TORONTO HYDRO Corporation

THIRD QUARTER FINANCIAL REPORT
SEPTEMBER 30, 2022

TORONTO HYDRO CORPORATION

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GLOSSARY

CDM – Conservation and demand management

CEO – Chief Executive Officer

CFO – Chief Financial Officer

CIR – Custom Incentive Rate-setting

City – City of Toronto

Corporation – Toronto Hydro Corporation

COVID-19 – Coronavirus disease 2019 and its variant

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

HONI – Hydro One Networks Inc.

IAS – International Accounting Standard

IASB – International Accounting Standards Board

IESO – Independent Electricity System Operator

IFRS – International Financial Reporting Standards

kW – Kilowatt

kWh – Kilowatt hour

LDC – Toronto Hydro-Electric System Limited

LRAM – Lost revenue adjustment mechanism

MD&A – Management's Discussion and Analysis

OCI – Other comprehensive income

OEB – Ontario Energy Board

OPEB – Other post-employment benefits

PP&E – Property, plant and equipment

Toronto Hydro – Toronto Hydro Corporation and its subsidiaries

TOU – Time-of-use

WMS – Wholesale Market Service

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE THREE AND NINE MONTHS ENDED
SEPTEMBER 30, 2022 AND 2021

Executive Summary

- During the COVID-19 pandemic, the Corporation has maintained the full range of its services while focusing on the health and safety of its employees and the community. The Corporation has continued with critical work in its grid investment plan to maintain safety and reliability, support a growing city, and meet customer service needs;
- Net income after net movements in regulatory balances for the three and nine months ended September 30, 2022 was $55.0 million and $147.9 million, respectively, compared to $47.8 million and $121.5 million for the comparable periods in 2021;
- Capital expenditures were primarily related to the renewal of the electricity infrastructure of LDC and were $170.5 million and $483.0 million for the three and nine months ended September 30, 2022, respectively, compared to $152.6 million and $462.5 million for the comparable periods in 2021;
- On August 23, 2022, LDC filed the 2023 rate application seeking the OEB's approval to finalize distribution rates and other charges for the period commencing on January 1, 2023 and ending on December 31, 2023;
- Effective September 15, 2022, Annie Ropar resigned from the Board of Directors of the Corporation and as a member of the Audit and Human Resources and Environment Committees. Concurrently, Michael Eubanks was appointed to the Audit Committee and David McFadden was appointed to the Human Resources and Environment Committee;
- On October 13, 2022, the Corporation issued $300.0 million of 4.95% senior unsecured debentures due October 13, 2052 ["Series 19"] at a price of $999.22 per $1,000 principal amount. The Series 19 debentures bear interest payable semi-annually in arrears;
- On November 14, 2022, Deputy Mayor Denzil Minnan-Wong's term as a director of the Corporation ended with the expiry of his term as City Councillor; and
- On November 16, 2022, the Board of Directors of the Corporation declared a dividend in the amount of $21.1 million with respect to the fourth quarter of 2022 [fourth quarter of 2021 - $17.6 million], payable to the City by December 30, 2022.

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 nine months ended September 30, 2022 and 2021 [the "Interim Financial Statements"], which were prepared in accordance with IAS 34 *Interim Financial Reporting*. The Interim Financial Statements have been prepared following the same accounting policies and methods of computation as those described in note 25 to the Corporation's audited consolidated financial statements as at and for the years ended December 31, 2021 and 2020 [the "2021 Annual Financial Statements"];

- 2021 Annual Financial Statements; and

- the Corporation's MD&A for the years ended December 31, 2021 and 2020 [the "2021 Annual MD&A"], including the sections titled "Electricity Distribution – Industry Overview", "Corporate Developments – COVID-19 Pandemic Considerations", "Legal Proceedings", "Share Capital", "Transactions with Related Parties", and "Risk Management and Risk Factors", which remain substantially unchanged as at the date hereof, except as may be noted below or as updated in the Corporation's Interim Financial Statements.

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

Business of Toronto Hydro Corporation

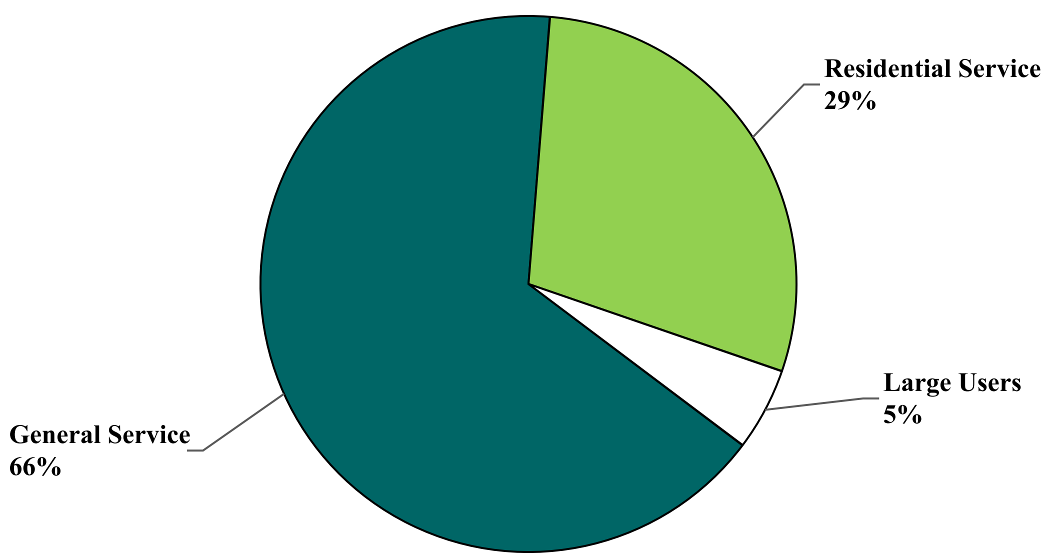
The Corporation is a holding company which wholly owns two subsidiaries:

- Toronto Hydro-Electric System Limited [LDC] – distributes electricity; and
- Toronto Hydro Energy Services Inc. [TH Energy] – provides street lighting and expressway lighting services in the city of Toronto.

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

The principal business of the Corporation and its subsidiaries is the distribution of electricity by LDC. LDC owns and operates an electricity distribution system, delivering electricity to approximately 789,000 customers located in the city of Toronto. LDC serves the largest city in Canada and distributes approximately 18% of the electricity consumed in Ontario. The business of LDC is regulated by the OEB, which has broad powers relating to licensing, standards of conduct and service, and the regulation of electricity distribution rates charged by electricity distributors in Ontario. For the nine months ended September 30, 2022, LDC recognized energy sales and distribution revenue of $2,704.9 million from general service users[1], residential service users[2] and large users[3].

