SECOND QUARTER FINANCIAL REPORT
JUNE 30, 2017

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 “Bremner Station”

Corporation – Toronto Hydro Corporation

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

GWh – Gigawatt hour

IAS – International Accounting Standard

IASB – International Accounting Standards Board

IESO – Independent Electricity System Operator

IFRIC – International Financial Reporting Interpretations Committee

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

OPEB – Other post-employment benefits

PP&E – Property, plant and equipment

TH Energy – Toronto Hydro Energy Services Inc.

WMS – Wholesale Market Service

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE INTERIM PERIODS ENDED
JUNE 30, 2017 AND 2016

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, 2017 and 2016, which were prepared in accordance with IAS 34 *Interim Financial Reporting* (the “Interim Financial Statements”);

- the Corporation’s audited consolidated financial statements and accompanying notes as at and for the years ended December 31, 2016 and 2015, which were prepared in accordance with IFRS; and

- the Corporation’s MD&A for the three months and years ended December 31, 2016 and 2015 (the “2016 Annual MD&A”) (including the sections entitled “Electricity Distribution – Industry Overview”, “Corporate Developments – Changes to the Corporation’s Board of Directors and Audit Committee”, “Corporate Developments - Electricity Distribution Rates”, “Corporate Developments - CDM Activities”, “Legal Proceedings”, “Transactions with Related Parties”, “Risk Management and Risk Factors”, “Critical Accounting Estimates”, and “Significant Accounting Policies”, which remain substantially unchanged as at the date hereof, except as may be noted below or as updated by the Interim Financial Statements).

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

Business of Toronto Hydro Corporation

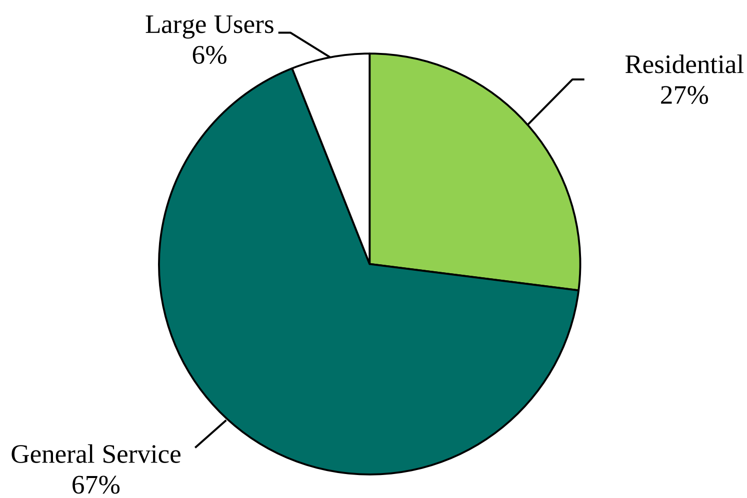
The Corporation is a holding company which wholly owns two subsidiaries:

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

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 765,000 customers located in the City. The City is the sole shareholder of the Corporation. LDC serves the largest city in Canada and distributes approximately 19% of the electricity consumed in Ontario. The business of LDC is regulated by the OEB, which has broad powers relating to licensing, standards of conduct and service, and the regulation of electricity distribution rates charged by LDC and other electricity distributors in Ontario. For the six months ended June 30, 2017, LDC earned energy sales and distribution revenues of $1,827.4 million from general service[1], residential[2] and large users[3].

Energy Sales and Distribution Revenues by Customer Class

Six months ended June 30, 2017



[1] "general service" refers to a service supplied to premises other than those receiving "residential service" and "large users" and typically includes small businesses and bulk-metered multi-unit residential establishments. This service is provided to customers with a monthly peak demand of 5,000 kW or less averaged over a twelve-month period.

[2] "residential" refers to a service that is for domestic or household purposes, including single family or individually metered multi-family units and seasonal occupancy.

[3] "large users" refers to a service provided to a customer with a monthly peak demand of more than 5,000 kW averaged over a twelve-month period.

Results of Operations

Net Income after Net Movements in Regulatory Balances

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

	2017 $	2016 $	Change $
Revenues			
Energy sales	721.8	801.1	(79.3)
Distribution revenue	178.2	158.8	19.4
Other	23.0	16.8	6.2
	923.0	976.7	(53.7)
Expenses			
Energy purchases	793.2	790.0	(3.2)
Operating expenses	73.7	63.4	(10.3)
Depreciation and amortization	55.0	53.7	(1.3)
	921.9	907.1	(14.8)
Finance costs	19.5	18.5	(1.0)
Gain on disposals of PP&E	9.4	-	9.4
Income (loss) before income taxes	(9.0)	51.1	(60.1)
Income tax expense	10.4	15.0	4.6
Net income (loss)	(19.4)	36.1	(55.5)
Net movements in regulatory balances	50.8	(14.4)	65.2
Net movements in regulatory balances arising from deferred tax assets	3.6	9.5	(5.9)
Net income after net movements in regulatory balances	35.0	31.2	3.8

The increase in net income after net movements in regulatory balances for the three months ended June 30, 2017 compared to the same period in the prior year was primarily due to higher 2017 electricity distribution rates partially offset by higher operating expenses in connection with system and street lighting maintenance, and amounts being deferred into capital-related regulatory accounts for future refunds to customers. The increase in other revenue from ancillary services was offset by higher operating expenses to provide those services.

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

	2017 $	2016 $	Change $
Revenues			
Energy sales	1,471.0	1,593.0	(122.0)
Distribution revenue	356.4	305.6	50.8
Other	43.4	32.7	10.7
	1,870.8	1,931.3	(60.5)
Expenses			
Energy purchases	1,522.6	1,567.4	44.8
Operating expenses	144.1	129.6	(14.5)
Depreciation and amortization	105.4	100.8	(4.6)
	1,772.1	1,797.8	25.7
Finance costs	39.7	37.2	(2.5)
Gain on disposals of PP&E	9.4	-	9.4
Income before income taxes	68.4	96.3	(27.9)
Income tax expense	19.9	22.6	2.7
Net income	48.5	73.7	(25.2)
Net movements in regulatory balances	20.5	(9.6)	30.1
Net movements in regulatory balances arising from deferred tax assets	5.6	11.4	(5.8)
Net income after net movements in regulatory balances	74.6	75.5	(0.9)

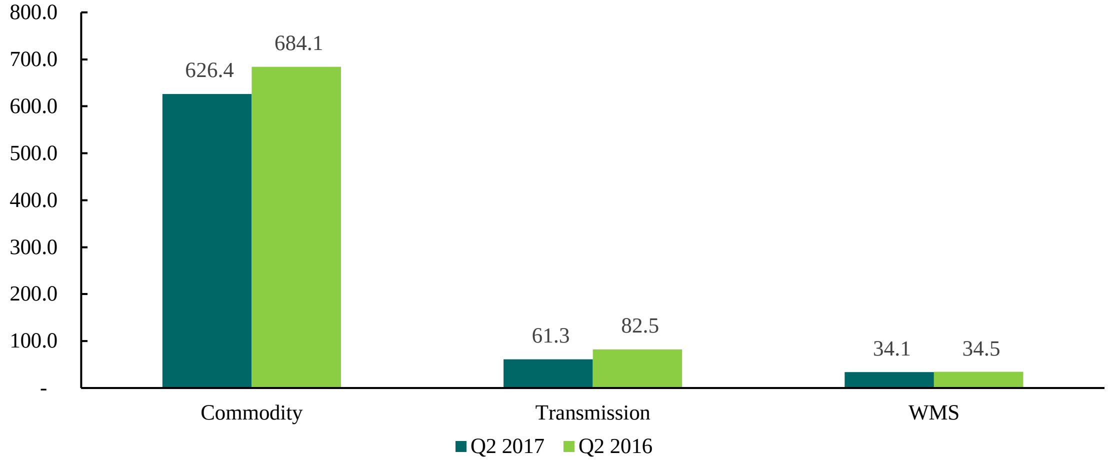
The decrease in net income after net movements in regulatory balances for the six months ended June 30, 2017 compared to the same period in the prior year was primarily due to amounts being deferred into capital-related regulatory accounts for future refunds to customers, higher operating expenses in connection with system and street lighting maintenance, lower electricity consumption in 2017, and higher depreciation and amortization related to new in-service asset additions. These variances were partially offset by higher 2017 electricity distribution rates and higher other revenue related to pole and duct rentals. The 2016 first quarter implementation of the new electricity distribution rates also resulted in $19.2 million of foregone revenue being recorded in net movements in regulatory balances for the comparable period, instead of distribution revenue given IFRS 14 - *Regulatory Deferral Accounts* ("IFRS 14") treatment. The increase in other revenue from ancillary services was offset by higher operating expenses to provide those services.

