization commissioning was completed subsequent to HONI's deficiency remediation.

Load transfers and customer connections have commenced. As at June 30, 2019, the total cumulative capital expenditures on the Copeland Station project amounted to \$204.0 million, plus capitalized borrowing costs. Copeland Station is the first transformer station built in downtown Toronto since the 1960's and is the second underground transformer station in Canada. The station provides electricity to buildings and neighbourhoods in the central-southwest area of Toronto.

On January 25, 2018, the Corporation was informed that Carillion Construction Inc., the general contractor for the Copeland Station project, filed for creditor protection under the Companies' Creditors Arrangement Act after its affiliate, Carillion plc, went into compulsory liquidation in the United Kingdom. Other contractors had taken on part of the remaining work to contribute to the completion of the project. See "Risk Management and Risk Factors" in the 2018 Annual MD&A for further information on the Copeland Station project.

Financing Activities

Net cash provided by (used in) financing activities for the three and six months ended June 30, 2019 was \$6.9 million and \$44.1 million, respectively, compared to (\$81.9) million and (\$72.5) million for the comparable periods in 2018. The increase was primarily due to an increase in commercial paper issued in 2019.

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, 2023 ("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, 2019, 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 \$600.0 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 backstopped by 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, 2019, \$33.3 million of letters of credit had been issued against the Prudential Facility.

The Corporation filed a base shelf prospectus dated July 30, 2019 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, 2019, the Corporation had debentures outstanding in the principal amount of \$2.0 billion. These debentures will mature between November 2019 and 2063. As at June 30, 2019, 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, 2019				
	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 twelve months.

On August 21, 2019, the Board of Directors of the Corporation declared dividends in the amount of \$25.1 million with respect to the third quarter of 2019 (third quarter of 2018 - \$23.5 million), payable to the City by September 30, 2019.

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, 2019 (in millions of Canadian dollars)					
	Total \$	2019¹ \$	2020/2021 \$	2022/2023 \$	After 2023 \$
Commercial paper ²	250.0	250.0	-	-	-
Debentures – principal repayment	2,045.0	250.0	300.0	250.0	1,245.0
Debentures – interest payments	1,357.0	38.6	131.9	107.0	1,079.5
Capital projects ³ and other	27.5	17.6	9.7	0.2	-
Leases	1.2	0.1	0.6	0.4	0.1
Total contractual obligations and other commitments	3,680.7	556.3	442.2	357.6	2,324.6

¹ Due over the period from July 1, 2019 to December 31, 2019.

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

Fixing the Hydro Mess Act

On May 9, 2019, the Government of Ontario enacted Bill 87, the *Fixing the Hydro Mess Act, 2019*. The legislation, however, is not yet fully in force as there are varying commencement provisions for different schedules of the Fixing the Hydro Mess Act. Once proclaimed in its entirety the legislation will amend the Electricity Act, the *Ontario Energy Board Act, 1998*, the *Energy Consumer Protection Act, 2010*, the *Ontario Rebate for Electricity Consumers Act, 2016*, and the *Ontario Fair Hydro Plan Act, 2017*.

Included among the amendments most relevant to the Corporation are those related to changing the governance of the OEB. These amendments will come into force on a date to be named by proclamation of the Lieutenant Governor of Ontario. Once that occurs the OEB will have a board of directors, the roles of Chair and CEO will be bifurcated, and a new position called Chief Commissioner will be established. As a general protocol the administrative and rule-making functions of the OEB will be managed by the board of directors and CEO, and the adjudicative functions of the OEB will be performed by the commissioners.

In addition, the Fixing the Hydro Mess Act will revise the mechanism by which customers currently receive credits on their bills through the Fair Hydro Plan and Ontario Rebate for Electricity Consumers. Included among the revisions most relevant to the Corporation are those that change the display of the credit on the bill, and that reduce potential liability associated with billing and settlement activities associated with the credit. These changes will come into force November 1, 2019.