LDC Energy Sales and Distribution Revenue by Class
Nine months ended September 30, 2022



[1] "General Service" means a service supplied to premises other than those receiving "Residential Service" and "Large Users" and typically includes small businesses and bulk-metered multi-unit residential establishments. This service is provided to customers with a monthly peak demand of less than 5,000 kW averaged over a 12-month period.

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

[3] "Large Users" means a service provided to a customer with a monthly peak demand of 5,000 kW or greater averaged over a 12-month period.

Results of Operations

Net Income after Net Movements in Regulatory Balances

Condensed Interim Consolidated Statements of Income
Three months ended September 30, 2022
[in millions of Canadian dollars]

	2022 **$**	2021 $	Change $
Revenues			
Energy sales	**815.3**	756.9	58.4
Distribution revenue	**194.8**	201.4	(6.6)
Other	**26.2**	25.2	1.0
	1,036.3	983.5	52.8
Expenses			
Energy purchases	**789.7**	760.6	29.1
Operating expenses	**73.3**	76.7	(3.4)
Depreciation and amortization	**76.5**	73.8	2.7
	939.5	911.1	28.4
Finance costs	**(22.8)**	(19.9)	(2.9)
Gain on disposals of property, plant and equipment	**—**	0.5	(0.5)
Income before income taxes	**74.0**	53.0	21.0
Income tax (expense) recovery	**9.4**	(8.7)	18.1
Net income	**83.4**	44.3	39.1
Net movements in regulatory balances	**(17.0)**	(1.9)	(15.1)
Net movements in regulatory balances arising from deferred taxes	**(11.4)**	5.4	(16.8)
Net income after net movements in regulatory balances	**55.0**	47.8	7.2

For the three months ended September 30, 2022, net income after net movements in regulatory balances was higher by $7.2 million. The increase was mainly due to higher distribution revenue primarily driven by higher 2022 distribution rates and consumption [$3.7 million] and lower operating expenses [$3.4 million] mainly due to lower bad debt expense.

The variance in distribution revenue [$6.6 million] includes lower OEB-approved rate riders [$10.4 million]. The rate riders do not impact net income after net movements in regulatory balances as there are corresponding offsets in net movements in regulatory balances.

The variances in energy sales and energy purchases do not impact net income after net movements in regulatory balances as there is a corresponding offset in net movements in regulatory balances. The difference between energy sales and energy purchases is recorded as a settlement variance within regulatory balances on the Corporation's condensed interim consolidated balance sheets and represents amounts to be recovered from or refunded to customers through future rates approved by the OEB.

Condensed Interim Consolidated Statements of Income
Nine months ended September 30, 2022
[in millions of Canadian dollars]

	2022 **$**	2021 $	Change $
Revenues			
Energy sales	**2,136.1**	2,077.4	58.7
Distribution revenue	**568.8**	572.5	(3.7)
Other	**77.7**	73.2	4.5
	2,782.6	2,723.1	59.5
Expenses			
Energy purchases	**2,203.6**	2,121.9	81.7
Operating expenses	**230.6**	230.4	0.2
Depreciation and amortization	**222.7**	213.5	9.2
	2,656.9	2,565.8	91.1
Finance costs	**(62.2)**	(58.8)	(3.4)
Gain on disposals of property, plant and equipment	**—**	2.3	(2.3)
Income before income taxes	**63.5**	100.8	(37.3)
Income tax expense	**(9.1)**	(31.0)	21.9
Net income	**54.4**	69.8	(15.4)
Net movements in regulatory balances	**88.4**	30.8	57.6
Net movements in regulatory balances arising from deferred taxes	**5.1**	20.9	(15.8)
Net income after net movements in regulatory balances	**147.9**	121.5	26.4

For the nine months ended September 30, 2022, net income after net movements in regulatory balances was higher by $26.4 million. The increase was mainly due to higher distribution revenue primarily driven by higher electricity consumption and 2022 distribution rates [$19.1 million], lower income taxes including regulatory balances arising from deferred taxes [$6.1 million] and higher other revenue [$4.5 million] primarily driven by higher amortization of capital contributions. These variances were partially offset by higher depreciation and amortization [$9.2 million] related to in-service asset additions.

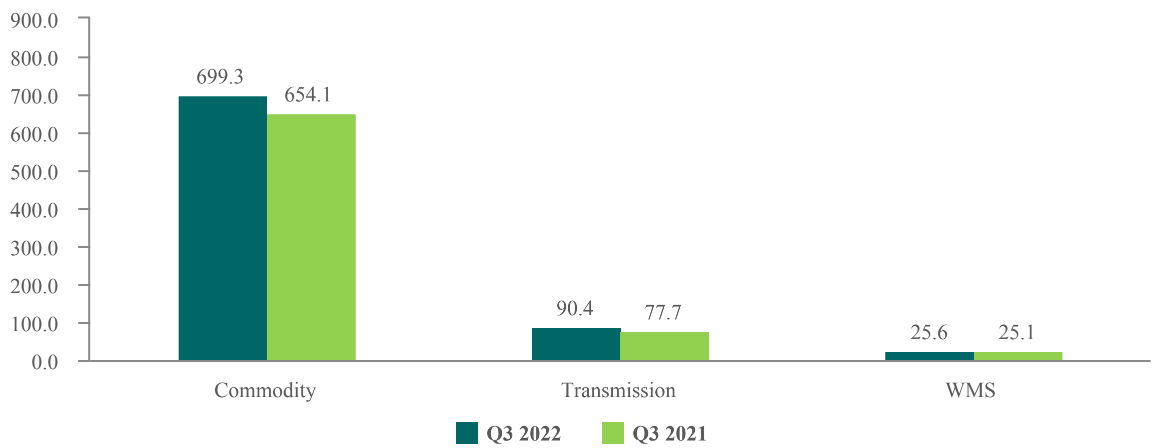
The variance in distribution revenue [$3.7 million] includes lower OEB-approved rate riders [$22.9 million]. The rate riders do not impact net income after net movements in regulatory balances as there are corresponding offsets in net movements in regulatory balances.