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. During the same 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, this settlement variance is presented within regulatory balances on the condensed interim consolidated balance sheets ("Consolidated

Balance Sheets") and within net movements in regulatory balances on the condensed interim consolidated statements of income and comprehensive income ("Consolidated Statements of Income").

Energy Sales
Three months ended June 30, 2017
(in millions of Canadian dollars)



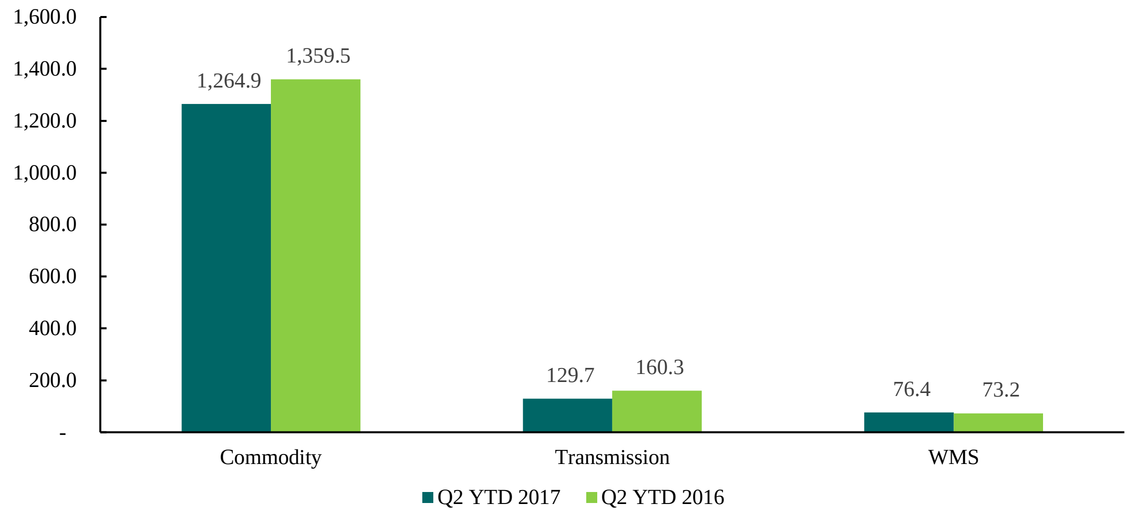
Energy sales for the three months ended June 30, 2017 were $721.8 million compared to $801.1 million for the comparable period in 2016. The decrease was primarily due to lower commodity charges ($57.7 million) and lower retail transmission charges ($21.2 million).

Energy Sales, Settlement Variances and Energy Purchases
Three months ended June 30, 2017
(in millions of Canadian dollars)

	Energy Purchases $	Energy Sales $	Settlement Variances $
Commodity Charges	700.1	626.4	73.7
Retail Transmission Charges	69.1	61.3	7.8
WMS Charges	24.0	34.1	(10.1)
Total	793.2	721.8	71.4

For the three months ended June 30, 2017, LDC recognized $721.8 million in energy sales to customers and was billed $793.2 million for energy purchases from the IESO. The difference between energy sales and energy purchases represents a $71.4 million settlement variance for the period. The settlement variance was recorded as a decrease to the regulatory credit balance ($71.2 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.

LDC Energy Sales
Six months ended June 30, 2017
(in millions of Canadian dollars)



Energy sales for the six months ended June 30, 2017 were $1,471.0 million compared to $1,593.0 million for the comparable period in 2016. The decrease was primarily due to lower commodity charges ($94.6 million) and lower retail transmission charges ($30.6 million).

Energy Sales, Settlement Variances and Energy Purchases
Six months ended June 30, 2017
(in millions of Canadian dollars)

	Energy Purchases $	Energy Sales $	Settlement Variances $
Commodity Charges	1,322.3	1,264.9	57.4
Retail Transmission Charges	138.2	129.7	8.5
WMS Charges	62.1	76.4	(14.3)
Total	1,522.6	1,471.0	51.6

For the six months ended June 30, 2017, LDC recognized $1,471.0 million in energy sales to customers and was billed $1,522.6 million for energy purchases from the IESO. The difference between energy sales and energy purchases represents a $51.6 million settlement variance for the period. The settlement variance was recorded as a decrease to the regulatory credit balance ($51.2 million including carrying charges on the accumulated settlement variance balance, see the regulatory credit 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 months and six months ended June 30, 2017 was $178.2 million and $356.4 million, respectively, compared to $158.8 million and $305.6 million for the comparable periods in 2016.

The increase in distribution revenue for the three months ended June 30, 2017 was primarily due to higher electricity distribution rates ($13.0 million) and additional revenue collected through OEB-approved rate riders ($7.3 million), partially offset by lower electricity consumption in the second quarter of 2017 ($1.4 million).

The increase in distribution revenue for the six months ended June 30, 2017 was primarily due to higher electricity distribution rates ($23.6 million) and additional revenue collected through OEB-approved rate riders ($12.1 million), partially offset by lower electricity consumption in 2017 ($4.8 million). The remaining increase was related to the 2016 foregone revenue ($19.2 million) from the implementation of the new electricity distribution rates effective March 1, 2016, which was recorded in net movements in regulatory balances for the six months ended June 30, 2016 given the IFRS 14 treatment, instead of distribution revenue.

Other Revenue

Other revenue includes revenue from services ancillary to electricity distribution, delivery of street lighting services, pole and duct rentals, amortization of deferred revenue related to capital contributions received from customers, and CDM cost efficiency incentives.

Other revenue for the three months and six months ended June 30, 2017 was $23.0 million and $43.4 million, respectively, compared to $16.8 million and $32.7 million for the comparable periods in 2016. The increase was primarily due to higher revenue in connection with ancillary services and pole and duct rentals.

Operating Expenses

Operating expenses for the three months and six months ended June 30, 2017 were $73.7 million and $144.1 million, respectively, compared to $63.4 million and $129.6 million for the comparable periods in 2016. The increase was primarily attributable to higher costs in connection with ancillary services, system maintenance programs and street lighting maintenance.

Depreciation and Amortization

Depreciation and amortization expense for the three months and six months ended June 30, 2017 was $55.0 million and $105.4 million, respectively, compared to $53.7 million and $100.8 million for the comparable periods in 2016. The increase was related to new in-service asset additions in 2017, partially offset by lower derecognition of assets removed from service and certain assets being fully depreciated.

Finance Costs

Finance costs for the three months and six months ended June 30, 2017 were $19.5 million and $39.7 million, respectively, compared to $18.5 million and $37.2 million for the comparable periods in 2016. The increase was primarily due to higher average amount of long-term debt outstanding during 2017 compared with the same periods in 2016.

Gain on Disposals of PP&E

Gain on disposals of PP&E for the three months and six months ended June 30, 2017 was $9.4 million compared to $nil for the comparable periods in 2016.

