



SECOND QUARTER FINANCIAL REPORT
JUNE 30, 2018

TORONTO HYDRO CORPORATION

TABLE OF CONTENTS

Glossary	3
Management's Discussion and Analysis	4
Executive Summary	5
Introduction	5
Business of Toronto Hydro Corporation	6
Results of Operations	7
Summary of Quarterly Results of Operations	13
Financial Position	14
Liquidity and Capital Resources	15
Corporate Developments	20
Controls and Procedures	20
Risk Management and Risk Factors	20
Changes in Accounting Policies	21
Forward-Looking Information	23
Additional Information	24
Unaudited Condensed Interim Consolidated Financial Statements	25
Notes to the Unaudited Condensed Interim Consolidated Financial Statements	29

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

ERP – Enterprise resource planning

GWh – Gigawatt hour

HONI – Hydro One Networks Inc.

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 THREE AND SIX MONTHS ENDED JUNE 30, 2018 AND 2017

Executive Summary

- Net income after net movements in regulatory balances for the three and six months ended June 30, 2018 was \$42.5 million and \$85.0 million, respectively, compared to \$35.0 million and \$74.6 million for the comparable periods in 2017;
- Capital expenditures were primarily related to the renewal of the electricity infrastructure of LDC and were \$118.1 million and \$227.6 million for the three and six months ended June 30, 2018, respectively, compared to \$136.8 million and \$271.1 million for the comparable periods in 2017;
- On January 16, 2018, the Corporation entered into an agreement to sell a property, including land and buildings, to a third party and closed the sale on April 17, 2018. The gain of \$98.6 million, net of tax and selling costs, was recognized and deferred as a regulatory credit balance, which reduces future electricity distribution rates for customers;
- 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 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; and
- On August 22, 2018, the Board of Directors of the Corporation declared dividends in the amount of \$23.5 million with respect to the third quarter of 2018, which is payable to the City by September 28, 2018.

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, 2018 and 2017, which were prepared in accordance with IAS 34 *Interim Financial Reporting* (the "Interim Financial Statements"). The Interim Financial Statements follow the same accounting policies and methods of computation as the Corporation's audited consolidated financial statements and accompanying notes as at and for the years ended December 31, 2017 and 2016, which were prepared in accordance with IFRS (the "2017 Annual Financial Statements"), with the exception of the adoption of new accounting standards as described in note 14(b) to the Corporation's Interim Financial Statements;
- 2017 Annual Financial Statements; and
- the Corporation's MD&A for the three months and years ended December 31, 2017 and 2016 (the "2017 Annual MD&A") including the sections entitled "Electricity Distribution – Industry Overview", "Corporate Developments – Ontario's Fair Hydro Plan", "Legal Proceedings", "Share Capital", "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 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:

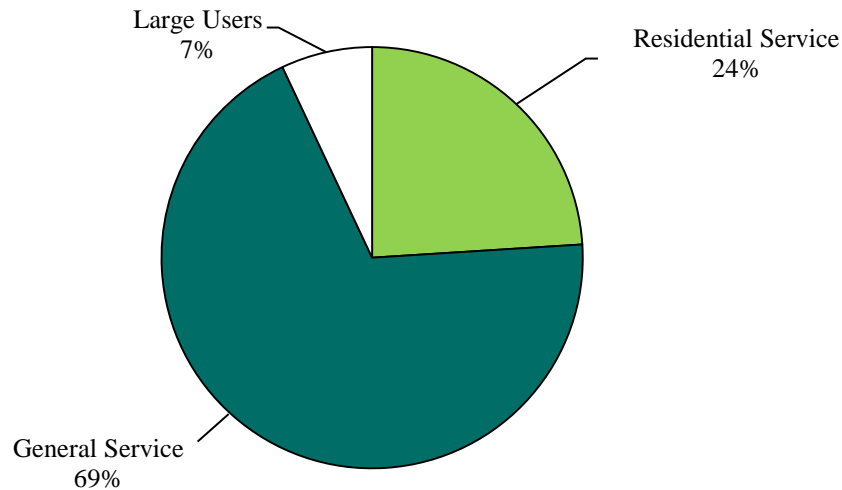
- LDC - distributes electricity and engages in CDM activities; and
- TH Energy - provides street lighting and expressway lighting services in the City.

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

The 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 769,000 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 and other electricity distributors 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, 2018, LDC earned energy sales and distribution revenue of \$1,637.3 million from general service users¹, residential service users² and large users³.

LDC Energy Sales and Distribution Revenue by Class

Six months ended June 30, 2018



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

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

³ “large users” means a service provided to a customer with a monthly peak demand of more than 5,000 kW 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)			
	2018	2017	Change
	\$	\$	\$
		<i>[Restated]¹</i>	
Revenues			
Energy sales	660.4	662.1	(1.7)
Distribution revenue	162.9	178.2	(15.3)
Other	28.0	23.0	5.0
	851.3	863.3	(12.0)
Expenses			
Energy purchases	684.8	733.5	(48.7)
Operating expenses	82.9	73.7	9.2
Depreciation and amortization	58.0	55.0	3.0
	825.7	862.2	(36.5)
Finance costs	(18.6)	(19.5)	0.9
Gain on disposals of PP&E	108.2	9.4	98.8
Income (loss) before income taxes	115.2	(9.0)	124.2
Income tax expense	(23.1)	(10.4)	(12.7)
Net income (loss)	92.1	(19.4)	111.5
Net movements in regulatory balances	(58.9)	50.8	(109.7)
Net movements in regulatory balances arising from deferred tax assets	9.3	3.6	5.7
Net income after net movements in regulatory balances	42.5	35.0	7.5

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 are discussed in the "Changes in Accounting Policies" section of this MD&A.

The increase in net income after net movements in regulatory balances for the three months ended June 30, 2018 was primarily due to higher 2018 electricity distribution rates, higher electricity consumption, higher LRAM, and higher other revenue related to the additional CDM mid-term incentive achieved and ancillary services. These variances were partially offset by higher operating expenses related to emergency power restoration due to major storms in 2018 and system maintenance, higher amounts being deferred into capital related regulatory accounts for future refunds to customers, and higher depreciation related to new in-service asset additions.

The net decrease in distribution revenue is due to the implementation of the OEB-approved 2018 rate riders, which returned \$29.4 million to customers. The gain on disposal is primarily due to the gain realized on a property sale, which will be refunded to customers. Both the 2018 rate riders and gain on disposal do not impact net income after net movements in regulatory balances as there are corresponding offsets in net movements in regulatory balances, given IFRS treatment.

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

	2018 \$	2017 \$	Change \$
		<i>[Restated]</i> ¹	
Revenues			
Energy sales	1,302.8	1,432.9	(130.1)
Distribution revenue	334.5	356.4	(21.9)
Other	49.3	43.4	5.9
	1,686.6	1,832.7	(146.1)
Expenses			
Energy purchases	1,331.7	1,484.5	(152.8)
Operating expenses	157.5	144.1	13.4
Depreciation and amortization	112.3	105.4	6.9
	1,601.5	1,734.0	(132.5)
Finance costs	(37.5)	(39.7)	2.2
Gain on disposals of PP&E	108.2	9.4	98.8
Income before income taxes	155.8	68.4	87.4
Income tax expense	(38.2)	(19.9)	(18.3)
Net income	117.6	48.5	69.1
Net movements in regulatory balances	(50.4)	20.5	(70.9)
Net movements in regulatory balances arising from deferred tax assets	17.8	5.6	12.2
Net income after net movements in regulatory balances	85.0	74.6	10.4

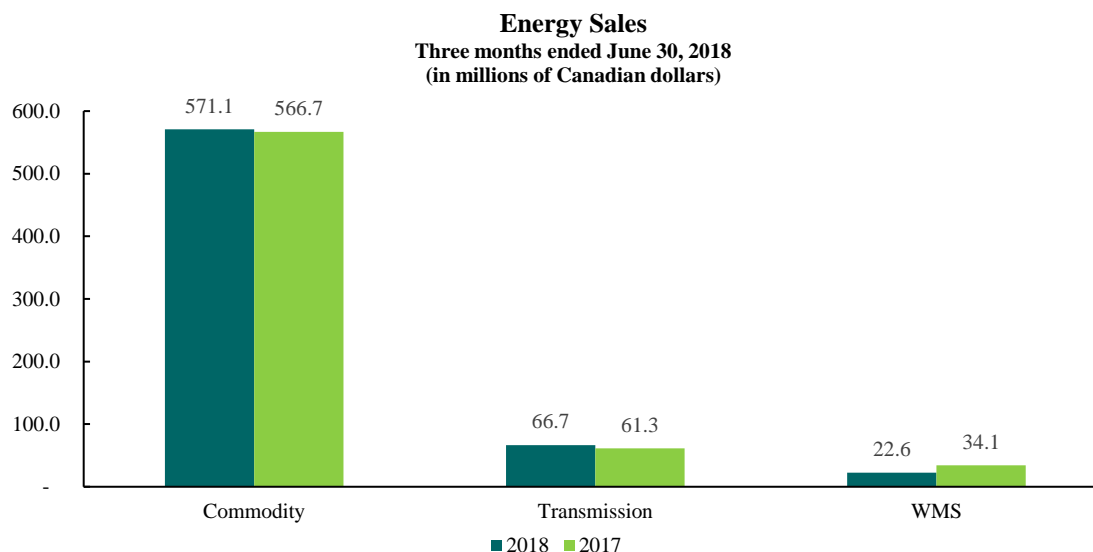
¹ These numbers have been restated to account for the impact of adopting IFRS 15. Additional details on IFRS 15 are discussed in the "Changes in Accounting Policies" section of this MD&A.