The variances in energy sales and energy purchases do not impact net income after net movements in regulatory balances as there is a corresponding offset in net movements in regulatory balances. The difference between energy sales and energy purchases is recorded as a settlement variance within regulatory balances on the Corporation's condensed interim consolidated balance sheets and represents amounts to be recovered from or refunded to customers through future rates approved by the OEB.

Energy Sales

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

Energy Sales
Three months ended September 30, 2022
[in millions of Canadian dollars]



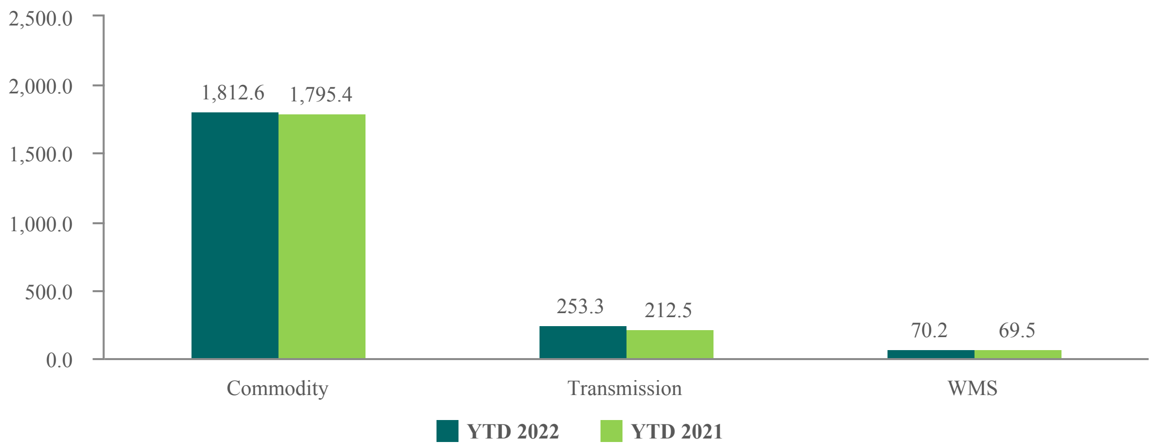
Energy sales for the three months ended September 30, 2022 were $815.3 million, compared to $756.9 million for the comparable period in 2021. The increase was primarily due to higher commodity charges [$45.2 million] and higher retail transmission charges [$12.7 million].

Energy Purchases, Energy Sales, and Settlement Variances
Three months ended September 30, 2022
[in millions of Canadian dollars]

	Energy Purchases $	Energy Sales $	Settlement Variances $
Commodity charges	624.8	699.3	(74.5)
Retail transmission charges	106.1	90.4	15.7
WMS charges	58.8	25.6	33.2
Total	789.7	815.3	(25.6)

For the three months ended September 30, 2022, LDC recognized $815.3 million in energy sales to customers and was billed $789.7 million for energy purchases from the IESO. The difference between energy sales and energy purchases represents a $25.6 million settlement variance for the period. The settlement variance was recorded as a decrease to the regulatory debit balance [$24.9 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
Nine months ended September 30, 2022
[in millions of Canadian dollars]



Energy sales for the nine months ended September 30, 2022 were $2,136.1 million, compared to $2,077.4 million for the comparable period in 2021. The increase was primarily due to higher retail transmission charges [$40.8 million] and higher commodity charges [$17.2 million].

Energy Purchases, Energy Sales, and Settlement Variances
Nine months ended September 30, 2022
[in millions of Canadian dollars]

	Energy Purchases $	Energy Sales $	Settlement Variances $
Commodity charges	1,783.1	1,812.6	(29.5)
Retail transmission charges	297.6	253.3	44.3
WMS charges	122.9	70.2	52.7
Total	2,203.6	2,136.1	67.5

For the nine months ended September 30, 2022, LDC recognized $2,136.1 million in energy sales to customers and was billed $2,203.6 million for energy purchases from the IESO. The difference between energy sales and energy purchases represents a $67.5 million settlement variance for the period. The settlement variance was recorded as an increase to the regulatory debit balance [$68.5 million including carrying charges on the accumulated settlement variance balance; refer to the regulatory debit balance table in note 6 to the Interim Financial Statements] on the Consolidated Balance Sheets, and presented within net movements in regulatory balances on the Consolidated Statements of Income.

Distribution Revenue

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

Distribution revenue for the three and nine months ended September 30, 2022 was $194.8 million and $568.8 million, respectively, compared to $201.4 million and $572.5 million for the comparable periods in 2021.

The decrease in distribution revenue for the three months ended September 30, 2022 was primarily due to lower revenue collected through OEB-approved rate riders [$10.4 million], partially offset by higher 2022 distribution rates [$2.5 million] and higher electricity consumption [$1.2 million].

The decrease in distribution revenue for the nine months ended September 30, 2022 was primarily due to lower revenue collected through OEB-approved rate riders [$22.9 million], partially offset by higher electricity consumption [$10.9 million] and higher 2022 distribution rates [$8.2 million].

The Corporation continues to track lost revenues related to lower commercial electricity consumption and the late payment charge reductions resulting from the Corporation's decision to provide direct relief to customers impacted by COVID-19.

Other Revenue

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

Other revenue for the three and nine months ended September 30, 2022 was $26.2 million and $77.7 million, respectively, compared to $25.2 million and $73.2 million for the comparable periods in 2021.

Other revenue for the three months ended September 30, 2022 was in line with the comparable period in 2021.

The increase in other revenue for the nine months ended September 30, 2022 was primarily due to higher amortization of capital contributions.

Operating Expenses

Operating expenses for the three and nine months ended September 30, 2022 were $73.3 million and $230.6 million, respectively, compared to $76.7 million and $230.4 million for the comparable periods in 2021.

The decrease in operating expenses for the three months ended September 30, 2022 was primarily due to lower bad debt expense and lower costs related to ancillary services, partially offset by higher system maintenance costs.

Operating expenses for the nine months ended September 30, 2022 were in line with the comparable period in 2021. The variance includes higher system maintenance costs, partially offset by lower bad debt expense and lower costs related to ancillary services.

The expected credit loss provision was $30.2 million as at September 30, 2022 [December 31, 2021 – $33.5 million], therefore a decrease of $3.3 million was recorded for the nine months ended September 30, 2022, compared to an increase of $2.9 million for the similar period in 2021. The Corporation adjusted the expected credit loss provision based on the Corporation's current estimates and assumptions, including but not limited to recent trends for customer collections and current and forecasted economic conditions. The Corporation continues to actively monitor its exposure to credit risk [refer to note 10[b] to the Interim Financial Statements].