The variance in gain on disposals of PP&E for the three months and six months ended June 30, 2017 was primarily due to the gain realized on disposal of a property in the second quarter of 2017 ($9.3 million). The gain, net of tax of $8.0 million was recorded as a regulatory balance on the Consolidated Balance Sheets to reduce future electricity distribution rates for customers, 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 and income tax recorded in net movements in regulatory balances for the three months and six months ended June 30, 2017 were $6.8 million and $14.3 million, respectively, compared to $5.5 million and $11.2 million for the comparable periods in 2016. The unfavourable variances were primarily due to lower net deductions for permanent and temporary differences between accounting and tax treatments, and higher income before taxes (including net movements in regulatory balances).

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 decrease in the regulatory debit ($12.1 million) and credit ($38.2 million) balances for the six months ended June 30, 2017 equals the sum ($26.1 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 "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 period.

Net movements in regulatory balances for the three months and six months ended June 30, 2017 were a credit of $50.8 million and $20.5 million, respectively, compared to a charge of $14.4 million and $9.6 million for the comparable periods in 2016. The credit of $50.8 million for the three months ended June 30, 2016 was primarily due to the timing difference 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, and amounts being deferred into capital-related regulatory accounts for future refunds to customers. The charge of $14.4 million for the three months ended June 30, 2016 was primarily due to the timing difference between the IESO and LDC's billings, and amounts disposed through OEB-approved rate riders.

The credit of $20.5 million for the six months ended June 30, 2017 was primarily due to the timing difference between the IESO and LDC's billings, partially offset by amounts disposed through OEB-approved rate riders, and amounts being deferred into capital-related regulatory accounts for future refunds to customers. The charge of $9.6 million for the six months ended June 30, 2016 was primarily due to the timing difference between the IESO and LDC's billings, and amounts disposed through OEB-approved rate riders, partially offset by the foregone revenue recognized in the first quarter of 2016 as a result of the timing and impact of the OEB's CIR decision and rate order.

Summary of Quarterly Results of Operations

The table below presents a summary of Corporation’s results of operations for eight quarters including and immediately preceding June 30, 2017.

Summary of Quarterly Results of Operations
(in millions of Canadian dollars)

	June 30 2017 $	March 31 2017 $	December 31 2016 $	September 30 2016 $
Energy sales	721.8	749.2	813.3	899.9
Distribution revenue	178.2	178.2	159.0	183.3
Other	23.0	20.4	22.0	21.2
Revenues	923.0	947.8	994.3	1,104.4
Net income after net movements in regulatory balances	35.0	39.6	23.4	52.5
	June 30 2016 $	**March 31 2016 $**	**December 31 2015 $**	**September 30 2015 $**
Energy sales	801.1	791.9	708.7	818.1
Distribution revenue	158.8	146.8	131.3	144.4
Other	16.8	15.9	15.3	15.1
Revenues	976.7	954.6	855.3	977.6
Net income after net movements in regulatory balances	31.2	44.3	74.3	20.0

The Corporation’s revenues, all other things being equal, are impacted by seasonal 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 discussed above for the first quarter of 2017 was primarily due to lower commodity charges charged by the IESO and lower consumption as a result of a mild winter, and the variation for the second quarter of 2016 was primarily due to implementation of higher electricity rates per the OEB’s CIR decision and rate order.

Financial Position

The following table outlines the significant changes in the Consolidated Balance Sheets as at June 30, 2017 compared to December 31, 2016.

Consolidated Balance Sheet Data
(in millions of Canadian dollars)

Balance Sheet Account	Increase (Decrease) $	Explanation of Significant Change
Assets		
Accounts receivable and unbilled revenue	(65.5)	The decrease was primarily due to lower pass-through electricity costs and lower electricity consumption, partially offset by timing variances of billing and collection activities.
PP&E and intangible assets	162.0	The increase was primarily due to capital expenditures, partially offset by depreciation and derecognition during the period.
Liabilities and Equity		
Commercial paper	(209.0)	The decrease was due to repayment using the equity injection from the City in June 2017 ($250.0 million), offset by funding required for general corporate purposes.
Accounts payable and accrued liabilities	(18.7)	The decrease was primarily due to timing differences in payments and lower electricity costs payable to the IESO.
Dividends payable	62.5	The variance was due to dividends declared by the Board of Directors in connection with receipt of the equity injection from the City.
Deferred revenue	23.0	The increase was primarily due to capital contributions received in 2017 and pole and duct rentals.
Share capital	250.0	The increase was due to the equity injection from the City resulting in the issuance of 200 common shares to the City in June 2017.
Regulatory Balances		
Regulatory debit balances	(12.1)	The decrease was primarily due to amounts disposed through OEB-approved rate riders.
Regulatory credit balances	(38.2)	The decrease was primarily due to new balances arising in the period related to settlement variances, partially offset by amounts disposed through OEB-approved rate riders.

Liquidity and Capital Resources

The Corporation's current assets and current liabilities amounted to $509.8 million and $927.7 million, respectively, as at June 30, 2017, resulting in a working capital deficit of $417.9 million. The deficit is primarily attributable to the series 2 debentures due November 14, 2017 for $249.9 million, dividends payable to the City, and the Corporation's preference for utilizing its Commercial Paper Program and Working Capital Facility (both defined below) before issuing additional debentures to fulfill the Corporation's 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, issuances of commercial paper, amounts available to be drawn against its credit facilities, and borrowings from debt capital markets. The Corporation's liquidity and capital resource requirements are mainly for capital expenditures to maintain and improve the electricity distribution system of LDC, for energy purchases, and to meet financing obligations.

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

	Three months ended June 30		Six months ended June 30	
	2017 $	**2016 $**	**2017 $**	**2016 $**
Working capital facility beginning of period	(10.3)	(12.7)	(7.1)	(14.2)
Net cash provided by operating activities	123.0	145.9	268.2	236.6
Net cash used in investing activities	(117.2)	(132.7)	(256.3)	(282.5)
Net cash provided by (used in) financing activities	(7.3)	(7.2)	(16.6)	53.4
Working capital facility, end of period	(11.8)	(6.7)	(11.8)	(6.7)

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, 2017, $11.8 million was drawn under the Working Capital Facility compared to $7.1 million as at December 31, 2016.

Operating Activities

Net cash provided by operating activities for the three months and six months ended June 30, 2017 was $123.0 million and $268.2 million, respectively, compared to $145.9 million and $236.6 million for the comparable periods in 2016.

The decrease in net cash provided by operating activities for the three months ended June 30, 2017 was primarily due to lower net income before net movements in regulatory balances and after adjustments for non-cash items, partially offset by improved working capital mainly related to timing of settlement of accounts receivable and accounts payables.

The increase in net cash provided by operating activities for the six months ended June 30, 2017 was primarily due to improved working capital mainly related to timing of settlement of accounts receivable and accounts payables, partially offset by lower net income before net movements in regulatory balances and after adjustments for non-cash items.

Investing Activities

Net cash used in investing activities for the three months and six months ended June 30, 2017 was $117.2 million and $256.3 million, respectively, compared to $132.7 million and $282.5 million for the comparable periods in 2016.

The decrease in net cash used in investing activities for the three months and six months ended June 30, 2017 was due to proceeds received from the disposal of a property in the second quarter of 2017 and lower cash spending on capital projects.

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, both PP&E and intangible assets, which are inclusive of capital accruals, for the periods indicated.

Capital Expenditures
(in millions of Canadian dollars)

	Three months ended June 30		Six months ended June 30	
	2017 $	**2016 $**	**2017 $**	**2016 $**
Regulated LDC				
Distribution system				
Planned [1]	91.0	93.3	179.5	189.9
Reactive	12.8	13.6	22.6	18.1
Copeland Station	5.5	5.2	14.1	10.5
Facilities consolidation	11.9	11.0	26.0	18.9
Technology assets	11.3	7.4	22.0	24.1
Other [2]	2.0	1.3	3.5	4.0
Regulated capital expenditures	134.5	131.8	267.7	265.5
Unregulated capital expenditures [3]	2.3	1.2	3.4	1.4
Total capital expenditures	136.8	133.0	271.1	266.9

[1] Includes, among other initiatives, the replacement of underground and overhead infrastructures, and the delivery of customer connections.