The increase in net income after net movements in regulatory balances for the six months ended June 30, 2018 was primarily due to higher 2018 electricity distribution rates, higher electricity consumption, higher LRAM, and higher other revenue related to the additional CDM mid-term incentive achieved and ancillary services. These variances were partially offset by higher operating expenses related to emergency power restoration due to major storms in 2018 and system maintenance, higher amounts being deferred into capital related regulatory accounts, and higher depreciation related to new in-service asset additions.

The net decrease in distribution revenue is due to the implementation of the OEB-approved 2018 rate riders, which returned \$47.3 million to customers. The gain on disposal is primarily due to the gain realized on a property sale, which will be refunded to customers. Both the 2018 rate riders and gain on disposal do not impact net income after net movements in regulatory balances as there are corresponding offsets 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. 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 – *Regulatory Deferral Accounts* (“IFRS 14”), this settlement variance is presented within regulatory balances on the interim consolidated balance sheets (“Consolidated Balance Sheets”) and within net movements in regulatory balances on the interim consolidated statements of income and comprehensive income (“Consolidated Statements of Income”).



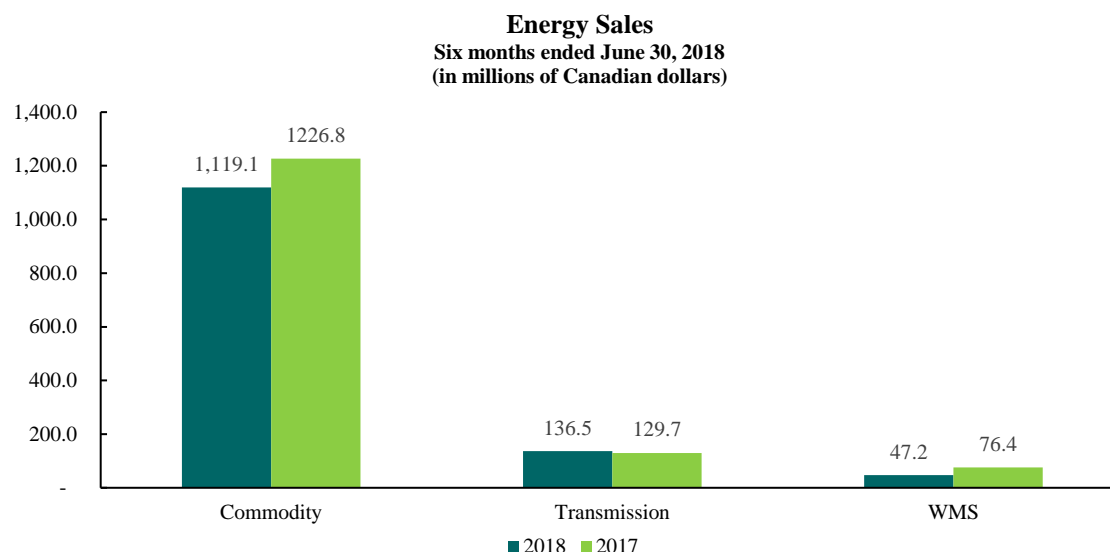
Energy sales for the three months ended June 30, 2018 were \$660.4 million compared to \$662.1 million for the comparable period in 2017. The decrease was primarily due to lower WMS charges (\$11.5 million), partially offset by higher retail transmission charges (\$5.4 million) and commodity charges (\$4.4 million).

Energy Purchases, Energy Sales, and Settlement Variances
Three months ended June 30, 2018
(in millions of Canadian dollars)

	Energy Purchases \$	Energy Sales \$	Settlement Variances \$
Commodity charges	594.7	571.1	23.6
Retail transmission charges	76.9	66.7	10.2
WMS charges	13.2	22.6	(9.4)
Total	684.8	660.4	24.4

For the three months ended June 30, 2018, LDC recognized \$660.4 million in energy sales to customers and was billed \$684.8 million for energy purchases from the IESO. The difference between energy sales and energy purchases represents a \$24.4 million settlement variance for the period. The settlement variance was recorded as an increase to the regulatory debit balance (\$24.5 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 for the six months ended June 30, 2018 were \$1,302.8 million compared to \$1,432.9 million for the comparable period in 2017. The decrease was primarily due to lower commodity charges (\$107.7 million) and lower WMS charges (\$29.2 million), partially offset by higher retail transmission charges (\$6.8 million).

Energy Purchases, Energy Sales, and Settlement Variances
Six months ended June 30, 2018
(in millions of Canadian dollars)

	Energy Purchases \$	Energy Sales \$	Settlement Variances \$
Commodity charges	1,142.9	1,119.1	23.8
Retail transmission charges	149.4	136.5	12.9
WMS charges	39.4	47.2	(7.8)
Total	1,331.7	1,302.8	28.9

For the six months ended June 30, 2018, LDC recognized \$1,302.8 million in energy sales to customers and was billed \$1,331.7 million for energy purchases from the IESO. The difference between energy sales and energy purchases represents a \$28.9 million settlement variance for the period. The settlement variance was recorded as an increase to the regulatory debit balance (\$28.8 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, 2018 was \$162.9 million and \$334.5 million, respectively, compared to \$178.2 million and \$356.4 million for the comparable periods in 2017.

The net decrease in distribution revenue for the three months ended June 30, 2018 was primarily due to lower revenue collected through OEB-approved rate riders (\$29.4 million), partially offset by higher electricity distribution rates (\$7.7 million) and higher electricity consumption (\$6.4 million).

The net decrease in distribution revenue for the six months ended June 30, 2018 was primarily due to lower revenue collected through OEB-approved rate riders (\$47.3 million), partially offset by higher electricity distribution rates (\$16.8 million) and higher electricity consumption (\$8.6 million). The OEB-approved rate riders do not impact net income after net movements in regulatory balances as there is an offsetting increase in net movements in regulatory balances.

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 and CDM cost efficiency incentives.

Other revenue for the three and six months ended June 30, 2018 was \$28.0 million and \$49.3 million, respectively, compared to \$23.0 million and \$43.4 million for the comparable periods in 2017.

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

Operating Expenses

Operating expenses for the three and six months ended June 30, 2018 were \$82.9 million and \$157.5 million, respectively, compared to \$73.7 million and \$144.1 million for the comparable periods in 2017.

The increase in operating expenses for the three and six months ended June 30, 2018 was primarily due to costs related to emergency power restoration due to major storms in the second quarter of 2018 and higher system maintenance costs.

Depreciation and Amortization

Depreciation and amortization expense for the three and six months ended June 30, 2018 was \$58.0 million and \$112.3 million, respectively, compared to \$55.0 million and \$105.4 million for the comparable periods in 2017. The increase was primarily due to new in-service asset additions in 2018, 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, 2018 were \$18.6 million and \$37.5 million, respectively, compared to \$19.5 million and \$39.7 million for the comparable periods in 2017. The decrease was primarily due to a lower average amount of outstanding debentures (\$2,034.3 million) in 2018 compared with the same periods in 2017 (\$2,085.0 million).