CDM Activities

On March 21, 2019, the Government of Ontario issued Ministerial Directives to the IESO and the effect of this action includes changing the delivery of CDM programs. Previously, LDC and other distributors delivered the CDM programs; under the new method, the IESO will be 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. The termination of the ECA also eliminated end of term cost efficiency incentives available to LDC if it met or exceeded its electricity savings plan targets for programs under the full cost recovery funding method. Participant agreements with customers for many of the CDM programs that were in effect before April 1, 2019 will remain in effect notwithstanding the termination of the ECA and LDC will remain responsible for its obligations under such agreements. Participants will have until December 31, 2020 to complete the projects. The IESO has published a Conservation First Framework program wind-down guideline on the process for reimbursement of eligible expenses and administrative costs relating to the wind-down of the local distribution companies' role in the CDM programs. Amounts received from the IESO for the funding of the projects under the participant agreements but not yet spent, are presented on the Consolidated Balance Sheets under current liabilities as deferred conservation credit. Settlement will continue with the IESO until all projects are completed and a finance and compliance audit will be completed thereafter.

Electricity Distribution Rates

On August 31, 2018, LDC filed its 2019 rate application seeking the OEB's approval to finalize distribution rates and other charges for the period commencing on January 1, 2019 and ending on December 31, 2019. On December 13, 2018, the OEB issued a decision and rate order approving LDC's 2019 rates and providing for other deferral and variance account dispositions.

On August 15, 2018, LDC filed a CIR application seeking approval of LDC's 2020 test-year revenue requirement on a cost of service basis and the corresponding electricity distribution rates effective January 1, 2020, and the subsequent annual rate adjustments based on a custom index specific to LDC for the period commencing on January 1, 2021 and ending on December 31, 2024. The rate application requests approvals to fund capital expenditures of approximately \$2.8 billion over the 2020-2024 period. The rate application also seeks approval to include in LDC's rate base capital amounts that were incurred prior to 2020.

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 Chief Executive Officer and Chief Financial Officer have reviewed the Interim Financial Statements and the MD&A for the three and six months ended June 30, 2019 and 2018. 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.

Risk Management and Risk Factors

As part of ongoing risk management practices, the Corporation reviews current and proposed transactions to consider their impact on its risk profile. There have been no material changes to the risk profile or risk management practices as described in the Corporation’s 2018 Annual MD&A.

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. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively.

Future Accounting Pronouncements

Definition of Material (Amendments to IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*)

On October 31, 2018, the IASB issued amendments to IAS 1 and IAS 8 – the amendments clarify the definition of ‘material’ and align the definition used in the *Conceptual Framework for Financial Reporting* and the standards themselves. The amendments are effective for annual reporting periods beginning on or after January 1, 2020. Earlier adoption is permitted.

Management anticipates that the adoption of these amendments will not have a material impact on the Corporation’s consolidated financial statements, if any.

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”, “budgets”, “committed”, “can”, “could”, “estimates”, “expects”, “focus”, “forecasts”, “future”, “intends”, “may”, “might”, “plans”, “propose”, “projects”, “schedule”, “seek”, “should”, “trend”, “will”, “would”, “objective”, “outlook” 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 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 Corporation’s available sources of liquidity and capital resources and the sufficiency thereof to satisfy working capital requirements for the next twelve months as described in the section entitled “Liquidity and Capital Resources”; the 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 payment of dividends as described in the section entitled “Liquidity and Capital Resources”; the termination of the ECA, and the continuance of participant agreements that were in effect before April 1, 2019 and LDC’s continued responsibility for its obligations thereunder as described in the section entitled “Corporate Developments”; the continued settlement with the IESO until all continued projects are completed and the completion of a finance and compliance audit thereafter as described in the section entitled “Corporate Developments”; the effects of the Fixing the Hydro Mess Act on the Corporation’s business as described in the section entitled “Corporate Developments”; and the expectation that the adoption of the amendments to IAS 1 and IAS 8 will not have a material impact on the Corporation’s consolidated financial statements, if any.

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, no unforeseen changes in the demand for energy consumption, 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 in weather compared to historical seasonal trends, no unforeseen changes in the legislative and operating framework for electricity distribution in Ontario, no unforeseen changes in public policy, 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, 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.