[2] Includes fleet capital and buildings.

[3] Primarily relates to street lighting and generation equipment.

The total regulated capital expenditures for the three months and six months ended June 30, 2017 were $134.5 million and $267.7 million, respectively, compared to $131.8 million and $265.5 million for the comparable periods in 2016.

For the three months ended June 30, 2017, the increase in regulated capital expenditures was primarily related to higher spending on underground infrastructure ($4.6 million) and technology assets ($3.9 million). These variances were partially offset by lower spending on network infrastructure ($4.0 million) and overhead infrastructure ($2.8 million).

For the six months ended June 30, 2017, the increase in regulated capital expenditures was primarily related to higher spending on station programs ($17.2 million) related to the renewal of aging station infrastructure, and the facilities consolidation program ($7.1 million). These variances were partially offset by lower spending on technology assets in relation to the radio project ($10.5 million) and overhead infrastructure ($10.2 million).

The largest capital initiatives in 2017 include the replacement of underground and overhead infrastructures, delivery of customer connections, the facilities consolidation program, and construction of Copeland Station in response to the growing need for distribution options in the downtown core of the City.

The replacement of underground infrastructure includes replacing direct buried cables, transformer switches, handwells 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, 2017, capital expenditures for the underground and overhead infrastructures were $41.6 million and $32.5 million, respectively.

The delivery of customer connections includes spending related to new services and upgrades to existing services for specific commercial customers. For the six months ended June 30, 2017, capital expenditures for the delivery of customer connections were $27.6 million.

The facilities consolidation program relates to the consolidation of operating centres to lower operating centre costs and simplify long-term planning. In 2017, the Corporation continued relocating staff, equipment and operations as well as performing the required capital investment on specific properties and incurred costs of $26.0 million for the six months ended June 30, 2017.

Copeland Station will be the first transformer station built in downtown Toronto since the 1960's and will be the second underground transformer station in Canada. It will provide electricity to buildings and neighbourhoods in the central-southwest area of the City. During the second quarter of 2017, protection and control equipment was installed and the interconnection to that equipment has commenced. Medium voltage cable was installed, tested and commissioned. Machine shop heritage steel was completed, roof was installed, and heritage exterior brickwork, windows and doors were largely completed. In addition, landscaping work has commenced. As at June 30, 2017, the cumulative capital expenditures on the Copeland Station project amounted to $188.1 million, plus capitalized borrowing costs. All capital expenditures related to Copeland Station are recorded to PP&E. See "Risk Management and Risk Factors" in the 2016 Annual MD&A for further information on the Copeland Station project.

Financing Activities

Net cash provided by (used in) financing activities for the three months and six months ended June 30, 2017 was $(7.3) million and $(16.6) million, respectively, compared to $(7.2) million and $53.4 million for the comparable periods in 2016. The change for the six month period was primarily due to an increase in the repayment of commercial paper issued, using the equity injection received from the City in June 2017, partially offset by lower dividends paid during the period.

The Corporation is a party to a revolving credit facility expiring on October 10, 2022 ("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. On August 1, 2017, the maturity date of the Revolving Credit Facility was extended by one year from October 10, 2021 to October 10, 2022. As at June 30, 2017, 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. Proceeds from the Commercial Paper Program are used for general corporate purposes.

The amount available under the Revolving Credit Facility 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, 2017	800.0	-	52.0	748.0
December 31, 2016	800.0	-	261.0	539.0

For the three months and six months ended June 30, 2017, the average aggregate outstanding borrowings under the Corporation's Revolving Credit Facility, Working Capital Facility and Commercial Paper Program were $286.8 million and $282.7 million respectively, with a weighted average interest rate of 0.78% and 0.82% (compared to $449.5 million and $427.9 million with a weighted average interest rate of 0.89% and 0.90% for the three months and six months ended June 30, 2016).

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, 2017, $33.8 million of letters of credit were issued against the Prudential Facility.

The Corporation filed a base shelf prospectus dated May 8, 2017 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 remains available under the base shelf prospectus.

As at June 30, 2017, the Corporation had debentures outstanding in the principal amount of $2.1 billion. These debentures will mature between 2017 and 2063. As at June 30, 2017, 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, 2017

	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 March 2, 2017, the Board of Directors of the Corporation declared dividends in the amount of $6.25 million with respect to the first quarter of 2017 (March 31, 2016 – $44.6 million), which was paid to the City on March 31, 2017.

On May 11, 2017, the Board of Directors of the Corporation declared dividends in the amount of $6.25 million with respect to the second quarter of 2017 (June 30, 2016 – $6.25 million), which was paid to the City on June 30, 2017.

In connection with receipt of the equity injection from the City, the Board of Directors of the Corporation declared dividends payable to the City and approved amendments to the Corporation's Dividend Policy, as follows:

- In respect of fiscal 2017, an aggregate amount of $75.0 million shall be paid to the City, consisting of the two previously declared and paid instalments of $6.25 million each and a further $62.5 million. The $62.5 million was paid to the City on July 7, 2017.

- In respect of fiscal 2018 and subsequent fiscal years, 60% of the Corporation's consolidated net income after net movements in regulatory balances for the prior fiscal year shall be declared separately in four equal quarterly instalments, with each instalment payable to the City on the last business day of each fiscal quarter.

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, 2017
(in millions of Canadian dollars)

	Total $	2017 [1] $	2018/2019 $	2020/2021 $	After 2021 $
Working Capital Facility	11.8	11.8	-	-	-
Commercial paper [2]	52.0	52.0	-	-	-
Debentures – principal repayment	2,095.0	250.0	250.0	300.0	1,295.0
Debentures – interest payments	1,301.7	41.5	140.4	118.0	1,001.8
Operating leases	3.2	0.2	1.3	1.3	0.4
Capital projects [3] and other	47.8	22.3	24.0	1.3	0.2
Capital leases	3.1	1.5	1.6	-	-
Total contractual obligations and other commitments	3,514.6	379.3	417.3	420.6	2,297.4

1 Due over the period from July 1, 2017 to December 31, 2017.

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

3 Mainly commitments for construction services and estimated capital contributions.

Corporate Developments

Ontario's Fair Hydro Plan

On March 2, 2017, the Government of Ontario announced Ontario's Fair Hydro Plan ("OFHP") which includes a number of initiatives, some of which affect LDC or its customers.

OFHP includes the Ontario Rebate for Electricity Consumers Act, 2016 ("OREC"), which came into effect on January 1, 2017. The OREC provides eligible customers with financial assistance in the form of an 8% rebate of the pre-tax cost of their electricity. The OREC rebates are administered by LDC and paid by the IESO in the month following customer billing. Current accounts receivable and unbilled revenue include the amount owing by the IESO to LDC. No effect on revenue or expense is recognized by LDC in respect of the OREC rebates.

OFHP also includes the Fair Hydro Act, 2017 ("OFHA"), which enacted the Ontario Fair Hydro Plan Act, 2017 and amended the Electricity Act, 1998 and the Ontario Energy Board Act, 1998. The OFHA came into effect on June 1, 2017 and is reflected in the Interim Financial Statements. The OFHA provides eligible customers with financial assistance through various changes to commodity pricing, new or amended programs, and eliminating or reducing certain provincial charges on the electricity bill. During the period, the OFHA reduces the total electricity bill for eligible customers and, accordingly, reduces current accounts receivable and unbilled revenue and accounts payable and accrued liabilities. No effect on distribution revenue or expense is recognized by LDC in respect of the OFHA.