Gain on Disposals of PP&E

Gain on disposals of PP&E for the three months and six months ended June 30, 2018 was \$108.2 million compared to \$9.4 million for the comparable periods in 2017. The variance in gain on disposals of PP&E for the three months and six months ended June 30, 2018 was primarily due to the gain realized on the sale of a property in the second quarter of 2018 (\$108.1 million). The realized gain of \$98.6 million, net of tax and selling costs, was recorded as a regulatory credit balance on the Consolidated Balance Sheets with a corresponding offset in net movements in regulatory balances. LDC has been returning the total forecasted net gains on sale of certain properties along with the future tax savings back to rate payers through a rate rider effective from March 1, 2016 to December 31, 2018 as part of the 2015 CIR decision and rate order. The actual realized gain and tax savings that exceeded the approved rate riders is expected to reduce future electricity distribution rates for 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, 2018 were \$13.8 million and \$20.4 million, respectively, compared to \$6.8 million and \$14.3 million for the comparable periods in 2017. The unfavourable variances in income tax expense and income tax recorded in net movements in regulatory balances were primarily due to the tax recognized on property disposition, and higher income before taxes (including net movements in regulatory balance), offset by higher 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 decrease in the regulatory debit (\$4.4 million) and increase in regulatory credit (\$28.2 million) balances for the six months ended June 30, 2018 equals the sum (\$32.6 million) of net movements in regulatory balances and net movements in regulatory balances arising from deferred tax assets shown 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 period.

Net movements in regulatory balances for the three and six months ended June 30, 2018 were a charge of \$58.9 million and \$50.4 million, respectively, compared to a recovery of \$50.8 million and \$20.5 million for the comparable periods in 2017. 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. The recovery of \$50.8 million and \$20.5 million for the three and six months ended June 30, 2017 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.

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, 2018.

Summary of Quarterly Results of Operations (in millions of Canadian dollars)				
	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
	June 30, 2017	March 31, 2017	December 31, 2016	September 30, 2016
	\$	\$	\$	\$
	<i>[Restated]</i> ¹	<i>[Restated]</i> ¹	<i>[Restated]</i> ¹	<i>[Restated]</i> ¹
Energy sales	662.1	770.8	792.6	915.8
Distribution revenue	178.2	178.2	159.0	183.3
Other	23.0	20.4	22.0	21.2
Revenues	863.3	969.4	973.6	1,120.3
Net income after net movements in regulatory balances	35.0	39.6	23.4	52.5

¹ These numbers have been restated to account for the impact of adopting IFRS 15. Additional details on IFRS 15 are discussed in the "Changes in Accounting Policies" section of this MD&A.

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 revenues are also impacted by fluctuations in electricity prices and the timing and recognition of regulatory decisions and rate orders. 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, 2018 as compared to the consolidated balance sheets as at December 31, 2017.

Consolidated Balance Sheets Data (in millions of Canadian dollars)

Balance Sheet Account	Increase (Decrease) \$	Explanation of Significant Change
Assets		
Cash and cash equivalents	24.8	The increase was primarily due to a large expansion security deposit received on the last business day in June 2018.
Accounts receivable and unbilled revenue	34.9	The increase was primarily due to higher electricity consumption, higher pass-through electricity costs, and timing of billing and collection activities.
PP&E and intangible assets	114.6	The increase was primarily due to capital expenditures, partially offset by depreciation and derecognition.
Deferred tax assets	(17.8)	The decrease was primarily due to lower net deductible temporary differences between tax and accounting values of PP&E and intangible assets.
Liabilities and Equity		
Working capital facility	(11.7)	The decrease was primarily due to repayment of drawings under the Corporation's working capital facility (see "Liquidity and Capital Resources" below).
Commercial paper	16.0	The increase was primarily due to issuances required for general corporate purposes (see "Liquidity and Capital Resources" below).
Accounts payable and accrued liabilities	(6.1)	The decrease was primarily due to timing differences in payments, partially offset by higher electricity costs payable to the IESO.
Customer deposits	22.0	The increase was primarily due to expansion security deposits received, net of refunds.
Deferred revenue	61.8	The increase was primarily due to capital contributions received.
Retained earnings	37.7	The increase was due to net income after net movements in regulatory balances (\$85.0 million), offset by dividends paid (\$47.0 million).

Consolidated Balance Sheets Data
(in millions of Canadian dollars)

Balance Sheet Account	Increase (Decrease) \$	Explanation of Significant Change
Regulatory Balances		
Regulatory debit balances	(4.4)	The decrease was primarily due to the gain realized on disposal of a property in the second quarter of 2018 to be returned to customers, partially offset by balances arising in the period related to settlement variances and amounts disposed through OEB-approved rate riders.
Regulatory credit balances	28.2	The increase was primarily due to the balance of the gain realized on disposal of a property in the second quarter of 2018, partially offset by amounts disposed through OEB-approved rate riders.

Liquidity and Capital Resources

The Corporation's current assets and current liabilities amounted to \$577.7 million and \$761.2 million, respectively, as at June 30, 2018, resulting in a working capital deficit of \$183.5 million. The deficit is attributable to the Corporation's preference for utilizing its Commercial Paper Program and Working Capital Facility (both defined below) before issuing additional debentures to fulfill the Corporation's 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.

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, 2018	800.0	—	175.0	625.0
December 31, 2017	800.0	—	159.0	641.0

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, 2018, no amount had been drawn under the Working Capital Facility, compared to \$11.7 million as at December 31, 2017.

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

	Three months ended June 30		Six months ended June 30	
	2018	2017	2018	2017
	\$	\$	\$	\$
Working capital facility, beginning of period	(4.8)	(10.3)	(11.7)	(7.1)
Net cash provided by operating activities	119.9	123.0	250.0	268.2
Net cash used in investing activities	(8.4)	(117.2)	(141.0)	(256.3)
Net cash used in financing activities	(81.9)	(7.3)	(72.5)	(16.6)
Cash and cash equivalents (working capital facility), end of period	24.8	(11.8)	24.8	(11.8)

Operating Activities

Net cash provided by operating activities for the three and six months ended June 30, 2018 was \$119.9 million and \$250.0 million, respectively, compared to \$123.0 million and \$268.2 million for the comparable periods in 2017.

The decrease in net cash provided by operating activities for the three months ended June 30, 2018 was primarily due to lower working capital mainly related to timing of the settlement of receivables, partially offset by higher net income before net movements in regulatory balances and after adjustments for non-cash items, higher capital contributions received and customer deposits.

The decrease in net cash provided by operating activities for the six months ended June 30, 2018 was primarily due to lower working capital mainly related to timing of the settlement of receivables and lower net income before net movements in regulatory balances and after adjustments for non-cash items, partially offset by higher capital contributions received.

Investing Activities

Net cash used in investing activities for the three and six months ended June 30, 2018 was \$8.4 million and \$141.0 million, respectively, compared to \$117.2 million and \$256.3 for the comparable periods in 2017. The decrease was due to lower cash spending on capital projects in 2018 and proceeds received on disposition of a property in the second quarter of 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), both PP&E and intangible assets, for the periods indicated.

Capital Expenditures
(in millions of Canadian dollars)

	Three months ended June 30		Six months ended June 30	
	2018	2017	2018	2017
	\$	\$	\$	\$
Regulated LDC				
Distribution system				
Planned ¹	83.9	91.0	163.1	179.5
Reactive	17.0	12.8	29.8	22.6
Copeland Station	1.7	5.5	4.3	14.1
Facilities consolidation	-	11.9	-	26.0
Technology assets	13.2	11.3	25.7	22.0
Other ²	1.1	2.0	1.4	3.5
Regulated capital expenditures	116.9	134.5	224.3	267.7
Unregulated capital expenditures ³	1.2	2.3	3.3	3.4
Total capital expenditures	118.1	136.8	227.6	271.1

¹ Includes, among other initiatives, the replacement of underground and overhead infrastructures, station programs, 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 and six months ended June 30, 2018 were \$116.9 million and \$224.3 million, respectively, compared to \$134.5 million and \$267.7 million for the comparable periods in 2017.

For the three months ended June 30, 2018, the decrease in regulated capital expenditures was primarily related to lower spending on the facilities consolidation program (\$11.9 million) which was completed by the end of 2017, Copeland Station (\$3.8 million) and underground infrastructure (\$3.7 million).

For the six months ended June 30, 2018, the decrease in regulated capital expenditures was primarily related to lower spending on the facilities consolidation program (\$26.0 million) which was completed by the end of 2017, station programs related to the renewal of aging station infrastructure (\$14.4 million), and Copeland Station (\$9.8 million).

The largest capital initiatives in 2018 include the replacement of underground and overhead infrastructures, delivery of customer connections, and the ERP project.