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, including Copeland Station; risks associated with electricity industry regulatory developments and other governmental policy changes, including factors relating to LDC’s distribution activities; 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; risks associated with failure of the newly implemented ERP system; risk of external threats to LDC’s facilities and operations posed by unexpected weather conditions caused by climate change and other factors, terrorism and pandemics and LDC’s limited insurance coverage for losses resulting from these events; 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 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 Toronto Hydro 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 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 2018 Annual MD&A. Please review the section “Risk Management and Risk Factors” in this MD&A and in the 2018 Annual MD&A in detail. 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 2018 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 21, 2019



UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2019 AND 2018

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]

	<i>Note</i>	As at June 30, 2019 \$	As at December 31, 2018 \$
ASSETS			
Current			
Accounts receivable		229.7	215.7
Unbilled revenue		270.4	282.6
Materials and supplies		8.4	8.1
Other assets		15.0	10.7
Total current assets		523.5	517.1
Property, plant and equipment	4	4,512.3	4,392.1
Intangible assets	5	313.9	318.9
Deferred tax assets		-	0.3
Other assets		7.3	5.8
Total assets		5,357.0	5,234.2
Regulatory balances	6	172.1	125.9
Total assets and regulatory balances		5,529.1	5,360.1
LIABILITIES AND EQUITY			
Current			
Working capital facility	7	2.0	12.6
Commercial paper	7	250.0	113.0
Accounts payable and accrued liabilities		459.6	525.4
Income tax payable		0.1	5.1
Customer deposits		49.8	48.1
Deferred revenue	8	17.8	12.9
Deferred conservation credit	3[b]	13.0	8.2
Debentures	9	249.9	249.8
Other liabilities		0.3	0.3
Total current liabilities		1,042.5	975.4
Debentures	9	1,785.3	1,785.1
Customer deposits		29.3	31.7
Deferred revenue	8	323.6	278.1
Post-employment benefits		278.0	275.9
Deferred tax liabilities		19.1	-
Other liabilities		1.7	2.2
Total liabilities		3,479.5	3,348.4
Equity			
Share capital	11	817.8	817.8
Retained earnings		1,054.2	1,015.7
Total equity		1,872.0	1,833.5
Total liabilities and equity		5,351.5	5,181.9
Regulatory balances	6	177.6	178.2
Total liabilities, equity and regulatory balances		5,529.1	5,360.1

Subsequent events

2

See accompanying notes to the condensed interim consolidated financial statements.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

[in millions of Canadian dollars, unaudited]

	Note	Three months ended June 30,		Six months ended June 30,	
		2019 \$	2018 \$	2019 \$	2018 \$
Revenues					
Energy sales	12	602.6	660.4	1,266.3	1,302.8
Distribution revenue	12	198.3	162.9	391.2	334.5
Other	12	23.3	28.0	43.7	49.3
		824.2	851.3	1,701.2	1,686.6
Expenses					
Energy purchases		646.9	684.8	1,316.4	1,331.7
Operating expenses		75.4	82.9	151.4	157.5
Depreciation and amortization	4, 5	60.4	58.0	118.0	112.3
		782.7	825.7	1,585.8	1,601.5
Finance costs		(20.0)	(18.6)	(39.9)	(37.5)
Gain on disposals of property, plant and equipment		2.2	108.2	2.2	108.2
Income before income taxes		23.7	115.2	77.7	155.8
Income tax expense	13	(18.3)	(23.1)	(35.8)	(38.2)
Net income		5.4	92.1	41.9	117.6
Net movements in regulatory balances	6	28.2	(58.9)	27.5	(50.4)
Net movements in regulatory balances arising from deferred tax assets	6	12.5	9.3	19.3	17.8
Net income after net movements in regulatory balances		46.1	42.5	88.7	85.0
Other comprehensive income		-	-	-	-
Total comprehensive income		46.1	42.5	88.7	85.0

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

[in millions of Canadian dollars, unaudited]

	Note	Three months ended June 30,		Six months ended June 30,	
		2019 \$	2018 \$	2019 \$	2018 \$
Share capital		817.8	817.8	817.8	817.8
Retained earnings, beginning of period		1,033.2	961.3	1,015.7	942.6
Transition adjustment		-	-	-	(0.3)
Net income after net movements in regulatory balances		46.1	42.5	88.7	85.0
Dividends	11	(25.1)	(23.5)	(50.2)	(47.0)
Retained earnings, end of period		1,054.2	980.3	1,054.2	980.3
Total equity		1,872.0	1,798.1	1,872.0	1,798.1