Share Capital

Share capital consists of the following:

	June 30, 2017 Number of Shares	June 30, 2017 $
Authorized		
The authorized share capital of the Corporation consists of an unlimited number of common shares without par value. All shares issued were fully paid.		
Issued and outstanding		
Common shares, beginning of the period	1,000	567.8
Common shares issued [1]	200	250.0
Common shares issued and outstanding, end of the period	1,200	817.8

[1] On June 28, 2017, the Corporation issued 200 common shares to the City for total proceeds of $250.0 million, net of share issue costs and expenses.

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*. Accordingly, the Chief Executive Officer and Chief Financial Officer have reviewed the Interim Financial Statements and the MD&A for the interim periods ended June 30, 2017 and 2016. 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.

Future Accounting Pronouncements

A number of new standards, amendments and interpretations are effective for annual periods beginning after December 31, 2017, and as such, have not yet been applied in preparing the Interim Financial Statements. The Corporation has determined that the following could have an impact on its consolidated financial statements.

Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15 *Revenue from Contracts with Customers* ("IFRS 15"), which replaces existing revenue recognition guidance, including IAS 18 *Revenue* and IFRIC 18 *Transfers of Assets from Customers*. IFRS 15 contains a single model that applies to contracts with customers with two approaches for recognizing revenue: at a point in time or over time. IFRS 15 is effective for annual periods beginning on or after January 1, 2018.

The Corporation will adopt IFRS 15 on January 1, 2018 using the modified retrospective approach. The Corporation has completed its initial assessment of the key revenue streams. Working groups have been established to assist with determining the impact of the adoption of IFRS 15. Draft whitepapers are in progress for significant revenue streams and the Corporation started discussions with the external auditors.

The majority of the Corporation's revenue is generated from electricity distribution at regulated prices and the Corporation does not expect IFRS 15 to have a material impact on the accounting for these revenue streams, however the Corporation does expect IFRS 15 to impact its required disclosure. The Corporation continues to assess the impact of IFRS 15 and anticipates the disclosure of the quantitative data later in 2017.

Financial Instruments

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

Leases

In January 2016, the IASB issued IFRS 16 Leases [“IFRS 16”], which replaces IAS 17 Leases [“IAS 17”] and related interpretations. IFRS 16 introduces a single lessee accounting model eliminating the current distinction between finance and operating leases. It requires the recognition of lease-related assets and liabilities on the balance sheet, except for short-term leases and low value underlying assets. In addition, the nature and timing of expenses related to leases will change, as IFRS 16 replaces the straight-line operating leases expense with the depreciation expense for the assets and interest expense on the lease liabilities. Lessor accounting remains substantially unchanged. The standard is effective for annual periods beginning on or after January 1, 2019, and may be applied either retrospectively or using a modified retrospective approach. Early adoption is permitted if IFRS 15 is also adopted.

The Corporation intends to early adopt IFRS 16 on January 1, 2018. The Corporation has completed its initial assessment of existing operating leases and anticipates that IFRS 16 will not have a significant impact 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", “budgets”, “committed”, “can”, "could", "estimates", "expects", “focus”, “forecasts”, “intends”, “future”, "may", “might”, “objective”, "outlook", "plans", “projects”, “propose”, “schedule”, “seek”, "should", “trend”, "will", "would", 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 sections entitled “Summary of Quarterly Results of Operations”; the Corporation’s plans to finance the investment in LDC’s infrastructure and the Corporation’s available sources of liquidity and capital resources and the sufficiency thereof to satisfy working capital requirements for the next twelve months as described in the section entitled “Liquidity and Capital Resources”; the planned and proposed capital initiatives and the expected results of such initiatives as described in the section entitled “Liquidity and Capital Resources”; the anticipated 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” and the adoption and impact of new standards, amendments and interpretations on the Corporation’s consolidated financial statements 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 (including Copeland Station), no unforeseen changes in the legislative and operating framework for Ontario's electricity market, 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, equipment and services in a timely and cost efficient manner, the receipt of favourable judgments, no unforeseen changes in rate orders or rate setting methodologies, no unfavourable changes in environmental regulation, 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 the Corporation's capital and maintenance programs necessary to maintain the performance of our 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; risks associated with the timing and results of regulatory decisions regarding the Corporation's revenue requirements, cost recovery and rates; risks associated with information system security and with maintaining complex information technology systems; risk to the Corporation's facilities and operations posed by unexpected weather conditions caused by climate change and other factors, terrorism and pandemics and the Corporation's limited insurance coverage for losses resulting from these events; risks associated with being controlled by the City, including potential conflicts of interest that may arise between the Corporation and the City; risks related to the Corporation's work force demographic and its potential inability to attract, train and retain skilled employees; risks associated with possible labour disputes and the Corporation's ability to negotiate appropriate collective agreements; 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 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 of substantial and currently undetermined or underestimated environmental costs and liabilities; risk that assumptions that form the basis of the Corporation'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 the Corporation's 2016 Annual MD&A. Please review the section – "Risk Management and Risk Factors" in the Corporation's 2016 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 of this MD&A and the "Risk Management and Risk Factors" section in the Corporation's 2016 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 16, 2017

UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2017 AND 2016

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]

	As at June 30, 2017 $	As at December 31, 2016 $
ASSETS		
Current		
Accounts receivable	**217.7**	229.8
Unbilled revenue	**267.1**	320.5
Materials and supplies	**9.8**	9.7
Other assets	**15.2**	13.5
Total current assets	**509.8**	573.5
Property, plant and equipment *[note 4]*	**4,044.3**	3,907.2
Intangible assets *[note 5]*	**242.7**	217.8
Deferred tax assets	**58.1**	63.8
Other assets	**1.4**	1.3
Total assets	**4,856.3**	4,763.6
Regulatory balances *[note 6]*	**178.7**	190.8
Total assets and regulatory balances	**5,035.0**	4,954.4
LIABILITIES AND EQUITY		
Current		
Working capital facility *[note 7]*	**11.8**	7.1
Commercial paper *[note 7]*	**52.0**	261.0
Accounts payable and accrued liabilities	**485.7**	504.4
Dividend payable *[note 11]*	**62.5**	-
Income tax payable	**6.1**	8.1
Customer deposits	**38.3**	39.1
Deferred revenue *[note 8]*	**9.4**	5.1
Deferred conservation credit *[note 3[b]]*	**8.9**	5.5
Debentures *[note 9]*	**249.9**	249.8
Other liabilities	**3.1**	3.1
Total current liabilities	**927.7**	1,083.2
Debentures *[note 9]*	**1,835.2**	1,834.8
Customer deposits	**19.3**	15.0
Deferred revenue *[note 8]*	**159.0**	140.3
Post-employment benefits	**283.6**	280.5
Other liabilities	**0.5**	2.3
Total liabilities	**3,225.3**	3,356.1
Commitments, contingencies and subsequent events *[notes 2, 14 and 15]*		
Equity		
Share capital *[note 11]*	**817.8**	567.8
Retained earnings	**860.7**	861.1
Total equity	**1,678.5**	1,428.9
Total liabilities and equity	**4,903.8**	4,785.0
Regulatory balances *[note 6]*	**131.2**	169.4
Total liabilities, equity and regulatory balances	**5,035.0**	4,954.4

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]