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, 2018, capital expenditures for the underground and overhead infrastructures were \$37.1 million and \$31.8 million, respectively.

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, 2018, capital expenditures for the delivery of customer connections were \$30.1 million.

The ERP project relates to the implementation of an ERP system, which is an information technology tool that performs critical back-office processes, such as finance, human resources and supply chain activities to support the Corporation's operations. The current ERP system has reached the end of its lifecycle and vendor's support. The new ERP system will incorporate new functional requirements that are expected to deliver incremental benefits. For the six months ended June 30, 2018, capital expenditures for the ERP project were \$15.1 million.

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. When in service, it will provide electricity to buildings and neighbourhoods in the central-southwest area of Toronto. During the second quarter of 2018, the Corporation and HONI, the electricity provider, started planning the energization phase of the project. The end to end testing on the supervisory control and data acquisition system has commenced, landscaping was substantially completed and the station's corten steel exterior has been completed. HONI commenced testing and commissioning of their high voltage switchgear, completed the installation of control cables and started testing of their protection and control equipment. As at June 30, 2018, the cumulative capital expenditures on the Copeland Station project amounted to \$198.2 million, plus capitalized borrowing costs. All capital expenditures related to Copeland Station are recorded to PP&E.

Copeland Station is one of the most complex projects ever undertaken by the Corporation and the expected completion date is in the fourth quarter of 2018. The total capital expenditures required to complete the project has increased from \$200.0 million to approximately \$204.0 million, plus capitalized borrowing costs. The increase in costs is attributable to a variety of factors, including construction delays and contractor performance. There may be additional unforeseen delays and expenditures prior to completion of the project. 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 have taken on part of the remaining work to contribute to the completion of the project by the end of 2018.

Financing Activities

Net cash used in financing activities for the three and six months ended June 30, 2018 was \$81.9 million and \$72.5 million, respectively, compared to \$7.3 million and \$16.6 million for the comparable periods in 2017. The increase in cash used was primarily due to higher dividend payments made in the current year and an increase in commercial paper issued in 2018, compared to the prior year which had funding from the equity injection received from the City in June 2017. These variances were partially offset by lower interest payments in 2018.

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, 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. As at June 30, 2018, the Corporation was in compliance with all covenants included in its Revolving Credit Facility agreement.

At its August 22, 2018 meeting, the Board of Directors of the Corporation approved a further one year extension of the Revolving Credit Facility maturity date to October 10, 2023. The extension is expected to close August 23, 2018.

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 supported by liquidity facilities available under the Revolving Credit Facility; hence, available borrowing under the Revolving Credit Facility is reduced by the amount of commercial paper outstanding at any point in time. Proceeds from the Commercial Paper Program are used for general corporate purposes.

For the three and six months ended June 30, 2018, the average aggregate outstanding borrowings under the Corporation's Revolving Credit Facility, Working Capital Facility and Commercial Paper Program were \$199.3 million and \$206.2 million, respectively, with a weighted average interest rate of 1.51% and 1.48% (compared to \$286.8 million and \$282.7 million, respectively, with a weighted average interest rate of 0.78% and 0.82% for the comparable periods in 2017).

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, 2018, \$38.3 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.

As at June 30, 2018, the Corporation had debentures outstanding in the principal amount of \$2.0 billion. These debentures will mature between 2019 and 2063. As at June 30, 2018, 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, 2018				
	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 22, 2018, the Board of Directors of the Corporation declared quarterly dividends in the amount of \$23.5 million payable to the City by September 28, 2018.

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, 2018 (in millions of Canadian dollars)					
	Total \$	2018¹ \$	2019/2020 \$	2021/2022 \$	After 2022 \$
Commercial paper ²	175.0	175.0	-	-	-
Debentures – principal repayment	2,045.0	-	250.0	300.0	1,495.0
Debentures – interest payments	1,434.2	38.6	143.1	121.3	1,131.2
Capital projects ³ and other	35.1	8.1	18.9	8.1	-
Leases	1.5	0.1	0.6	0.6	0.2
Total contractual obligations and other commitments	3,690.8	221.8	412.6	430.0	2,626.4

¹ Due over the period from July 1, 2018 to December 31, 2018.

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

Electricity Distribution Rates

On March 1, 2016, pursuant to LDC's 2015 – 2019 CIR application, the OEB set the 2018 distribution rates on an interim basis. On August 23, 2017, LDC filed its 2018 rate application seeking OEB's approval to finalize distribution rates and other charges for the period commencing on January 1, 2018 and ending on December 31, 2018. On December 14, 2017, the OEB issued a decision and rate order approving LDC's 2018 rates, with an effective date of January 1, 2018, and the disposition of certain deferral and variance accounts. There is one remaining year of interim approved rates yet to be finalized by the OEB for distribution rates effective January 1, 2019.

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 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 prudently incurred prior to 2020.

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 \$421.0 million, including participant incentives and program administration costs, with an energy savings target of approximately 1,648 GWh. The programs for Oakville Hydro under the joint CDM plan started on January 1, 2016. LDC received \$102.3 million cumulatively from the IESO as at December 31, 2017 and an additional \$26.1 million for the six months ended June 30, 2018 to deliver the CDM programs. Amounts received but not yet spent are presented on the consolidated balance sheets under current liabilities as deferred conservation credit. As at June 30, 2018, \$15.8 million qualified as a joint mid-term incentive [December 31, 2017 – \$12.9 million], of which \$14.9 million represents LDC's portion [December 31, 2017 – \$12.2 million] and is included within accounts receivable.

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 three and six months ended June 30, 2018 and 2017. 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 2017 Annual MD&A, with the exception of the items described below.

Political and Legislative Risk

In June 2018, a new government was elected in the province of Ontario. Change in provincial government could lead to increased uncertainty on the direction of energy policy. The Corporation continues to monitor developments in government regulations and assess any potential impact on its operations.

Changes in Accounting Policies

The Corporation has adopted and applied the following new accounting policies, effective January 1, 2018, in preparing these Interim Financial Statements.

Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15 *Revenue from Contracts with Customers* (“IFRS 15”) effective for annual periods beginning on or after January 1, 2018, which replaced existing revenue recognition guidance, including IAS 18 *Revenue* and IFRIC 18 *Transfers of Assets from Customers*. IFRS 15 contains a five step model that applies to contracts with customers that specifies that revenue is recognized when or as an entity transfers control of goods or services to a customer at the amount to which the entity expects to be entitled. Depending on whether certain criteria are met, revenue is recognized at a point in time or over time. The Corporation adopted IFRS 15 using the modified retrospective approach with the following practical expedients:

- The Corporation did not restate completed contracts that began and ended in the same annual reporting period or completed contracts at the beginning of the earliest period presented; and
- The Corporation did not disclose the amount of consideration allocated to the remaining performance obligations nor did it provide an explanation of when the Corporation expects to recognize that amount as revenue for comparative periods presented in these Interim Financial Statements.

The adoption of IFRS 15 resulted in a \$59.7 million, \$38.1 million and \$207.6 million income statement reclassification between energy sales and energy purchases for the comparative three and six months ended June 30, 2017 and year ended December 31, 2017, respectively, and had no impact to opening retained earnings as at January 1, 2018. The Corporation updated the impact previously disclosed in the 2017 Annual Financial Statements to include an additional income statement reclassification between energy sales and energy purchases for the comparative year ended December 31, 2017. Refer to note 14(c) of the Interim Financial Statements for details on the transitional adjustment.

The revenue streams described in note 26(j) to the Corporation’s 2017 Annual Financial Statements will be recognized over time, except for revenue from certain services ancillary to the electricity distribution which will be recognized at a point in time.

Capital contributions received from developers to construct or acquire PP&E for the purpose of connecting future customers to the distribution network are considered out of scope of IFRS 15. Capital contributions received will be recognized as deferred revenue and amortized into revenue from other sources at an equivalent rate to that used for depreciation of the related PP&E.

Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments* (“IFRS 9”) effective for annual periods beginning on or after January 1, 2018, which replaced 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 Corporation adopted IFRS 9 retrospectively. Despite the retrospective adoption of IFRS 9, the Corporation is not required, upon initial application, to restate comparatives.

i) Classification and measurement of financial instruments

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities. However, it eliminates the previous IAS 39 categories for financial assets of held to maturity, loans and receivables and available for sale.

Under IFRS 9, on initial recognition, a financial asset is classified and measured at: amortized cost, fair value through other comprehensive income, or fair value through profit or loss. The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics.