For the three and nine months ended September 30, 2022, the Corporation incurred $0.7 million and $3.1 million, respectively [September 30, 2021 – $1.4 million and $3.0 million] in operating expenses for protective equipment, cleaning supplies, COVID-19 testing kits and other costs directly related to the implementation of safety measures as a result of the COVID-19 pandemic.

Depreciation and Amortization

Depreciation and amortization expense, which includes derecognition of assets removed from service, for the three and nine months ended September 30, 2022 was $76.5 million and $222.7 million, respectively, compared to $73.8 million and $213.5 million for the comparable periods in 2021.

The increase in depreciation and amortization for the three and nine months ended September 30, 2022 was primarily due to in-service asset additions, partially offset by certain assets being fully depreciated and lower derecognition of assets removed from service.

Finance Costs

Finance costs for the three and nine months ended September 30, 2022 were $22.8 million and $62.2 million, respectively, compared to $19.9 million and $58.8 million for the comparable periods in 2021.

The increase in finance costs for the three months ended September 30, 2022 was primarily due to a higher rate of funding for commercial paper, partially offset by increased investment income due to higher short-term rates.

The increase in finance costs for the nine months ended September 30, 2022 was primarily due to a higher rate of funding for commercial paper, partially offset by higher capitalized borrowing costs and increased investment income due to higher short-term rates.

Gain on Disposals of PP&E

Gain on disposals of PP&E for the three and nine months ended September 30, 2022 was $nil, compared to $0.5 million and $2.3 million for the comparable periods in 2021.

The decrease in gain on disposals of PP&E for the nine months ended September 30, 2022 was primarily related to the gain realized in connection with the sale of a property in the first quarter of 2021.

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 nine months ended September 30, 2022 was $2.0 million and $4.0 million, respectively, compared to $3.3 million and $10.1 million for the comparable periods in 2021.

The decrease in income tax expense and income tax recorded in net movements in regulatory balances for the three months ended September 30, 2022 was primarily due to higher net deductions in permanent and temporary differences between accounting and tax treatments, partially offset by higher income before taxes.

The decrease in income tax expense and income tax recorded in net movements in regulatory balances for the nine months ended September 30, 2022 was primarily due to higher net deductions in permanent and temporary differences between accounting and tax treatments, and lower tax recognized on property dispositions, partially offset by higher income before taxes.

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 the Consolidated Statements of Income.

The increase in the regulatory debit [$44.9 million] and increase in the regulatory credit [$19.4 million] balances for the nine months ended September 30, 2022 equals the sum [$25.5 million] of net movements in regulatory balances, net movements in regulatory balances arising from deferred taxes and net movements in regulatory balances related to OCI for the period [refer to "Financial Position" below]. Energy purchases record the actual cost of power purchased, which varies from month to month. Since the selling price of power within energy sales is fixed for set periods of time, a gain or loss usually results and is part of the calculation of net income. However, per OEB regulations, such gains or losses on energy sales are deferred within regulatory variance accounts for later disposition to or from rate payers via rate riders after approval by the OEB. Deferrals of gains or losses on energy sales [refer to discussion on settlement variance under "Results of Operations" above], or disposition of past deferrals in electricity rates will usually represent the largest single element of the net movements in regulatory balances for a given period.

Net movements in regulatory balances for the three and nine months ended September 30, 2022 were a charge of $17.0 million and a recovery of $88.4 million, respectively, compared to a charge of $1.9 million and a recovery of $30.8 million for the comparable periods in 2021. The charge of $17.0 million for the three months ended September 30, 2022 was primarily due to the settlement variance between the electricity costs billed monthly by the IESO and LDC's billing to customers, partially offset by amounts disposed through OEB-approved rate riders. The charge of $1.9 million for the three months ended September 30, 2021 was primarily due to amounts disposed through OEB-approved rate riders, partially offset by the settlement variance between the electricity costs billed monthly by the IESO and LDC's billing to customers.

The recovery of $88.4 million for the nine months ended September 30, 2022 was primarily due to the settlement variance between the electricity costs billed monthly by the IESO and LDC's billing to customers and amounts disposed through OEB-approved rate riders. The recovery of $30.8 million for the nine months ended September 30, 2021 was primarily due to the settlement variance between the electricity costs billed monthly by the IESO and LDC's billing to customers, partially offset by amounts disposed through OEB-approved rate riders.

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 September 30, 2022.

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

	September 30, 2022 $	June 30, 2022 $	March 31, 2022 $	December 31, 2021 $
Energy sales	**815.3**	646.5	674.3	625.0
Distribution revenue	**194.8**	187.1	186.9	186.6
Other	**26.2**	25.8	25.7	32.4
Revenues	**1,036.3**	859.4	886.9	844.0
Net income after net movements in regulatory balances	**55.0**	45.4	47.5	19.5

	September 30, 2021 $	June 30, 2021 $	March 31, 2021 $	December 31, 2020 $
Energy sales	756.9	643.3	677.2	783.1
Distribution revenue	201.4	188.5	182.6	169.4
Other	25.2	26.2	21.8	24.3
Revenues	983.5	858.0	881.6	976.8
Net income (loss) after net movements in regulatory balances	47.8	37.9	35.8	(2.0)

The Corporation's revenues, all other things being equal, are impacted by temperature fluctuations and unexpected weather conditions, including increased frequency of extreme weather events as a result of climate change, such as heat waves, intense rain events, and higher average temperatures. Generally, 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.

Financial Position

The following table outlines the significant changes in the Consolidated Balance Sheet as at September 30, 2022 as compared to the Consolidated Balance Sheet as at December 31, 2021.

Consolidated Balance Sheet Data
[in millions of Canadian dollars]

Balance Sheet Account	Increase (Decrease) $	Explanation of Significant Change
Assets		
Accounts receivable and unbilled revenue	**124.7**	The increase was primarily due to higher pass-through electricity costs, higher electricity consumption and timing of billing and collection activities.
PP&E and intangible assets	**259.1**	The increase was primarily due to capital expenditures [refer to "Investing Activities" below], partially offset by depreciation and amortization including derecognition.
Liabilities and Equity		
Commercial paper	**330.0**	The increase was primarily due to the issuances of commercial paper required for general corporate purposes [refer "Liquidity and Capital Resources" below].
Accounts payable and accrued liabilities	**12.6**	The increase was primarily due to timing differences in payments, partially offset by lower pass-through electricity costs payable to the IESO.
Deferred revenue	**51.7**	The increase was primarily due to capital contributions received.
Post-employment benefits	**(90.3)**	The decrease was primarily due to the recognized actuarial gain incurred as a result of the higher discount rate as at September 30, 2022.
Deferred tax liabilities	**27.4**	The increase was primarily due to the impact of the actuarial gain on post-employment benefit obligations, and lower tax values as compared to accounting values of PP&E and intangible assets.
Other Liabilities	**(11.2)**	The decrease was mainly due to the settlement of a HONI liability in 2022 related to the connection of Copeland station to transmission facilities.
Retained earnings	**84.4**	The increase was due to net income after net movements in regulatory balances [$147.9 million], offset by dividends paid [$63.5 million].