	Three months ended June 30,		Six months ended June 30,	
	2017	**2016**	**2017**	**2016**
	$	**$**	**$**	**$**
Revenues				
Energy sales	**721.8**	801.1	**1,471.0**	1,593.0
Distribution revenue	**178.2**	158.8	**356.4**	305.6
Other	**23.0**	16.8	**43.4**	32.7
	923.0	976.7	**1,870.8**	1,931.3
Expenses				
Energy purchases	**793.2**	790.0	**1,522.6**	1,567.4
Operating expenses	**73.7**	63.4	**144.1**	129.6
Depreciation and amortization *[notes 4 and 5]*	**55.0**	53.7	**105.4**	100.8
	921.9	907.1	**1,772.1**	1,797.8
Finance costs	**19.5**	18.5	**39.7**	37.2
Gain on disposals of property, plant and equipment	**9.4**	-	**9.4**	-
Income (loss) before income taxes	**(9.0)**	51.1	**68.4**	96.3
Income tax expense *[note 12]*	**10.4**	15.0	**19.9**	22.6
Net income (loss)	**(19.4)**	36.1	**48.5**	73.7
Net movements in regulatory balances *[note 6]*	**50.8**	(14.4)	**20.5**	(9.6)
Net movements in regulatory balances arising from deferred tax assets *[note 6]*	**3.6**	9.5	**5.6**	11.4
Net income after net movements in regulatory balances	**35.0**	31.2	**74.6**	75.5
Other comprehensive income	**-**	-	**-**	-
Total comprehensive income	**35.0**	31.2	**74.6**	75.5

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

[in millions of Canadian dollars, unaudited]

	Three months ended June 30,		Six months ended June 30,	
	2017	**2016**	**2017**	**2016**
	$	**$**	**$**	**$**
Share capital	**817.8**	567.8	**817.8**	567.8
Retained earnings, beginning of period	**894.4**	772.8	**861.1**	773.1
Net income after net movements in regulatory balances	**35.0**	31.2	**74.6**	75.5
Dividends *[note 11]*	**(68.7)**	-	**(75.0)**	(44.6)
Retained earnings, end of period	**860.7**	804.0	**860.7**	804.0
Total equity	**1,678.5**	1,371.8	**1,678.5**	1,371.8

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,	
	2017	**2016**	**2017**	**2016**
	$	$	**$**	$
OPERATING ACTIVITIES				
Net income after net movements in regulatory balances	**35.0**	31.2	**74.6**	75.5
Net movements in regulatory balances *[note 6]*	**(50.8)**	14.4	**(20.5)**	9.6
Net movements in regulatory balances arising from deferred tax assets *[note 6]*	**(3.6)**	(9.5)	**(5.6)**	(11.4)
Adjustments				
Depreciation and amortization *[notes 4 and 5]*	**55.0**	53.7	**105.4**	100.8
Amortization of deferred revenue *[note 8]*	**(1.1)**	(0.9)	**(2.3)**	(1.7)
Finance costs	**19.5**	18.5	**39.7**	37.2
Income tax expense	**10.4**	15.0	**19.9**	22.6
Post-employment benefits	**1.6**	2.3	**3.1**	4.6
Gain on disposals of property, plant and equipment	**(9.4)**	-	**(9.4)**	-
Other	**0.2**	(0.1)	**0.6**	0.1
Capital contributions received *[note 8]*	**9.0**	9.9	**21.9**	17.1
Net change in other non-current assets and liabilities	**-**	0.7	**(1.0)**	(0.1)
Increase (decrease) in customer deposits	**3.5**	(0.6)	**3.5**	0.7
Changes in non-cash working capital balances *[note 13]*	**56.9**	11.3	**52.0**	(17.5)
Income tax paid	**(3.2)**	-	**(13.7)**	(0.9)
Net cash provided by operating activities	**123.0**	145.9	**268.2**	236.6
INVESTING ACTIVITIES				
Purchase of property, plant and equipment *[note 13]*	**(112.3)**	(126.1)	**(232.5)**	(274.3)
Purchase of intangible assets *[note 13]*	**(17.0)**	(7.0)	**(35.9)**	(8.6)
Proceeds on disposals of property, plant and equipment	**12.1**	0.4	**12.1**	0.4
Net cash used in investing activities	**(117.2)**	(132.7)	**(256.3)**	(282.5)
FINANCING ACTIVITIES				
Decrease in commercial paper, net of issuances *[note 7]*	**(218.0)**	(172.0)	**(209.0)**	(57.0)
Common shares issued *[note 11]*	**250.0**	-	**250.0**	-
Dividends paid *[note 11]*	**(6.2)**	-	**(12.5)**	(44.6)
Proceeds from debentures	**-**	200.0	**-**	200.0
Debt issuance costs paid	**-**	(1.3)	**-**	(1.3)
Repayment of finance lease liability	**(0.8)**	(1.0)	**(1.5)**	(1.7)
Interest paid	**(32.3)**	(32.9)	**(43.6)**	(42.0)
Net cash provided by (used in) financing activities	**(7.3)**	(7.2)	**(16.6)**	53.4
Net decrease (increase) in working capital facility during the period	**(1.5)**	6.0	**(4.7)**	7.5
Working capital facility, beginning of period	**(10.3)**	(12.7)	**(7.1)**	(14.2)
Working capital facility, end of period	**(11.8)**	(6.7)	**(11.8)**	(6.7)

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.

2. BASIS OF PRESENTATION

The Corporation's unaudited condensed interim consolidated financial statements for the three and six months ended June 30, 2017 and 2016 ["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 three and six months since the year-end of December 31, 2016. The disclosures in these Interim Financial Statements do not conform in all respects to the requirements of IFRS for annual consolidated financial statements. These Interim Financial Statements follow the same accounting policies and methods of computation as the Corporation's audited consolidated financial statements for the year ended December 31, 2016. Accordingly, they should be read in conjunction with the Corporation's annual consolidated 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. Revenues would tend to be higher in the first quarter as a result of higher energy consumption for winter heating, and in the third quarter due to air conditioning/cooling. The Corporation's quarterly results are also impacted by fluctuations in electricity prices and the timing and recognition of regulatory decisions.

The Corporation has evaluated the events and transactions occurring after the condensed interim consolidated balance sheet date through August 16, 2017 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 and 11].

Refer to the summary of significant accounting policies disclosed in note 25 to the Corporation's audited consolidated financial statements for the year ended December 31, 2016.

3. REGULATION

a) Ontario's Fair Hydro Plan

On March 2, 2017, the Government of Ontario announced Ontario's Fair Hydro Plan ["OFHP"] which includes a number of initiatives, some of which affect LDC or its customers.

OFHP includes the Ontario Rebate for Electricity Consumers Act, 2016 ["OREC"], which came into effect on January 1, 2017. The OREC provides eligible customers with financial assistance in the form of an 8% rebate of the pre-tax cost of their electricity. The OREC rebates are administered by LDC and paid by the IESO in the month following customer billing. Current accounts receivable and unbilled revenue include the amount owing by the IESO to LDC. No effect on revenue or expense is recognized by LDC in respect of the OREC rebates.

OFHP also includes the Fair Hydro Act, 2017 ["OFHA"], which enacted the Ontario Fair Hydro Plan Act, 2017 and amended the Electricity Act, 1998 and the Ontario Energy Board Act, 1998. The OFHA came into effect on June 1, 2017 and is reflected in the Interim Financial Statements. The OFHA provides eligible customers with financial assistance through various changes to commodity pricing, new or amended programs, and eliminating or reducing certain provincial charges on the electricity bill. During the period, the OFHA reduces the total electricity bill for eligible customers and, accordingly, reduces current accounts receivable and unbilled revenue. No effect on distribution revenue or expense is recognized by LDC in respect of the OFHA.

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

b) CDM Activities

Under the energy conservation agreement with the IESO, LDC has a joint CDM plan with Oakville Hydro Electricity Distribution Inc. [“Oakville Hydro”] for the delivery of CDM programs over the 2015-2020 period. The joint CDM plan provides combined funding of approximately $425.0 million, including participant incentives and program administration costs, with an energy savings target of approximately 1,668 GWh. The programs for Oakville Hydro under the joint CDM plan started on January 1, 2016. LDC received $44.9 million cumulatively as at December 31, 2016 and $30.8 million in the six months ended June 30, 2017 from the IESO for the delivery of CDM programs. Amounts received but not yet spent are presented on the consolidated balance sheets under current liabilities as deferred conservation credit.