The adoption of IFRS 9 has not had a significant effect on the Corporation’s accounting policies related to financial liabilities. The impact of IFRS 9 on the classification and measurement of financial instruments is set out below.

Financial Instrument	IAS 39 Measurement basis	IFRS 9 Measurement basis
Cash	Loans and receivables	Amortized cost
Accounts receivable	Loans and receivables	Amortized cost
Unbilled revenue	Loans and receivables	Amortized cost
Working capital facility	Financial liability – amortized cost	Financial liability – amortized cost
Commercial paper	Financial liability – amortized cost	Financial liability – amortized cost
Customer deposits	Financial liability – amortized cost	Financial liability – amortized cost
Finance leases	Financial liability – amortized cost	Financial liability – amortized cost
Debentures	Financial liability – amortized cost	Financial liability – amortized cost
Accounts payable	Financial liability – amortized cost	Financial liability – amortized cost

ii) *Impairment of financial assets*

Loss allowance for accounts receivables and unbilled revenue are always measured at an amount equal to lifetime expected credit losses (“ECL”) that result from all possible default events over the expected life of a financial instrument.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Corporation considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Corporation’s historical experience and informed credit assessment and including forward-looking information.

The Corporation assumes that credit risk on a financial asset has increased if it is more than 30 days past due.

The Corporation considers a financial asset to be in default when the borrower is unlikely to pay its credit obligations in full, without recourse by the Corporation, such as realising security (if any is held).

The adoption of the ECL model in IFRS 9 resulted in a \$0.3 million decrease in opening retained earnings as at January 1, 2018. Refer to note 14(d) of the Interim Financial Statements for details on the transitional adjustment.

Leases

In January 2016, the IASB issued IFRS 16 *Leases* (“IFRS 16”), which replaced IAS 17 *Leases* (“IAS 17”) and related interpretations. IFRS 16 introduces a single lessee accounting model eliminating the previous distinction between finance and operating leases. IFRS 16 requires the recognition of lease-related assets and liabilities on the balance sheet, except for short-term leases and leases of low value underlying assets. Lessor accounting remained substantially unchanged.

Although IFRS 16 is effective for annual periods beginning on or after January 1, 2019, the Corporation early adopted IFRS 16 on January 1, 2018 using the modified retrospective approach, in accordance with the transitional provisions in IFRS 16. As a practical expedient permitted by IFRS 16, the Corporation applied IFRS 16 to existing contracts that were previously identified as leases applying IAS 17 and IFRIC 4 *Determining whether an Arrangement contains a Lease*, and did not to apply IFRS 16 to contracts that were not previously identified as containing a lease.

The adoption of IFRS 16 resulted in an increase of \$1.6 million in total assets and total liabilities each for recognition of right-of-use assets and lease liabilities, respectively, and had no impact to opening retained earnings as at January 1, 2018. Refer to note 14(e) of the Interim Financial Statements for details on the transitional adjustment.

The adoption of IFRS 15, IFRS 9 and IFRS 16 resulted in no changes to the consolidated balance sheet as at December 31, 2017 and consolidated statements of cash flows for the year ended December 31, 2017.

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 finance the investment in LDC’s infrastructure; 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 expected capital expenditures required to complete Copeland Station and the anticipated completion date for Copeland Station as described in the section entitled “Liquidity and Capital Resources”; the extension of the Revolving Credit Facility maturity date as referenced under 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 electricity distribution rates and rate applications as described in the section entitled “Corporate Developments”.

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 (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 receipt of applicable IESO approvals for mid-term CDM incentives, 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 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 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 may fail to monitor the external environment and or develop and pursue strategies through appropriate business models, thus failing to gain a strategic advantage; risk that the Corporation is not able to arrange sufficient and cost-effective debt financing to repay maturing debt and to fund capital expenditures and other obligations; risk 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 2017 Annual MD&A. Please review the section – "Risk Management and Risk Factors" in the Corporation's 2017 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 the Corporation's 2017 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 22, 2018



UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2018 AND 2017

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, 2018 \$	As at December 31, 2017 \$
ASSETS		
Current		
Cash and cash equivalents	24.8	-
Accounts receivable	260.7	217.7
Unbilled revenue	270.2	278.3
Materials and supplies	10.3	9.3
Other assets	11.7	12.7
Assets held for sale <i>[note 6[a]]</i>	-	8.7
Total current assets	577.7	526.7
Property, plant and equipment <i>[note 4]</i>	4,247.4	4,143.4
Intangible assets <i>[note 5]</i>	306.8	296.2
Deferred tax assets	39.2	57.0
Other assets	4.4	3.0
Total assets	5,175.5	5,026.3
Regulatory balances <i>[note 6]</i>	195.5	199.9
Total assets and regulatory balances	5,371.0	5,226.2
LIABILITIES AND EQUITY		
Current		
Working capital facility <i>[note 7]</i>	-	11.7
Commercial paper <i>[note 7]</i>	175.0	159.0
Accounts payable and accrued liabilities	510.2	516.3
Income tax payable	7.1	12.8
Customer deposits	45.4	49.2
Deferred revenue <i>[note 8]</i>	14.7	10.7
Deferred conservation credit <i>[note 3[a]]</i>	8.5	9.3
Other liabilities	0.3	1.5
Total current liabilities	761.2	770.5
Debentures	2,034.4	2,034.0
Customer deposits	34.7	8.9
Deferred revenue <i>[note 8]</i>	237.0	179.2
Post-employment benefits	316.1	313.0
Other liabilities	1.3	0.2
Total liabilities	3,384.7	3,305.8
Equity		
Share capital <i>[note 10]</i>	817.8	817.8
Retained earnings	980.3	942.6
Total equity	1,798.1	1,760.4
Total liabilities and equity	5,182.8	5,066.2
Regulatory balances <i>[note 6]</i>	188.2	160.0
Total liabilities, equity and regulatory balances	5,371.0	5,226.2

Subsequent events *[note 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]

	Three months ended June 30,		Six months ended June 30,	
	2018 \$	2017 \$	2018 \$	2017 \$
		[note 14]		[note 14]
Revenues				
Energy sales [note 11]	660.4	662.1	1,302.8	1,432.9
Distribution revenue [note 11]	162.9	178.2	334.5	356.4
Other [note 11]	28.0	23.0	49.3	43.4
	851.3	863.3	1,686.6	1,832.7
Expenses				
Energy purchases	684.8	733.5	1,331.7	1,484.5
Operating expenses	82.9	73.7	157.5	144.1
Depreciation and amortization [notes 4 and 5]	58.0	55.0	112.3	105.4
	825.7	862.2	1,601.5	1,734.0
Finance costs	(18.6)	(19.5)	(37.5)	(39.7)
Gain on disposals of property, plant and equipment [note 6[a]]	108.2	9.4	108.2	9.4
Income (loss) before income taxes	115.2	(9.0)	155.8	68.4
Income tax expense [note 12]	(23.1)	(10.4)	(38.2)	(19.9)
Net income (loss)	92.1	(19.4)	117.6	48.5
Net movements in regulatory balances [note 6]	(58.9)	50.8	(50.4)	20.5
Net movements in regulatory balances arising from deferred tax assets [note 6]	9.3	3.6	17.8	5.6
Net income after net movements in regulatory balances	42.5	35.0	85.0	74.6
Other comprehensive income	-	-	-	-
Total comprehensive income	42.5	35.0	85.0	74.6

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

[in millions of Canadian dollars, unaudited]

	Three months ended June 30,		Six months ended June 30,	
	2018 \$	2017 \$	2018 \$	2017 \$
Share capital	817.8	817.8	817.8	817.8
Retained earnings, beginning of period	961.3	894.4	942.6	861.1
Transition adjustment [note 14[d]]	-	-	(0.3)	-
Net income after net movements in regulatory balances	42.5	35.0	85.0	74.6
Dividends [note 10]	(23.5)	(68.7)	(47.0)	(75.0)
Retained earnings, end of period	980.3	860.7	980.3	860.7
Total equity	1,798.1	1,678.5	1,798.1	1,678.5