See accompanying notes to the condensed interim consolidated financial statements.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

[in millions of Canadian dollars, unaudited]

	Note	Three months ended June 30,		Six months ended June 30,	
		2019 \$	2018 \$	2019 \$	2018 \$
OPERATING ACTIVITIES					
Net income after net movements in regulatory balances		46.1	42.5	88.7	85.0
Net movements in regulatory balances	6	(28.2)	58.9	(27.5)	50.4
Net movements in regulatory balances arising from deferred tax assets	6	(12.5)	(9.3)	(19.3)	(17.8)
Adjustments					
Depreciation and amortization	4, 5	60.4	58.0	118.0	112.3
Amortization of deferred revenue	8	(1.3)	(1.2)	(2.7)	(2.4)
Finance costs		20.0	18.6	39.9	37.5
Income tax expense		18.3	23.1	35.8	38.2
Post-employment benefits		1.0	1.6	2.1	3.1
Gain on disposals of property, plant and equipment		(2.2)	(108.2)	(2.2)	(108.2)
Other		0.4	0.3	0.3	0.5
Capital contributions received	8	32.3	32.9	48.8	60.5
Net change in other non-current assets and liabilities		(0.7)	0.2	(2.3)	(0.4)
Increase (decrease) in customer deposits		1.2	25.9	(0.7)	22.0
Changes in non-cash working capital balances	14	2.3	(15.1)	(23.8)	(5.1)
Income tax paid		(9.0)	(8.3)	(18.7)	(25.6)
Net cash provided by operating activities		128.1	119.9	236.4	250.0
INVESTING ACTIVITIES					
Purchase of property, plant and equipment	14	(120.6)	(110.1)	(254.9)	(230.5)
Purchase of intangible assets	14	(12.8)	(15.3)	(17.2)	(27.5)
Proceeds on disposals of property, plant and equipment		2.2	117.0	2.2	117.0
Net cash used in investing activities		(131.2)	(8.4)	(269.9)	(141.0)
FINANCING ACTIVITIES					
Increase (decrease) in commercial paper, net	7	59.0	(31.0)	137.0	16.0
Dividends paid	11	(25.1)	(23.5)	(50.2)	(47.0)
Repayment of lease liability		-	(0.8)	(0.1)	(1.6)
Interest paid		(27.0)	(26.6)	(42.6)	(39.9)
Net cash provided by (used in) financing activities		6.9	(81.9)	44.1	(72.5)
Net change in cash and cash equivalents during the period		3.8	29.6	10.6	36.5
Working capital facility, beginning of period		(5.8)	(4.8)	(12.6)	(11.7)
Cash and cash equivalents (working capital facility), end of period		(2.0)	24.8	(2.0)	24.8

See accompanying notes to the condensed interim consolidated financial statements.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months ended June 30, 2019 and 2018

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

1. NATURE OF BUSINESS

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

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, 2019 and 2018 ["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, 2018. 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, 2018 ["2018 Annual Financial Statements"]. Accordingly, they should be read in conjunction with the Corporation's 2018 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 21, 2019 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 9 and 11].

3. REGULATION

a) Fixing the Hydro Mess Act

On May 9, 2019, the Government of Ontario enacted Bill 87, the *Fixing the Hydro Mess Act, 2019*. The legislation, however, is not yet fully in force as there are varying commencement provisions for different schedules of the *Fixing the Hydro Mess Act*. Once proclaimed in its entirety, the legislation will amend the *Electricity Act*, the *Ontario Energy Board Act, 1998*, the *Energy Consumer Protection Act, 2010*, the *Ontario Rebate for Electricity Consumers Act, 2016*, and the *Ontario Fair Hydro Plan Act, 2017*.

Included among the amendments most relevant to the Corporation are those related to changing the governance of the OEB. These amendments will come into force on a date to be named by proclamation of the Lieutenant Governor of Ontario. Once that occurs, the OEB will have a board of directors, the roles of Chair and CEO will be bifurcated, and a new position called Chief Commissioner will be established. As a general protocol the administrative and rule-making

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months ended June 30, 2019 and 2018

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

functions of the OEB will be managed by the board of directors and CEO, and the adjudicative functions of the OEB will be performed by the commissioners.