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, 2016	3,376.3	314.3	242.4	451.0	4,384.0
Additions/(Transfers)	**132.1**	**0.7**	**8.7**	**93.3**	**234.8**
Disposals and retirements	**(9.6)**	**(3.2)**	**(0.2)**	**—**	**(13.0)**
Balance as at June 30, 2017	**3,498.8**	**311.8**	**250.9**	**544.3**	**4,605.8**
Accumulated depreciation					
Balance as at December 31, 2016	347.3	26.0	103.5	—	476.8
Depreciation	**68.0**	**6.0**	**13.0**	**—**	**87.0**
Disposals and retirements	**(1.8)**	**(0.4)**	**(0.1)**	**—**	**(2.3)**
Balance as at June 30, 2017	**413.5**	**31.6**	**116.4**	**—**	**561.5**
Carrying amount					
Balance as at December 31, 2016	3,029.0	288.3	138.9	451.0	3,907.2
Balance as at June 30, 2017	**3,085.3**	**280.2**	**134.5**	**544.3**	**4,044.3**

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, 2016	113.5	75.5	20.2	70.1	279.3
Additions/(Transfers)	**7.1**	**—**	**9.1**	**20.1**	**36.3**
Balance as at June 30, 2017	**120.6**	**75.5**	**29.3**	**90.2**	**315.6**
Accumulated amortization					
Balance as at December 31, 2016	57.4	4.1	—	—	61.5
Amortization	**9.9**	**1.5**	**—**	**—**	**11.4**
Balance as at June 30, 2017	**67.3**	**5.6**	**—**	**—**	**72.9**
Carrying amount					
Balance as at December 31, 2016	56.1	71.4	20.2	70.1	217.8
Balance as at June 30, 2017	**53.3**	**69.9**	**29.3**	**90.2**	**242.7**

Contributions represent payments made to Hydro One Networks Inc. 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, 2017 $	Balances arising in the period $	Recovery/ reversal $	Other movements $	June 30, 2017 $	Remaining recovery/ reversal period (months)	Carrying charges applicable
OPEB actuarial net loss	**60.2**	**—**	**—**	**—**	**60.2**	(1)	—
Foregone revenue	**64.3**	**—**	**(10.1)**	**—**	**54.2**	30	—
IFRS transitional adjustments	**22.8**	**—**	**(3.9)**	**—**	**18.9**	30	—
LRAM	**10.5**	**5.4**	**(2.4)**	**—**	**13.5**	(1)	(2)
Gain on disposal	**8.6**	**(8.0)**	**9.2**	**—**	**9.8**	(1)	(2)
Stranded meters	**11.4**	**—**	**(2.0)**	**—**	**9.4**	30	(2)
OPEB cash versus accrual	**2.9**	**1.3**	**—**	**—**	**4.2**	(1)	—
Named properties	**4.6**	**—**	**(0.7)**	**—**	**3.9**	30	—
Capital contributions	**1.5**	**—**	**(0.2)**	**—**	**1.3**	30	—
Smart meters	**2.1**	**—**	**(3.1)**	**1.0**	**—**	—	—
Other	**1.9**	**1.4**	**—**	**—**	**3.3**	—	(2)
	190.8	**0.1**	**(13.2)**	**1.0**	**178.7**		

Credit balances consist of the following:

	January 1, 2017 $	Balances arising in the period $	Recovery/ reversal $	Other movements $	June 30, 2017 $	Remaining recovery/ reversal period (months)	Carrying charges applicable
Deferred taxes	**65.3**	**(5.6)**	**—**	**—**	**59.7**	(1)	—
Settlement variances	**62.8**	**(51.2)**	**10.8**	**—**	**22.4**	(1)	(2)
Tax-related variances	**17.5**	**—**	**(4.2)**	**—**	**13.3**	18	(2)
Derecognition	**12.8**	**3.7**	**—**	**—**	**16.5**	(1)	(2)
Capital-related revenue requirement	**8.8**	**6.6**	**—**	**—**	**15.4**	(1)	(2)
Smart meters	**—**	**—**	**—**	**1.0**	**1.0**	—	—
Other	**2.2**	**1.0**	**(0.3)**	**—**	**2.9**	—	(2)
	169.4	**(45.5)**	**6.3**	**1.0**	**131.2**		

(1) There were no significant changes to the disposition period for the six months ended June 30, 2017. Refer to note 8 to the Corporation's audited consolidated financial statements for the year ended December 31, 2016 for details.
(2) Carrying charges were added to the regulatory balance in accordance with the OEB's direction at a rate of 1.10% for 2017 [2016 - 1.10%].

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 or transactions reversing an existing regulatory balance. The "Other movements" column consists of impairment and reclassification between the regulatory debit and credit balances.

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

Gain on disposal

The balance arising in this account relates to a realized gain of $8.0 million, net of tax, in connection with the disposal of a property by LDC in the second quarter of 2017. This balance is expected to reduce future electricity distribution rates for customers, although the timing of disposition is currently unknown.

For a full description of the regulatory balances, refer to note 8 to the Corporation's audited consolidated financial statements for the year ended December 31, 2016.

7. SHORT-TERM BORROWINGS

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

	Revolving Credit Facility Limit $	Revolving Credit Facility Borrowings $	Commercial Paper Outstanding $	Revolving Credit Facility Availability $
June 30, 2017	800.0	—	52.0	748.0
December 31, 2016	800.0	—	261.0	539.0

On August 1, 2017, the maturity date of the Revolving Credit Facility was extended by one year from October 10, 2021 to October 10, 2022.

For the three and six months ended June 30, 2017, the average aggregate outstanding borrowings under the Corporation's Revolving Credit Facility, Working Capital Facility and Commercial Paper Program were $286.8 million and $282.7 million [three and six months ended June 30, 2016 - $449.5 million and $427.9 million] with a weighted average interest rate of 0.78% and 0.82% [three and six months ended June 30, 2016 - 0.89% and 0.90%].

As at June 30, 2017, $11.8 million was drawn under the Working Capital Facility [December 31, 2016 - $7.1 million] and $33.8 million of letters of credit were issued against the Prudential Facility [December 31, 2016 - $33.4 million].

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

8. DEFERRED REVENUE

Deferred revenue consists of the following:

	As at and six months ended June 30, 2017 $	As at and year ended December 31, 2016 $
Capital contributions, beginning of period	**143.6**	103.0
Capital contributions received	**21.9**	44.7
Amortization	**(2.3)**	(3.8)
Other	**(0.5)**	(0.3)
Capital contributions, end of period	**162.7**	143.6
Other	**5.7**	1.8
Total deferred revenue	**168.4**	145.4
Less: Current portion of deferred revenue relating to:		
Capital contributions	**3.7**	3.3
Other	**5.7**	1.8
Current portion of deferred revenue	**9.4**	5.1
Non-current portion of deferred revenue	**159.0**	140.3

9. DEBENTURES

The Corporation filed a base shelf prospectus dated May 8, 2017 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 remains available under the base shelf prospectus.

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

10. FINANCIAL INSTRUMENTS

Recognition and measurement

As at June 30, 2017 and December 31, 2016, the fair values of accounts receivable, Working Capital Facility, commercial paper, accounts payable and accrued liabilities, and dividend payable approximated their carrying amounts due to the short maturity of these instruments. The fair value of customer deposits approximates their carrying amounts taking into account interest accrued on the outstanding balance. Obligations under finance leases are measured based on a discounted cash flow analysis and approximate the carrying 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, 2017, the total fair value of the Corporation's debentures was determined to be approximately $2,254.6 million [December 31, 2016 - $2,207.7 million], with a total carrying amount of $2,085.1 million [December 31, 2016 - $2,084.6 million].