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,	
	2018 \$	2017 \$	2018 \$	2017 \$
OPERATING ACTIVITIES				
Net income after net movements in regulatory balances	42.5	35.0	85.0	74.6
Net movements in regulatory balances <i>[note 6]</i>	58.9	(50.8)	50.4	(20.5)
Net movements in regulatory balances arising from deferred tax assets <i>[note 6]</i>	(9.3)	(3.6)	(17.8)	(5.6)
Adjustments				
Depreciation and amortization <i>[notes 4 and 5]</i>	58.0	55.0	112.3	105.4
Amortization of deferred revenue <i>[note 8]</i>	(1.2)	(1.1)	(2.4)	(2.3)
Finance costs	18.6	19.5	37.5	39.7
Income tax expense	23.1	10.4	38.2	19.9
Post-employment benefits	1.6	1.6	3.1	3.1
Gain on disposals of property, plant and equipment <i>[note 6[a]]</i>	(108.2)	(9.4)	(108.2)	(9.4)
Other	0.3	0.2	0.5	0.6
Capital contributions received <i>[note 8]</i>	32.9	9.0	60.5	21.9
Net change in other non-current assets and liabilities	0.2	-	(0.4)	(1.0)
Increase in customers deposits	25.9	3.5	22.0	3.5
Changes in non-cash working capital balances <i>[note 13]</i>	(15.1)	56.9	(5.1)	52.0
Income tax paid	(8.3)	(3.2)	(25.6)	(13.7)
Net cash provided by operating activities	119.9	123.0	250.0	268.2
INVESTING ACTIVITIES				
Purchase of property, plant and equipment <i>[note 13]</i>	(110.1)	(112.3)	(230.5)	(232.5)
Purchase of intangible assets <i>[note 13]</i>	(15.3)	(17.0)	(27.5)	(35.9)
Proceeds on disposals of property, plant and equipment <i>[note 6[a]]</i>	117.0	12.1	117.0	12.1
Net cash used in investing activities	(8.4)	(117.2)	(141.0)	(256.3)
FINANCING ACTIVITIES				
Increase (decrease) in commercial paper, net <i>[note 7]</i>	(31.0)	(218.0)	16.0	(209.0)
Common shares issued	-	250.0	-	250.0
Dividends paid <i>[note 10]</i>	(23.5)	(6.2)	(47.0)	(12.5)
Repayment of lease liability	(0.8)	(0.8)	(1.6)	(1.5)
Interest paid	(26.6)	(32.3)	(39.9)	(43.6)
Net cash used in financing activities	(81.9)	(7.3)	(72.5)	(16.6)
Net increase (decrease) in cash and cash equivalents (working capital facility) during the period	29.6	(1.5)	36.5	(4.7)
Working capital facility, beginning of period	(4.8)	(10.3)	(11.7)	(7.1)
Cash and cash equivalents (working capital facility), end of period	24.8	(11.8)	24.8	(11.8)

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, 2018 and 2017

[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 for the three and six months ended June 30, 2018 and 2017 ["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, 2017. 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 follow the same accounting policies and methods of computation as the Corporation's audited consolidated financial statements for the year ended December 31, 2017 ["2017 Annual Financial Statements"], with the exception of those resulting from the adoption of new accounting standards as described in note 14[b]. Accordingly, they should be read in conjunction with note 26 to the Corporation's 2017 Annual Financial Statements and note 14[b].

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 22, 2018 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 3[b] and 10].

3. REGULATION

a) 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 \$421.0 million, including participant incentives and program administration costs, with an energy savings target of approximately 1,648 GWh. The programs for Oakville Hydro under the joint CDM plan started on January 1, 2016. LDC received \$102.3 million cumulatively from the IESO as at December 31, 2017 and an additional \$26.1 million for the six months ended June 30, 2018 to deliver the CDM programs. Amounts received but not yet spent are presented on the consolidated balance sheets under current liabilities as deferred conservation credit. As at June 30, 2018, \$15.8 million qualified as a joint mid-term incentive [December 31, 2017 – \$12.9 million], of which \$14.9 million represents LDC's portion [December 31, 2017 – \$12.2 million] and is included within accounts receivable.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months ended June 30, 2018 and 2017

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

b) Electricity Distribution Rates

On March 1, 2016, pursuant to LDC's 2015 – 2019 CIR application, the OEB set the 2018 distribution rates on an interim basis. On August 23, 2017, LDC filed its 2018 rate application seeking OEB's approval to finalize distribution rates and other charges for the period commencing on January 1, 2018 and ending on December 31, 2018. On December 14, 2017, the OEB issued a decision and rate order approving LDC's 2018 rates, with an effective date of January 1, 2018, and the disposition of certain deferral and variance accounts. There is one remaining year of interim approved rates yet to be finalized by the OEB for distribution rates effective January 1, 2019.

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 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 prudently incurred prior to 2020.

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, 2017	3,749.2	384.1	280.4	374.9	4,788.6
Additions/(Transfers)	103.5	14.4 ⁽¹⁾	12.3	75.0	205.2
Disposals and retirements	(9.1)	(0.3)	—	—	(9.4)
Balance as at June 30, 2018	3,843.6	398.2	292.7	449.9	4,984.4
Accumulated depreciation					
Balance as at December 31, 2017	479.5	35.9	129.8	—	645.2
Depreciation	72.7	7.3	14.3	—	94.3
Disposals and retirements	(2.2)	(0.2)	(0.1)	—	(2.5)
Balance as at June 30, 2018	550.0	43.0	144.0	—	737.0
Carrying amount					
Balance as at December 31, 2017	3,269.7	348.2	150.6	374.9	4,143.4
Balance as at June 30, 2018	3,293.6	355.2	148.7	449.9	4,247.4

⁽¹⁾ Includes \$1.6 million transitional adjustment for the recognition of the right-of-use assets upon adoption of IFRS 16 on January 1, 2018 [note 14[e]].

“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, 2018 and 2017

[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, 2017	136.9	75.5	54.2	114.1	380.7
Additions/(Transfers)	4.8	3.7	14.8	(0.9)	22.4
Balance as at June 30, 2018	141.7	79.2	69.0	113.2	403.1
Accumulated amortization					
Balance as at December 31, 2017	77.4	7.1	—	—	84.5
Amortization	10.1	1.7	—	—	11.8
Balance as at June 30, 2018	87.5	8.8	—	—	96.3
Carrying amount					
Balance as at December 31, 2017	59.5	68.4	54.2	114.1	296.2
Balance as at June 30, 2018	54.2	70.4	69.0	113.2	306.8

“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

For the three and six months ended June 30, 2018 and 2017

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

6. REGULATORY BALANCES

Debit balances consist of the following:

	January 1, 2018	Balances arising in the period	Recovery/ reversal	Other movements	June 30, 2018	Remaining recovery/ reversal period (months)	Carrying charges applicable
	\$	\$	\$	\$	\$		
OPEB actuarial net loss	85.3	—	—	—	85.3	(1)	—
Foregone revenue	44.0	—	(10.4)	—	33.6	18	—
Gain on disposal	19.1	—	—	(19.1)	—	(1)	(2)
LRAM	16.7	10.4	(3.1)	—	24.0	(1)	(2)
Settlement variances	—	28.8	34.4	(41.0)	22.2	(1)	(2)
IFRS transitional adjustments	15.0	—	(4.0)	—	11.0	18	—
Stranded meters	7.5	—	(2.0)	—	5.5	18	(2)
OPEB cash versus accrual	4.2	0.8	—	—	5.0	(1)	—
Named properties	3.1	—	(0.8)	—	2.3	18	—
Capital contributions	1.0	—	(0.2)	—	0.8	18	—
Other	4.0	1.8	—	—	5.8	—	(2)
	199.9	41.8	13.9	(60.1)	195.5		

Credit balances consist of the following:

	January 1, 2018	Balances arising in the period	Recovery/ reversal	Other movements	June 30, 2018	Remaining recovery/ reversal period (months)	Carrying charges applicable
	\$	\$	\$	\$	\$		
Gain on disposal	—	99.0	(9.3)	(19.1)	70.6	note 6[a]	(2)
Deferred taxes	58.8	(17.8)	—	—	41.0	(1)	—
Capital-related revenue requirement	25.0	12.4	—	—	37.4	(1)	(2)
Settlement variances	41.0	—	—	(41.0)	—	(1)	(2)
Derecognition	15.9	5.4	—	—	21.3	(1)	(2)
Tax-related variances	9.3	—	(4.1)	—	5.2	6	(2)
Development charges	5.3	0.8	—	—	6.1	(1)	(2)
Smart meters	0.3	—	—	—	0.3	—	—
Other	4.4	2.1	(0.2)	—	6.3	—	(2)
	160.0	101.9	(13.6)	(60.1)	188.2		

⁽¹⁾ There were no significant changes to the disposition period for the six months ended June 30, 2018. Refer to note 9 to the Corporation's 2017 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 1.50% for January 1, 2018 to March 31, 2018 and 1.89% for April 1, 2018 to June 30, 2018 [January 1, 2017 to September 30, 2017 — 1.10% and October 1, 2017 to December 31, 2017 — 1.50%].