Consolidated Balance Sheet Data
[in millions of Canadian dollars]

Balance Sheet Account	Increase (Decrease) $	Explanation of Significant Change
Regulatory Balances		
Regulatory debit balances	**44.9**	The increase was primarily related to the settlement variance between the electricity costs billed monthly by the IESO and LDC's billing to customers and deferred taxes, partially offset by the reclassification of the post-employment net actuarial loss from regulatory debit to regulatory credit balance resulting from the remeasurement of post-employment benefit obligations to reflect the higher discount rate.
Regulatory credit balances	**19.4**	The increase was primarily due to the recognized actuarial gain resulting from the remeasurement of post-employment benefit obligations to reflect the higher discount rate, partially offset by amounts disposed through OEB-approved rate riders.

Liquidity and Capital Resources

The Corporation's current assets and current liabilities amounted to $613.4 million and $1,406.5 million, respectively, as at September 30, 2022, resulting in a working capital deficit of $793.1 million. The deficit is primarily attributable to the reclassification of Series 8 debentures to current liabilities due on April 10, 2023 for $250.0 million and the Corporation's preference for utilizing its Commercial Paper Program [defined in "Financing Activities" below] and Working Capital Facility [defined below] before issuing additional debentures to fulfill the Corporation's ongoing liquidity requirements, including funding of significant capital spending. The Corporation seeks to maintain an optimal mix of short-term and long-term debt in order to lower overall financing costs and to enhance borrowing flexibility.

The Corporation's primary sources of liquidity and capital resources are cash provided by operating activities, issuance of commercial paper, amounts available to be drawn against its credit facilities, and borrowings from debt capital markets. The Corporation's liquidity and capital resource requirements are mainly for capital expenditures to maintain and improve the electricity distribution system of LDC, for energy purchases and to meet financing obligations.

The amount available under the Revolving Credit Facility [defined in "Financing Activities" below] as well as the outstanding borrowings under the Revolving Credit Facility and the 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 $
Balance as at September 30, 2022	**800.0**	**—**	**605.0**	**195.0**
Balance as at December 31, 2021	800.0	—	275.0	525.0

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 September 30, 2022, $6.4 million had been drawn under the Working Capital Facility, compared to $8.8 million as at December 31, 2021. On the condensed interim consolidated statements of cash flows, cash and cash equivalents [working capital facility] includes bank overdrafts that are repayable on demand and form an integral part of the Corporation's cash management.

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

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	**2022**	2021
	$	$	**$**	$
Cash and cash equivalents (working capital facility), beginning of period	**2.9**	4.6	**(8.8)**	(6.2)
Net cash provided by operating activities	**54.7**	113.1	**272.8**	357.3
Net cash used in investing activities	**(154.8)**	(134.8)	**(476.4)**	(427.1)
Net cash provided by financing activities	**90.8**	18.2	**206.0**	77.1
Cash and cash equivalents (working capital facility), end of period	**(6.4)**	1.1	**(6.4)**	1.1

In addition, the Corporation continues to monitor the impacts of recent interest rate increases on the Corporation, and any further increases that may occur.

Operating Activities

Net cash provided by operating activities for the three and nine months ended September 30, 2022 was $54.7 million and $272.8 million, respectively, compared to $113.1 million and $357.3 million for the comparable periods in 2021.

The decrease in net cash provided by operating activities for the three months ended September 30, 2022 was primarily due to timing differences in the settlement of receivables and payables, partially offset by higher net income before net movements in regulatory balances.

The decrease in net cash provided by operating activities for the nine months ended September 30, 2022 was primarily due to timing differences in the settlement of receivables and payables, lower net income before net movements in regulatory balances and lower net other non-current assets and liabilities, partially offset an increase in the deferred conservation credit.

Investing Activities

Net cash used in investing activities for the three and nine months ended September 30, 2022 was $154.8 million and $476.4 million, respectively, compared to $134.8 million and $427.1 million for the comparable periods in 2021.

Electricity distribution is a capital-intensive business. As the municipal electricity distribution company serving the largest city in Canada, LDC continues to invest in the renewal of existing aging infrastructure to address safety, reliability and customer service requirements.

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

Capital Expenditures
[in millions of Canadian dollars]

	Three months ended September 30,		**Nine months ended September 30,**	
	2022 **$**	2021 $	**2022** **$**	2021 $
Regulated LDC				
Distribution system				
Planned [1]	**137.4**	109.6	**385.5**	369.7
Reactive [2]	**10.6**	12.6	**32.9**	33.2
Technology assets	**12.5**	15.5	**38.3**	31.3
Other [3]	**7.3**	5.9	**19.9**	16.5
Regulated capital expenditures	**167.8**	143.6	**476.6**	450.7
Unregulated capital expenditures [4]	**2.7**	9.0	**6.4**	11.8
Total capital expenditures	**170.5**	152.6	**483.0**	462.5

[1] Includes, among other initiatives, the replacement of underground and overhead infrastructures, station programs, delivery of customer connections and customer-initiated plant relocations and expansions.
[2] Non-discretionary replacement of failed or failing assets across the distribution system.
[3] Includes fleet capital and building enhancements.
[4] Primarily relates to behind-the-meter battery storage projects, street lighting and generation equipment.

The total regulated capital expenditures for the three and nine months ended September 30, 2022 were $167.8 million and $476.6 million, respectively, compared to $143.6 million and $450.7 million for the comparable periods in 2021.

For the three months ended September 30, 2022, the increase in regulated capital expenditures was primarily due to higher spending on underground infrastructure [$10.4 million], customer-initiated plant relocations and expansions [$8.9 million], customer connections [$5.6 million] and station programs [$4.9 million], partially offset by lower spending on technology assets [$3.0 million].