In addition, the Fixing the Hydro Mess Act will revise the mechanism by which customers currently receive credits on their bills through the Fair Hydro Plan and Ontario Rebate for Electricity Consumers. Included among the revisions most relevant to the Corporation are those that change the display of the credit on the bill, and that reduce potential liability associated with billing and settlement activities associated with the credit. These changes will come into force November 1, 2019.

b) CDM Activities

On March 21, 2019, the Government of Ontario issued Ministerial Directives to the IESO and the effect of this action includes changing the delivery of CDM programs. Previously, LDC and other distributors delivered the CDM programs; under the new method, the IESO will be 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. Participant agreements with customers for many of the CDM programs that were in effect before April 1, 2019 will remain in effect notwithstanding the termination of the ECA and LDC will remain responsible for its obligations under such agreements. Participants will have until December 31, 2020 to complete the projects. 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.

c) Electricity Distribution Rates

On August 31, 2018, LDC filed its 2019 rate application seeking the OEB's approval to finalize distribution rates and other charges for the period commencing on January 1, 2019 and ending on December 31, 2019. On December 13, 2018, the OEB issued a decision and rate order approving LDC's 2019 rates and providing for other deferral and variance account dispositions.

On August 15, 2018, LDC filed a CIR application seeking approval of LDC's 2020 test-year revenue requirement on a cost of service basis and the corresponding electricity distribution rates effective January 1, 2020, and the subsequent annual rate adjustments based on a custom index specific to LDC for the period commencing on January 1, 2021 and ending on December 31, 2024. The rate application requests approvals to fund capital expenditures of approximately \$2.8 billion over the 2020-2024 period. The rate application also seeks approval to include in LDC's rate base capital amounts that were incurred prior to 2020.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months ended June 30, 2019 and 2018

[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, 2018	4,080.8	409.6	296.2	427.9	5,214.5
Additions/(Transfers)	78.2	11.8	16.7	115.9	222.6
Disposals and retirements	(5.2)	—	(11.2)	—	(16.4)
Balance as at June 30, 2019	4,153.8	421.4	301.7	543.8	5,420.7
Accumulated depreciation					
Balance as at December 31, 2018	618.7	51.0	152.7	—	822.4
Depreciation	76.8	7.5	13.5	—	97.8
Disposals and retirements	(1.0)	—	(10.8)	—	(11.8)
Balance as at June 30, 2019	694.5	58.5	155.4	—	908.4
Carrying amount					
Balance as at December 31, 2018	3,462.1	358.6	143.5	427.9	4,392.1
Balance as at June 30, 2019	3,459.3	362.9	146.3	543.8	4,512.3

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

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months ended June 30, 2019 and 2018

[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, 2018	207.8	164.1	15.0	39.5	426.4
Additions/(Transfers)	1.4	20.8	10.3	(16.8)	15.7
Other	—	(4.6)	—	—	(4.6)
Balance as at June 30, 2019	209.2	180.3	25.3	22.7	437.5
Accumulated amortization					
Balance as at December 31, 2018	96.8	10.7	—	—	107.5
Amortization	12.7	3.4	—	—	16.1
Balance as at June 30, 2019	109.5	14.1	—	—	123.6
Carrying amount					
Balance as at December 31, 2018	111.0	153.4	15.0	39.5	318.9
Balance as at June 30, 2019	99.7	166.2	25.3	22.7	313.9

“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.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

6. REGULATORY BALANCES

Debit balances consist of the following:

	January 1, 2019	Balances arising in the period	Recovery/ reversal	Other movements	June 30, 2019	Remaining recovery/ reversal period (months)	Carrying charges applicable
	\$	\$	\$	\$	\$		
OPEB net actuarial loss	48.1	—	—	—	48.1	(1)	—
Settlement variances	—	50.3	7.6	(19.2)	38.7	(1)	(2)
LRAM	29.0	9.4	(5.6)	—	32.8	(1)	(2)
Deferred taxes	—	19.3	—	(1.9)	17.4	(1)	—
Foregone revenue	23.2	—	(10.1)	—	13.1	6	—
OPEB cash versus accrual	5.4	1.1	—	—	6.5	(1)	—
IFRS transitional adjustments	7.0	—	(3.9)	—	3.1	6	—
Stranded meters	3.6	—	(2.0)	—	1.6	6	(2)
Named properties	1.6	—	(0.7)	—	0.9	6	—
Capital contributions	0.5	—	(0.2)	—	0.3	6	—
Other	7.5	2.1	—	—	9.6	—	(2)
	125.9	82.2	(14.9)	(21.1)	172.1		

Credit balances consist of the following:

	January 1, 2019	Balances arising in the period	Recovery/ reversal	Other movements	June 30, 2019	Remaining recovery/ reversal period (months)	Carrying charges applicable
	\$	\$	\$	\$	\$		
Capital-related revenue requirement	56.5	12.8	—	—	69.3	(1)	(2)
Gain on disposal	61.8	0.7	(1.3)	—	61.2	(1)	(2)
Derecognition	21.8	6.3	—	—	28.1	(1)	(2)
Development charges	7.9	0.7	—	—	8.6	(1)	(2)
Tax-related variances	1.1	—	(0.6)	—	0.5	—	(2)
Smart meters	0.3	—	—	—	0.3	—	—
Settlement variances	19.2	—	—	(19.2)	—	(1)	(2)
Deferred taxes	1.9	—	—	(1.9)	—	(1)	—
Other	7.7	1.9	—	—	9.6	—	(2)
	178.2	22.4	(1.9)	(21.1)	177.6		

⁽¹⁾ There were no significant changes to the disposition period for the six months ended June 30, 2019. Refer to note 8 to the Corporation's 2018 Annual Financial Statements for details.

⁽²⁾ Carrying charges were added to the regulatory balance in accordance with the OEB's direction, at a rate of 2.45% for January 1, 2019 to March 31, 2019 and 2.18% for April 1, 2019 to June 30, 2019 [January 1, 2018 to March 31, 2018 – 1.50%, April 1, 2018 to September 30, 2018 – 1.89%, and October 1, 2018 to December 31, 2018 – 2.17%].



NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months ended June 30, 2019 and 2018

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

The “Balances arising in the period” column consists of new additions to regulatory balances. The “Recovery/reversal” column consists of amounts disposed through OEB-approved rate riders or transactions reversing an existing regulatory balance. The “Other movements” column consists of impairments and reclassifications between the regulatory debit and credit balances.

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, 2019	800.0	—	250.0	550.0
December 31, 2018	800.0	—	113.0	687.0

As at June 30, 2019, \$2.0 million had been drawn under the Working Capital Facility [December 31, 2018 – \$12.6 million] and \$33.3 million of letters of credit were issued against the Prudential Facility [December 31, 2018 – \$33.3 million].

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months ended June 30, 2019 and 2018

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

8. DEFERRED REVENUE

Deferred revenue consists of capital contributions received from electricity customers and developers to construct or acquire PP&E and revenue from ancillary services which has not yet been recognized into other revenue.

	As at and six months ended June 30, 2019 \$	As at and year ended December 31, 2018 \$
Capital contributions, beginning of period	288.6	188.2
Capital contributions received	48.8	106.5
Amortization	(2.7)	(5.3)
Other	(0.2)	(0.8)
Capital contributions, end of period	334.5	288.6
Other	6.9	2.4
Total deferred revenue	341.4	291.0
Less: Current portion of deferred revenue relating to:		
Capital contributions	10.9	10.5
Other	6.9	2.4
Current portion of deferred revenue	17.8	12.9
Non-current portion of deferred revenue	323.6	278.1

9. DEBENTURES

The Corporation filed a base shelf prospectus dated July 30, 2019 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

Recognition and measurement

As at June 30, 2019 and December 31, 2018, the fair values of accounts receivable, unbilled revenue, Working Capital Facility, commercial paper, and accounts payable 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 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, 2019, the total fair value of the Corporation's debentures was determined to be approximately \$2,271.5 million [December 31, 2018 – \$2,087.3 million], with a total carrying amount of \$2,035.2 million [December 31, 2018 – \$2,034.9 million].



NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months ended June 30, 2019 and 2018

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

11. SHARE CAPITAL

On August 21, 2019, the Board of Directors of the Corporation declared dividends in the amount of \$25.1 million with respect to the third quarter of 2019 [third quarter of 2018 – \$23.5 million], payable to the City by September 30, 2019.

12. REVENUES

The Corporation has recognized the following revenues in the condensed interim consolidated statements of income and comprehensive income:

	Three months ended June 30,		Six months ended June 30,	
	2019 \$	2018 \$	2019 \$	2018 \$
Revenue from contracts with customers				
Energy sales	602.6	660.4	1,266.3	1,302.8
Distribution revenue	198.3	162.9	391.2	334.5
Ancillary services revenue	6.1	8.8	12.2	12.8
Street lighting service fee	4.5	4.3	8.9	8.6
Pole and duct rentals	3.8	3.9	7.7	7.8
Other regulatory service charges	3.1	3.2	5.5	5.6
Miscellaneous	1.1	1.8	2.2	5.3
Revenue from other sources				
CDM	—	2.7	—	2.7
Capital contributions	1.3	1.2	2.7	2.4
Other	3.4	2.1	4.5	4.1
	824.2	851.3	1,701.2	1,686.6

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months ended June 30, 2019 and 2018

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

13. INCOME TAXES

The Corporation's effective tax rate after net movements in regulatory balances for the three and six months ended June 30, 2019 was 11.2% and 15.7% [three and six months ended June 30, 2018 – 24.5% and 19.4%]. The effective tax rate for the three and six months ended June 30, 2019 was lower than the three and six months ended June 30, 2018 primarily due to lower tax recognized on property disposition, offset by lower net deductions in permanent and temporary differences between accounting and tax treatments.

Income tax expense as presented in the condensed interim consolidated statements of income is as follows:

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
	\$	\$	\$	\$
Income tax expense	18.3	23.1	35.8	38.2
Income tax recorded in net movements in regulatory balances	(12.5)	(9.3)	(19.3)	(17.8)
Income tax expense and income tax recorded in net movements in regulatory balances	5.8	13.8	16.5	20.4

14. CONSOLIDATED STATEMENTS OF CASH FLOWS

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

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
	\$	\$	\$	\$
Accounts receivable	4.7	(47.4)	(9.4)	(42.4)
Unbilled revenue	(10.4)	(31.5)	12.2	7.2
Materials and supplies	(0.5)	(0.1)	(0.3)	(1.0)
Other current assets	2.1	4.9	(4.3)	1.0
Accounts payable and accrued liabilities	11.3	59.0	(26.7)	33.8
Income tax payable	(5.9)	3.2	(5.0)	(5.7)
Deferred revenue	(1.7)	(2.4)	4.9	4.0
Deferred conservation credit	2.7	—	4.8	(0.8)
Other current liabilities	—	(0.8)	—	(1.2)
	2.3	(15.1)	(23.8)	(5.1)

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months ended June 30, 2019 and 2018

[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,	
	2019 \$	2018 \$	2019 \$	2018 \$
Purchase of PP&E, cash basis	120.6	110.1	254.9	230.5
Net change in accruals related to PP&E	2.1	(7.1)	(32.7)	(27.3)
Other	0.2	0.2	0.4	2.0
Total additions to PP&E	122.9	103.2	222.6	205.2
Purchase of intangible assets, cash basis	12.8	15.3	17.2	27.5
Net change in accruals related to intangible assets	(0.2)	(0.4)	(1.5)	(5.1)
Total additions to intangible assets	12.6	14.9	15.7	22.4

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. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively.

b) Future accounting pronouncements

Definition of Material (Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors)

On October 31, 2018, the IASB issued amendments to IAS 1 and IAS 8 – the amendments clarify the definition of 'material' and align the definition used in the *Conceptual Framework for Financial Reporting* and the standards themselves. The amendments are effective for annual reporting periods beginning on or after January 1, 2020. Earlier adoption is permitted.

Management anticipates that the adoption of these amendments will not have a material impact on the Corporation's consolidated financial statements, if any.