11. SHARE CAPITAL

Share capital consists of the following:

	June 30, 2017 Number of Shares	June 30, 2017 $
Authorized		
The authorized share capital of the Corporation consists of an unlimited number of common shares without par value. All shares issued were fully paid.		
Issued and outstanding		
Common shares, beginning of the period	1,000	567.8
Common shares issued [(1)]	200	250.0
Common shares issued and outstanding, end of the period	**1,200**	**817.8**

[(1)] On June 28, 2017, the Corporation issued 200 common shares to the City for total proceeds of $250.0 million, net of share issue costs and expenses.

Dividends

On March 2, 2017, the Board of Directors of the Corporation declared dividends in the amount of $6.25 million with respect to the first quarter of 2017 [March 31, 2016 – $44.6 million], which was paid to the City on March 31, 2017.

On May 11, 2017, the Board of Directors of the Corporation declared dividends in the amount of $6.25 million with respect to the second quarter of 2017 [June 30, 2016 – $6.25 million], which was paid to the City on June 30, 2017.

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

In connection with receipt of the equity investment from the City, the Board of Directors of the Corporation declared dividends payable to the City and approved amendments to the Corporation's Dividend Policy, as follows:

[i] In respect of fiscal 2017, an aggregate amount of $75.0 million shall be paid to the City, consisting of the two previously declared and paid instalments of $6.25 million each and a further $62.5 million. The $62.5 million was paid to the City on July 7, 2017.

[ii] In respect of fiscal 2018 and subsequent fiscal years, 60% of the Corporation's consolidated net income after net movements in regulatory balances for the prior fiscal year shall be declared separately in four equal quarterly instalments, with each instalment payable to the City on the last business day of each fiscal quarter.

12. INCOME TAXES

The Corporation's effective tax rate after net movements in regulatory balances for the three and six months ended June 30, 2017 was 16.3% and 16.1% [three and six months ended June 30, 2016 - 15.2% and 12.9%]. The effective tax rate for the three and six months ended June 30, 2017 was higher than the three and six months ended June 30, 2016 primarily due to changes 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,	
	2017 $	2016 $	2017 $	2016 $
Income tax expense	**10.4**	15.0	**19.9**	22.6
Income tax recorded in net movements in regulatory balances	**(3.6)**	(9.5)	**(5.6)**	(11.4)
Income tax expense and income tax recorded in net movements in regulatory balances	**6.8**	5.5	**14.3**	**11.2**

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

13. 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,	
	2017 $	2016 $	2017 $	2016 $
Accounts receivable	**33.0**	(19.3)	**12.1**	(45.1)
Unbilled revenue	**9.3**	14.3	**53.4**	(0.4)
Income tax receivable	**—**	2.6	**—**	6.6
Materials and supplies	**0.6**	(0.3)	**(0.1)**	(1.2)
Other current assets	**0.8**	(0.8)	**(1.7)**	(3.0)
Accounts payable and accrued liabilities	**7.3**	19.8	**(17.4)**	29.1
Income tax payable	**1.0**	—	**(2.0)**	—
Deferred revenue	**(1.8)**	(1.4)	**4.3**	3.3
Deferred conservation credit	**6.7**	(3.8)	**3.4**	(6.6)
Other current liabilities	**—**	0.2	**—**	(0.2)
	56.9	11.3	**52.0**	(17.5)

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

	Three months ended June 30,		Six months ended June 30,	
	2017 $	2016 $	2017 $	2016 $
Purchase of PP&E, cash basis	**112.3**	126.1	**232.5**	274.3
Net change in accruals related to PP&E	**7.3**	2.4	**1.6**	(16.8)
Other	**0.4**	0.5	**0.7**	0.8
Total additions to PP&E	**120.0**	129.0	**234.8**	258.3
Purchase of intangible assets, cash basis	**17.0**	7.0	**35.9**	8.6
Net change in accruals related to intangible assets	**(0.2)**	(3.0)	**0.4**	—
Total additions to intangible assets	**16.8**	4.0	**36.3**	8.6

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

14. COMMITMENTS

Operating leases and capital projects

As at June 30, 2017, the future minimum payments under property operating leases, capital projects and other commitments were as follows:

	Operating leases $	Capital projects [4] and other $
Less than one year [1]	0.2	22.3
Between one and five years [2]	2.6	25.3
More than five years [3]	0.4	0.2
Total amount of future minimum payments	3.2	47.8

(1) Due over the period from July 1, 2017 to December 31, 2017.
(2) Due over the period from January 1, 2018 to December 31, 2021.
(3) Due from January 1, 2022 and beyond.
(4) Mainly commitments for construction services and estimated capital contributions.

15. CONTINGENCIES

Legal Proceedings

In the ordinary course of business, the Corporation is subject to various legal actions and claims from customers, suppliers, former employees and other parties. On an ongoing basis, the Corporation assesses the likelihood of any adverse judgments or outcomes as well as potential ranges of probable costs and losses. A determination of the provision required, if any, for these contingencies is made after an analysis of each individual issue. The provision may change in the future due to new developments in each matter or changes in approach, such as a change in settlement strategy. If damages were awarded under these actions, the Corporation and its subsidiaries would make a claim under any applicable liability insurance policies which the Corporation believes would cover any damages which may become payable by the Corporation and its subsidiaries in connection with these actions, subject to such claim not being disputed by the insurer. There have been no material changes in legal proceedings as disclosed in note 24 to the Corporation's audited consolidated financial statements for the year ended December 31, 2016.

16. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Use of judgements and estimates

The preparation of the Corporation's Interim Financial Statements requires management to make judgements, 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

A number of new standards, amendments and interpretations are effective for annual periods beginning after December 31, 2017, and as such, have not yet been applied in preparing these Interim Financial Statements. In addition to the changes described in note 25 to the Corporation's audited consolidated financial statements for the year ended December 31, 2016, the Corporation has determined that the following could have an impact on its consolidated financial statements.

Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15 *Revenue from Contracts with Customers* ["IFRS 15"], which replaces existing revenue recognition guidance, including IAS 18 *Revenue* and IFRIC 18 *Transfers of Assets from Customers*. IFRS 15 contains a single model that applies to contracts with customers with two approaches for recognizing revenue: at a point in time or over time. IFRS 15 is effective for annual periods beginning on or after January 1, 2018.

The Corporation will adopt IFRS 15 on January 1, 2018 using the modified retrospective approach. The Corporation has completed its initial assessment of the key revenue streams. Working groups have been established to assist with determining the impact of the adoption of IFRS 15 and draft whitepapers are in progress for significant revenue streams.

The majority of the Corporation's revenue is generated from electricity distribution at regulated prices and the Corporation does not expect IFRS 15 to have a material impact on the accounting for these revenue streams; however, the Corporation does expect IFRS 15 to impact its required disclosure. The Corporation continues to assess the impact of IFRS 15 and anticipates the disclosure of the quantitative data later in 2017.

Financial Instruments

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

Leases

In January 2016, the IASB issued IFRS 16 *Leases* ["IFRS 16"], which replaces IAS 17 *Leases* ["IAS 17"] and related interpretations. IFRS 16 introduces a single lessee accounting model eliminating the current distinction between finance and operating leases. It requires the recognition of lease-related assets and liabilities on the balance sheet, except for short-term leases and low value underlying assets. In addition, the nature and timing of expenses related to leases will change, as IFRS 16 replaces the straight-line operating leases expense with the depreciation expense for the assets and interest expense on the lease liabilities. Lessor accounting remains substantially unchanged. The standard is effective for annual periods beginning on or after January 1, 2019, and may be applied either retrospectively or using a modified retrospective approach. Early adoption is permitted if IFRS 15 is also adopted.

The Corporation intends to early adopt IFRS 16 on January 1, 2018. The Corporation has completed its initial assessment of existing operating leases and anticipates that IFRS 16 will not have a significant impact on the Corporation's consolidated financial statements.