For the nine months ended September 30, 2022, the increase in regulated capital expenditures was primarily due to higher spending on customer connections [$14.3 million], station programs [$13.3 million], underground infrastructure [$10.0 million] and technology assets [$6.9 million]. These variances were partially offset by lower spending on overhead infrastructure [$7.7 million] and customer-initiated plant relocations and expansions [$6.3 million].

For the three and nine months ended September 30, 2022, the decrease in unregulated capital expenditures was primarily due to lower behind-the-meter battery storage expenditures [$6.5 million and $7.0 million, respectively].

The largest capital initiatives in 2022 include the delivery of customer connections, station programs, replacement of underground and overhead infrastructures and technology assets.

The delivery of customer connections includes spending related to new service and upgrades to existing service for specific commercial customers. For the nine months ended September 30, 2022, capital expenditures for the delivery of customer connections were $98.4 million.

The station programs focus on station renewal and station expansion. Station renewal targets the aging station infrastructure to reduce the risk of power outages and maximize useful life. Station expansion addresses medium to long-term system capacity needs on the distribution system. For the nine months ended September 30, 2022, capital expenditures for station programs were $73.7 million.

The replacement of underground infrastructure includes replacing direct buried cables, transformers, switches 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 nine months ended September 30, 2022, capital expenditures for underground and overhead infrastructure were $59.8 million and $48.1 million, respectively.

Technology assets include software, hardware and communication infrastructure to provide reliable technology solutions and services to support the Corporation's business activities. For the nine months ended September 30, 2022, capital expenditures for technology assets were $38.3 million.

Financing Activities

Net cash provided by financing activities for the three and nine months ended September 30, 2022 was $90.8 million and $206.0 million, respectively, compared to $18.2 million and $77.1 million for the comparable periods in 2021.

The increase in net cash provided by financing activities for the three and nine months ended September 30, 2022 was primarily due to higher net commercial paper issuances in 2022.

The Corporation is a party to a credit agreement with a syndicate of Canadian chartered banks which established a revolving credit facility ["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 September 30, 2022, the Corporation was in compliance with all covenants included in its Revolving Credit Facility agreement.

The Corporation has a commercial paper program allowing up to $750.0 million of unsecured short-term promissory notes ["Commercial Paper Program"] to be issued in various maturities of no more than one year. The Commercial Paper Program is supported by liquidity facilities available under the Revolving Credit Facility; hence, available borrowing under the Revolving Credit Facility is reduced by the amount of commercial paper outstanding at any point in time. Proceeds from the Commercial Paper Program are used for general corporate purposes. Borrowings under the Commercial Paper Program bear interest based on the prevailing market conditions at the time of issuance.

Additionally, the Corporation is a party to a 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 September 30, 2022, $57.6 million of letters of credit had been issued against the Prudential Facility.

As at September 30, 2022, the Corporation had debentures outstanding in the principal amount of $2.4 billion. These debentures will mature between 2023 and 2063. As at September 30, 2022, the Corporation was in compliance with all covenants included in its trust indenture and supplemental trust indentures.

On October 13, 2022, the Corporation issued $300.0 million of 4.95% senior unsecured debentures due on October 13, 2052 at a price of $999.22 per $1,000 principal amount. The Series 19 debentures bear interest payable semi-annually in arrears. The net proceeds will be used to reduce indebtedness of the Corporation, including, but not limited to, indebtedness that the Corporation may have with bank affiliates of one or more dealers, to refinance the Corporation's outstanding debentures upon maturity, to finance the Corporation's capital expenditure program and for general corporate purposes. Debt issuance costs of $2.1 million relating to the Series 19 debentures will be recorded against the carrying amount of the debentures in the fourth quarter of 2022 and will be amortized to finance costs using the effective interest method.

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

Credit Ratings
As at September 30, 2022

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

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

On March 2, 2022, the Board of Directors of the Corporation declared a dividend in the amount of $21.2 million with respect to the first quarter of 2022 [first quarter of 2021 – $17.6 million], paid to the City on March 31, 2022.

On May 16, 2022, the Board of Directors of the Corporation declared a dividend in the amount of $21.1 million with respect to the second quarter of 2022 [second quarter of 2021 – $17.5 million], paid to the City on June 30, 2022.

On August 24, 2022, the Board of Directors of the Corporation declared a dividend in the amount of $21.2 million with respect to the third quarter of 2022 [third quarter of 2021 – $17.6 million], paid to the City on September 29, 2022.

On November 16, 2022, the Board of Directors of the Corporation declared a dividend in the amount of $21.1 million with respect to the fourth quarter of 2022 [fourth quarter of 2021 – $17.6 million], payable to the City by December 30, 2022.

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 September 30, 2022
[in millions of Canadian dollars]

	Total $	**2022[1] $**	**2023 / 2024 $**	**2025 / 2026 $**	**After 2026 $**
Commercial paper [2]	**605.0**	605.0	—	—	—
Debentures - principal repayment	**2,445.0**	—	250.0	200.0	1,995.0
Debentures - interest payments	**1,599.7**	26.0	147.9	144.3	1,281.5
Capital projects [3] and other	**26.8**	3.6	18.1	2.3	2.8
Leases	**0.2**	—	0.1	0.1	—
Total contractual obligations and other commitments	**4,676.7**	634.6	416.1	346.7	3,279.3

[1] Due over the period from October 1, 2022 to December 31, 2022.
[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

Changes to the Corporation's Board of Directors

Effective September 15, 2022, Annie Ropar resigned from the Board of Directors of the Corporation and as a member of the Audit and Human Resources and Environment Committees. Concurrently, Michael Eubanks was appointed to the Audit Committee and David McFadden was appointed to the Human Resources and Environment Committee.

On November 14, 2022, Deputy Mayor Denzil Minnan-Wong's term as a director of the Corporation ended with the expiry of his term as City Councillor

COVID-19 Pandemic Considerations

On March 11, 2020, the World Health Organization declared that the COVID-19 outbreak was a global pandemic. The COVID-19 pandemic has had, and as at the date of the Interim Financial Statements continues to have, a significant impact on the Corporation. Refer to "COVID-19 Pandemic Considerations" in the 2021 Annual MD&A for further information.

On November 15, 2021, the OEB's standard winter disconnection ban commenced and remained in effect until May 1, 2022. Concurrent with the effective end date of the OEB's standard winter disconnection ban, the Corporation ended its voluntary ban on disconnections, which had been in place since the beginning of the pandemic. The Corporation's disconnection practices remain subject to the applicable OEB rules.