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months ended June 30, 2018 and 2017

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

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 impairments and reclassifications between the regulatory debit and credit balances.

(a) *Gain on disposal*

The balance arising in this account primarily relates to a realized gain of \$98.6 million, net of tax and selling costs, in connection with the disposal of a property by LDC in the second quarter of 2018. LDC has been returning the total forecasted net gain on sale of certain properties along with the future tax savings back to rate payers through a rate rider effective from March 1, 2016 to December 31, 2018 as part of the 2015 CIR decision and rate order. The actual realized gain and tax savings that exceeded the approved rate riders is expected to reduce future electricity distribution rates for customers. LDC has requested disposition of this incremental balance in the 2020 – 2024 rate application over a 60 month period commencing on January 1, 2020 [note 3[b]].

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, 2018	800.0	—	175.0	625.0
December 31, 2017	800.0	—	159.0	641.0

For the three and six months ended June 30, 2018, the average aggregate outstanding borrowings under the Corporation’s Revolving Credit Facility, Working Capital Facility and Commercial Paper Program were \$199.3 million and \$206.2 million [three and six months ended June 30, 2017 – \$286.8 million and \$282.7 million], with a weighted average interest rate of 1.51% and 1.48% [three and six months ended June 30, 2017 – 0.78% and 0.82%].

As at June 30, 2018, no amount had been drawn under the Working Capital Facility [December 31, 2017 – \$11.7 million] and \$38.3 million of letters of credit were issued against the Prudential Facility [December 31, 2017 – \$38.4 million].

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months ended June 30, 2018 and 2017

[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, 2018 \$	As at and year ended December 31, 2017 \$
Capital contributions, beginning of period	188.2	143.6
Capital contributions received	60.5	50.8
Amortization	(2.4)	(4.7)
Other	(0.2)	(1.5)
Capital contributions, end of period	246.1	188.2
Other	5.6	1.7
Total deferred revenue	251.7	189.9
Less: Current portion of deferred revenue relating to:		
Capital contributions	9.1	9.0
Other	5.6	1.7
Current portion of deferred revenue	14.7	10.7
Non-current portion of deferred revenue	237.0	179.2

9. FINANCIAL INSTRUMENTS

Recognition and measurement

As at June 30, 2018 and December 31, 2017, the fair values of cash and cash equivalents, accounts receivable, Working Capital Facility, commercial paper, and accounts payable and accrued liabilities approximated their carrying amounts due to the short maturity of these instruments. The fair value of customer deposits approximates their carrying amount taking into account interest accrued on the outstanding balance. Lease liabilities are measured based on a discounted cash flow analysis and their fair value 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, 2018, the total fair value of the Corporation's debentures was determined to be approximately \$2,154.9 million [December 31, 2017 – \$2,181.4 million], with a total carrying amount of \$2,034.4 million [December 31, 2017 – \$2,034.0 million].



NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months ended June 30, 2018 and 2017

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

10. SHARE CAPITAL

On August 22, 2018, the Board of Directors of the Corporation declared quarterly dividends in the amount of \$23.5 million payable to the City by September 28, 2018.

11. REVENUE FROM CONTRACTS WITH CUSTOMERS AND OTHER SOURCES

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,	
	2018 \$	2017 \$	2018 \$	2017 \$
		Restated [note 14[c]]		Restated [note 14[c]]
Revenue from contracts with customers				
Energy sales	660.4	662.1	1,302.8	1,432.9
Distribution revenue	162.9	178.2	334.5	356.4
Ancillary services revenue	8.8	4.6	12.8	7.0
Street lighting service fee	4.3	4.7	8.6	9.4
Pole and duct rentals	3.9	3.6	7.8	7.8
Other regulatory service charges	3.2	3.4	5.6	6.9
Miscellaneous	1.8	3.7	5.3	5.7
Revenue from other sources				
CDM [note 3[a]]	2.7	—	2.7	—
Capital contributions	1.2	1.2	2.4	2.3
Other	2.1	1.8	4.1	4.3
Total revenues	851.3	863.3	1,686.6	1,832.7

12. INCOME TAXES

The Corporation's effective tax rate after net movements in regulatory balances for the three and six months ended June 30, 2018 was 24.5% and 19.4% [three and six months ended June 30, 2017 – 16.3% and 16.1%]. The effective tax rate for the three and six months ended June 30, 2018 was higher than the three and six months ended June 30, 2017 primarily due to the tax recognized on property disposition, partially offset by changes in permanent and temporary differences between accounting and tax treatments.



NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months ended June 30, 2018 and 2017

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

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,	
	2018	2017	2018	2017
	\$	\$	\$	\$
Income tax expense	23.1	10.4	38.2	19.9
Income tax recorded in net movements in regulatory balances	(9.3)	(3.6)	(17.8)	(5.6)
Income tax expense and income tax recorded in net movements in regulatory balances	13.8	6.8	20.4	14.3

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,	
	2018	2017	2018	2017
	\$	\$	\$	\$
Accounts receivable	(47.4)	33.0	(42.4)	12.1
Unbilled revenue	(31.5)	9.3	7.2	53.4
Materials and supplies	(0.1)	0.6	(1.0)	(0.1)
Other current assets	4.9	0.8	1.0	(1.7)
Accounts payable and accrued liabilities	59.0	7.3	33.8	(17.4)
Income tax payable	3.2	1.0	(5.7)	(2.0)
Deferred revenue	(2.4)	(1.8)	4.0	4.3
Deferred conservation credit	—	6.7	(0.8)	3.4
Other current liabilities	(0.8)	—	(1.2)	—
	(15.1)	56.9	(5.1)	52.0

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months ended June 30, 2018 and 2017

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

Reconciliation between the amounts 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,	
	2018 \$	2017 \$	2018 \$	2017 \$
Purchase of PP&E, cash basis	110.1	112.3	230.5	232.5
Net change in accruals related to PP&E	(7.1)	7.3	(27.3)	1.6
Other	0.2	0.4	2.0	0.7
Total additions to PP&E	103.2	120.0	205.2	234.8
Purchase of intangible assets, cash basis	15.3	17.0	27.5	35.9
Net change in accruals related to intangible assets	(0.4)	(0.2)	(5.1)	0.4
Total additions to intangible assets	14.9	16.8	22.4	36.3

14. 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) Changes in accounting policies

The Corporation has adopted and applied the following new accounting policies, effective January 1, 2018, in preparing these Interim Financial Statements.

Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15 *Revenue from Contracts with Customers* ["IFRS 15"] effective for annual periods beginning on or after January 1, 2018, which replaced existing revenue recognition guidance, including IAS 18 *Revenue* and IFRIC 18 *Transfers of Assets from Customers*. IFRS 15 contains a five step model that applies to contracts with customers that specifies that revenue is recognized when or as an entity transfers control of goods or services to a customer at the amount to which the entity expects to be entitled. Depending on whether certain criteria are met, revenue is recognized at a point in time or over time.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months ended June 30, 2018 and 2017

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

The Corporation adopted IFRS 15 using the modified retrospective approach with the following practical expedients:

- The Corporation did not restate completed contracts that began and ended in the same annual reporting period or completed contracts at the beginning of the earliest period presented; and
- The Corporation did not disclose the amount of consideration allocated to the remaining performance obligations nor did it provide an explanation of when the Corporation expects to recognize that amount as revenue for comparative periods presented in these Interim Financial Statements.

The adoption of IFRS 15 resulted in a \$59.7 million, \$38.1 million and \$207.6 million income statement reclassification between energy sales and energy purchases for the comparative three and six months ended June 30, 2017 and year ended December 31, 2017, respectively, and had no impact to opening retained earnings as at January 1, 2018. The Corporation updated the impact previously disclosed in the 2017 Annual Financial Statements to include an additional income statement reclassification between energy sales and energy purchases for the comparative year ended December 31, 2017. Refer to note 14[c] for details on the transitional adjustment.

The revenue streams described in note 26[j] to the Corporation's 2017 Annual Financial Statements will be recognized over time, except for revenue from certain services ancillary to the electricity distribution, which will be recognized at a point in time.

Capital contributions received from developers to construct or acquire PP&E for the purpose of connecting future customers to the distribution network are considered out of scope of IFRS 15. Capital contributions received will be recognized as deferred revenue and amortized into revenue from other sources at an equivalent rate to that used for depreciation of the related PP&E.

Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments* ["IFRS 9"] effective for annual periods beginning on or after January 1, 2018, which replaced 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 Corporation adopted IFRS 9 retrospectively. Despite the retrospective adoption of IFRS 9, the Corporation is not required, upon initial application, to restate comparatives.

i) Classification and measurement of financial instruments

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities. However, it eliminates the previous IAS 39 categories for financial assets of held to maturity, loans and receivables and available for sale.

Under IFRS 9, on initial recognition, a financial asset is classified and measured at: amortized cost, fair value through other comprehensive income, or fair value through profit or loss. The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months ended June 30, 2018 and 2017

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

The adoption of IFRS 9 has not had a significant effect on the Corporation’s accounting policies related to financial liabilities. The impact of IFRS 9 on the classification and measurement of financial instruments is set out below.

Financial Instrument	IAS 39 Measurement basis	IFRS 9 Measurement basis
Cash	Loans and receivables	Amortized cost
Accounts receivable	Loans and receivables	Amortized cost
Unbilled revenue	Loans and receivables	Amortized cost
Working capital facility	Financial liability – amortized cost	Financial liability – amortized cost
Commercial paper	Financial liability – amortized cost	Financial liability – amortized cost
Customer deposits	Financial liability – amortized cost	Financial liability – amortized cost
Finance leases	Financial liability – amortized cost	Financial liability – amortized cost
Debentures	Financial liability – amortized cost	Financial liability – amortized cost
Accounts payable	Financial liability – amortized cost	Financial liability – amortized cost

ii) *Impairment of financial assets*

Loss allowance for accounts receivables and unbilled revenue are always measured at an amount equal to lifetime expected credit losses [“ECL”] that result from all possible default events over the expected life of a financial instrument.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Corporation considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Corporation’s historical experience and informed credit assessment and including forward-looking information.

The Corporation assumes that credit risk on a financial asset has increased if it is more than 30 days past due.

The Corporation considers a financial asset to be in default when the borrower is unlikely to pay its credit obligations in full, without recourse by the Corporation, such as realising security (if any is held).

The adoption of the ECL model in IFRS 9 resulted in a \$0.3 million decrease in opening retained earnings as at January 1, 2018. Refer to note 14[d] for details on the transitional adjustment.

Leases

In January 2016, the IASB issued IFRS 16 *Leases* [“IFRS 16”], which replaced IAS 17 *Leases* [“IAS 17”] and related interpretations. IFRS 16 introduces a single lessee accounting model eliminating the previous distinction between finance and operating leases. IFRS 16 requires the recognition of lease-related assets and liabilities on the balance sheet, except for short-term leases and leases of low value underlying assets. Lessor accounting remained substantially unchanged.

Although IFRS 16 is effective for annual periods beginning on or after January 1, 2019, the Corporation early adopted IFRS 16 on January 1, 2018 using the modified retrospective approach, in accordance with the transitional provisions in IFRS 16. As a practical expedient permitted by IFRS 16, the Corporation applied IFRS 16 to existing contracts that were previously identified as leases applying IAS 17 and IFRIC 4 *Determining whether an Arrangement contains a Lease*, and did not to apply IFRS 16 to contracts that were not previously identified as containing a lease.

The adoption of IFRS 16 resulted in an increase of \$1.6 million in total assets and total liabilities each for recognition of right-of-use assets and lease liabilities, respectively, and had no impact to opening retained earnings as at January 1, 2018. Refer to note 14[e] for details on the transitional adjustment.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months ended June 30, 2018 and 2017

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

The adoption of IFRS 15, IFRS 9 and IFRS 16 resulted in no changes to the consolidated balance sheet as at December 31, 2017 and consolidated statements of cash flows for the year ended December 31, 2017.

c) Transition to IFRS 15

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME		Three months ended June 30, 2017	Transitional Adjustments	Three months ended June 30, 2017
	Note	\$	\$	\$
				Restated
Revenues				
Energy sales	A	721.8	(59.7)	662.1
Distribution revenue		178.2		178.2
Other		23.0		23.0
		923.0	(59.7)	863.3
Expenses				
Energy purchases	A	793.2	(59.7)	733.5
Operating expenses		73.7		73.7
Depreciation and amortization		55.0		55.0
		921.9	(59.7)	862.2
Finance costs		(19.5)		(19.5)
Gain on disposals of Property, Plant and Equipment		9.4		9.4
Loss before income taxes		(9.0)		(9.0)
Income tax expense		(10.4)		(10.4)
Net loss		(19.4)		(19.4)
Net movements in regulatory balances		50.8		50.8
Net movements in regulatory balances arising from deferred tax assets		3.6		3.6
Net income after net movements in regulatory balances		35.0		35.0



NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months ended June 30, 2018 and 2017

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

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME		Six months ended June 30, 2017	Transitional Adjustments	Six months ended June 30, 2017
	Note	\$	\$	\$
				Restated
Revenues				
Energy sales	A	1,471.0	(38.1)	1,432.9
Distribution revenue		356.4		356.4
Other		43.4		43.4
		1,870.8	(38.1)	1,832.7
Expenses				
Energy purchases	A	1,522.6	(38.1)	1,484.5
Operating expenses		144.1		144.1
Depreciation and amortization		105.4		105.4
		1,772.1	(38.1)	1,734.0
Finance costs		(39.7)		(39.7)
Gain on disposals of Property, Plant and Equipment		9.4		9.4
Income before income taxes		68.4		68.4
Income tax expense		(19.9)		(19.9)
Net income		48.5		48.5
Net movements in regulatory balances		20.5		20.5
Net movements in regulatory balances arising from deferred tax assets		5.6		5.6
Net income after net movements in regulatory balances		74.6		74.6

A. Energy Sales and Energy Purchases

Energy sales are based on the cost of power and usage by the customer. For Regulated Price Plan [“RPP”] customers, the OEB has set a fixed rate which should approximate true cost of power. The Corporation recovers the difference between amounts billed to RPP customers for electricity charges [“RPP rate”] and the cost to purchase the energy [“RPP Settlement Amount”] from the IESO. In accordance with IAS 18, the RPP Settlement Amount was recorded as part of energy sales, as revenue should be measured at the fair value of the consideration received or receivable.

In accordance with the guidance of IFRS 15, revenue is recognized at the transaction price as per the contract with the customer. The contract with a RPP customer states the transaction price as the OEB RPP rate. As such, the RPP Settlement Amount will be recorded as a reduction/addition from/to energy purchases instead of energy sales.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months ended June 30, 2018 and 2017

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

d) Transition to IFRS 9

Reconciliation of impairment allowance balance from IAS 39 to IFRS 9:

	Note	Impairment allowance under IAS 39 as at December 31, 2017 \$	Transitional Adjustments \$	Impairment allowance under IFRS 9 as at January 1, 2018 \$
ASSETS				
Current				
Allowance for doubtful accounts	A	(10.2)	(0.3)	(10.5)

A. Impairment of financial assets

Under IAS 39, accounts receivable would first be provisioned for when it is deemed that the collection is unlikely. Upon adoption of IFRS 9, the Corporation measures the loss allowance at an amount equal to the lifetime ECL for trade receivables or contract assets that result from transactions that are within the scope of IFRS 15, and do not contain a significant financing component. The Corporation uses a provision matrix to measure the lifetime ECL of accounts receivable from individual customers which accounts for exposures in different customer classes. The revised impairment allowance resulted in a restatement of opening retained earnings as at January 1, 2018.

e) Transition to IFRS 16

The Corporation determined the cumulative effect of applying IFRS 16 on January 1, 2018 to be \$nil impact in opening retained earnings and recorded \$1.6 million as right-of-use assets and \$1.6 million as lease liabilities.

Operating leases under IAS 17 were recognized as expenses on a straight-line basis over the lease term and are now recognised under IFRS 16 as follows:

	Operating leases as at December 31, 2017 \$	Transitional Adjustments \$	Leases as at January 1, 2018 \$
ASSETS			
Current			
Property, plant and equipment	—	1.6	1.6
Total assets	—	1.6	1.6
LIABILITIES AND EQUITY			
Current			
Other liabilities	—	0.3	0.3
Total current liabilities	—	0.3	0.3
Other liabilities	—	1.3	1.3
Total liabilities	—	1.6	1.6

The weighted average incremental borrowing rate applied to the lease liabilities was 1.92%.