On January 7, 2022, the Ontario Government announced further targeted relief measures setting both the TOU rates for on-peak, mid-peak, and off-peak and tiered rates at the TOU off-peak rate of 8.2 cents per kWh, 24 hours a day, seven days a week, effective January 18, 2022 until February 7, 2022. There was no net income impact to the Corporation.

City of Toronto Climate Objectives

At its meeting held on April 7 and 8, 2021, a resolution was passed by City Council that requested the City Manager and Toronto Hydro report back to City Council with respect to Toronto Hydro's ongoing work and an action plan with opportunities to achieve outcomes associated with climate action matters, including electric vehicle chargers, outdoor lighting, renewable energy, energy storage, and related grants, funding, and financing.

Toronto Hydro submitted its Climate Action Plan to the City Manager on September 30, 2021 concerning current work and an action plan setting out opportunities, in accordance with the City Council resolution.

At its meeting held on December 15, 16, and 17, 2021, a resolution was passed by City Council that requested the City Manager and Toronto Hydro report back to City Council with additional information related to the Climate Action Plan and its interplay with the City of Toronto TransformTO Net Zero Strategy approved at that same meeting.

At its meeting held on July 19, 20, 21 and 22, 2022, City Council received reports from the City Manager and Toronto Hydro in accordance with the December 2021 direction. City Council adopted the recommendations of those reports, as well as additional motions from city councillors. The resolutions include a request that Toronto Hydro establish a new climate advisory services business in keeping with the proposal set out in Toronto Hydro's Climate Action Plan and Toronto Hydro's Climate Action Plan Status Report filed with the City in June 2022. City Council directed that a memorandum of understanding between the City and Toronto Hydro with respect to climate advisory services implementation targets and coordination details return to City Council in the second quarter of 2023. The annual costs for the climate advisory services business are anticipated to be approximately $8.0 million in 2023, and are expected to vary year to year depending on the nature and scope of services provided. Other adopted City Council resolutions support in principle a city-wide LED conversion of streetlights and reinvestment in the enabling infrastructure, and request a report back in the second quarter of 2023 with implementation options and a recommendation from City Transportation Services. City Council requested additional information in future annual reports to the City with respect to the expansion of the electricity grid to help the City achieve its TransformTO Net Zero Strategy goals, and directed the City Manager to submit TransformTO targets to Toronto Hydro for Toronto Hydro to consider in its local capacity planning and rate application processes. City Council requested a report on potential future opportunities to proceed with the climate capital investments proposal set out in Toronto Hydro's Climate Action Plan.

Electricity Distribution Rates

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

On August 20, 2021, LDC filed the 2022 rate application seeking the OEB's approval to finalize distribution rates and other charges for the period commencing on January 1, 2022 and ending on December 31, 2022. On December 9, 2021, the OEB issued a decision and rate order approving LDC's 2022 rates and providing for other deferral and variance account dispositions.

On August 23, 2022, LDC filed the 2023 rate application seeking the OEB's approval to finalize distribution rates and other charges for the period commencing on January 1, 2023 and ending on December 31, 2023.

CDM Activities

The IESO is responsible for delivery of CDM programs; however, LDC remained responsible for its obligations under participant agreements with customers for many of the programs under its previous joint CDM plan with Oakville Hydro Electricity Distribution Inc. that were in effect before April 1, 2019. On June 10, 2021, the Government of Ontario issued ministerial directives to the IESO directing it to extend the deadline by which participants are to complete the projects from June 30, 2021 to December 31, 2021, and on December 9, 2021, the deadline was further extended to August 31, 2022. The directive also allows for the completion deadline to be further extended to December 31, 2022, if certain conditions are met. Amounts received from the IESO for the funding of the projects under the participant agreements, but not yet spent, are presented on the Corporation's consolidated balance sheets under current liabilities as deferred conservation credit.

Controls and Procedures

For purposes of certain Canadian securities regulations, the Corporation is a "Venture Issuer". As such, it is exempt from certain requirements of National Instrument 52-109 – *Certification of Disclosure in Issuers*' Annual and Interim Filings. The CEO and CFO have reviewed the Interim Financial Statements and the MD&A for the three and nine months ended September 30, 2022 and 2021. 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 conducts periodic reviews to assess changes to its risk profile. The following is a discussion of certain further risks that have been identified by the Corporation, in addition to those set forth in the 2021 Annual MD&A. This is not an exhaustive list and there can be no assurance that any steps the Corporation may take to manage risks will avoid any future loss resulting from the occurrence of risks.

Inflation Risk

The general rate of inflation in Canada and many other countries saw a significant increase during 2021 and continuing throughout the first nine months of 2022, with some regions experiencing multi-decade highs. Certain underlying factors include, but are not limited to, global supply chain disruptions, shipping restrictions, labor market constraints, geopolitical instability and side effects from monetary and fiscal expansions. The global economic recovery remains uncertain. Prices for certain services and materials continue to evolve in response to fast-changing commodity markets, industry activities, supply chain dynamics, and government policies impacting operating and capital costs. The global economic recovery and rising inflationary trends are widely expected to result in rising interest rates. In March 2022, the Bank of Canada began raising its benchmark interest rates for the first time since 2018 and further interest rate increases may continue to occur. The

Corporation closely monitors market trends and seeks to mitigate cost impacts through various measures, including project management, procurement and other management actions.

Critical Accounting Estimates

The preparation of the Corporation's Interim Financial Statements requires management to make judgments, estimates and assumptions which affect the application of accounting policies, reported assets, liabilities and regulatory balances, and the disclosure of contingent assets and liabilities at the date of the Interim Financial Statements, and the reported revenues and expenses for the period. The estimates are based on historical experience, current conditions and various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities as well as for identifying and assessing the accounting treatment with respect to commitments and contingencies. Actual results could differ from those estimates, including changes as a result of future decisions made by the OEB, the IESO, the Ontario Ministry of Energy, or the Ontario Ministry of Finance. The assessment of the duration and severity of the COVID-19 pandemic is subject to significant uncertainty; accordingly, judgments, estimates and assumptions related to the impact of the COVID-19 pandemic made by management in the preparation of the Corporation's Interim Financial Statements are also subject to significant uncertainty. The extent of the future impact of the COVID-19 pandemic on the Corporation's financial results and business operations is not known at this time. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively.

Changes in Accounting Standards

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

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

Effective January 1, 2022, the Corporation adopted these amendments, with no impact on the consolidated financial statements.

Future Accounting Pronouncements

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

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

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

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

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

Disclosure of Accounting Policies [Amendments to IAS 1]

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

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

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

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

Forward-Looking Information

Certain information included in this MD&A constitutes "forward-looking information" within the meaning of applicable securities legislation. The purpose of the forward-looking information is to provide the Corporation's current expectations regarding future results of operations, performance, business prospects and opportunities and may not be appropriate for other purposes. All information, other than statements of historical fact, which address activities, events or developments that we expect or anticipate may or will occur in the future, are forward-looking information. The words "anticipates", "believes", "can", "committed", "continue", "could", "estimates", "expects", "focus", "forecasts", "future", "further-notice", "impact", "intends", "may", "once", "plans", "propose", "projects", "seek", "should", "trend", "will", "would", "objective", "ongoing", "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"; tracking of lost revenues related to lower commercial electricity consumption and the late payment charge reductions resulting from the Corporation's decision to provide direct relief to customers impacted by COVID-19 in the section entitled "Results of Operations"; the consideration of forecasted economic factors in determining the impact of the COVID-19 pandemic on expected credit losses as set out in the section entitled "Results of Operations"; the effect of changes in weather conditions and energy consumption on future revenue as described in the section entitled "Summary of Quarterly Results of Operations"; the Corporation's plans to lower overall financing costs and enhance borrowing flexibility as described in the section entitled "Liquidity and Capital Resources"; the effect of overhead and underground infrastructure initiatives on LDC's ability to provide service to its customers, as described in the section entitled "Liquidity and Capital Resources"; the Corporation's available sources of liquidity and capital resources and the sufficiency thereof to satisfy working capital requirements for the next 12 months as described in the section entitled "Liquidity and Capital Resources"; the impact of inflation risk and uncertain macroeconomic factors, such as global supply chain disruptions, on the Corporation's business, as described in the section entitled "Corporate Developments"; the City's climate-related objectives, including TransformTO, and the Corporation's climate action plan and relevant City strategies and programs, including Toronto Hydro's climate change advisory services business and anticipated costs, as described in the section entitled "Corporate Developments"; and the Corporation's assessment of the impact on adoption of the amendments to IAS 1, IAS 8, IAS 12, and IAS 37, if any, as described in the sections entitled "Changes in Accounting Standards" and "Future Accounting Pronouncements".

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

The forward-looking information is subject to risks, uncertainties and other factors that could cause actual results to differ materially from historical results or results anticipated by the forward-looking information. Certain factors which could cause results or events to differ from current expectations include, but are not limited to, risks associated with the execution of LDC's capital and maintenance programs necessary to maintain the performance of aging distribution assets and make required infrastructure improvements, including to deliver a modernized grid and meet electrification requirements to achieve government net zero greenhouse gas emissions targets; risks associated with capital projects; risks associated with electricity industry regulatory developments and other governmental policy changes including factors relating to LDC's distribution activities and to climate change; risks associated with increased competition from regulated and unregulated entities; risks associated with the timing and results of regulatory decisions regarding LDC's revenue requirements, cost recovery and rates; risks associated with information system security and with maintaining complex information technology systems; risks associated with maintaining the security of Toronto Hydro's information assets, including but not limited to the collection, use and disclosure of personal information; risks associated with the failure of critical IT systems; risk of external threats to LDC's facilities and operations posed by unexpected weather conditions caused by climate change and other factors; risks associated with changing weather patterns due to climate change and resultant impacts to electricity consumption based on historic seasonal trends, terrorism and pandemics, including but not limited to COVID-19, and LDC's limited insurance coverage for losses resulting from these events; risks related to COVID-19, including but not limited to restrictive measures affecting the mobility and availability of human and non-human resources, operational disruptions and the availability of financing; risk to Toronto Hydro's employees or the general public of serious/fatal injuries and illnesses relating to or impacting upon Toronto Hydro's activities; risks of municipal government activity, including the risk that the City could introduce rules, policies or directives, including those relating to net zero greenhouse gas emissions targets, that can potentially limit Toronto Hydro's ability to meet its business objectives as laid out in the Shareholder Direction principles; risks related to LDC's work force demographic, the available labour markets and the changing expectations of potential employees, and Toronto Hydro's potential inability to attract, train and retain skilled employees; risks of being unable to retain necessary qualified external contracting forces relating to its capital, maintenance and reactive infrastructure program; risks associated with possible labour disputes and LDC's ability to negotiate appropriate collective agreements; risk that Toronto Hydro may fail to monitor the external environment and or develop and pursue strategies through appropriate business models, thus failing to gain a strategic advantage; risk that Toronto Hydro is not able to arrange sufficient and cost-effective debt financing to repay maturing debt and to fund capital expenditures and other obligations; risk that the Corporation is unable to maintain its financial health and performance at acceptable levels; risk that insufficient debt or equity financing will be available to meet the Corporation's requirements, objectives, or strategic opportunities; risk of downgrades to the Corporation's credit rating; risks related to the timing and extent of changes in prevailing interest rates and discount rates and their effect on future revenue requirements and future post-employment benefit obligations; risks arising from inflation, the course of the economy and other general macroeconomic factors; risk associated with the impairment to the Corporation's image in the community, public confidence or brand; risk associated with the Corporation failing to meet its material compliance obligations under legal and regulatory instruments; risk of substantial and currently undetermined or underestimated environmental costs and liabilities; risk that assumptions that form the basis of LDC's recorded environmental liabilities and related regulatory balances may change; risk that the presence or release of hazardous or harmful substances could lead to claims by third parties and/or governmental orders and other factors which are discussed in more detail under the section entitled "Risk Management and Risk Factors" in the 2021 Annual MD&A. Please review the section "Risk Management and Risk Factors" in the 2021 Annual MD&A in detail. These risks are, in part, based upon the scope of the COVID-19 pandemic as currently understood, including in respect of its duration, as well as the severity of the impacts of government and business mitigation measures on the Corporation, all of which are subject to significant uncertainty. All of the forward-looking information included in this MD&A is qualified by the cautionary statements in this "Forward-Looking Information" section and the "Risk Management and Risk Factors" section in the 2021 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 expressly 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

November 16, 2022

UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2022 AND 2021

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

CONDENSED INTERIM CONSOLIDATED BALANCE SHEETS

[in millions of Canadian dollars, unaudited]

	Note	As at September 30, 2022 $	As at December 31, 2021 $
ASSETS			
Current			
Accounts receivable and unbilled revenue	*10[b]*	**583.7**	459.0
Income tax receivable		**0.5**	2.4
Materials and supplies		**10.7**	9.9
Other assets		**18.5**	19.0
Total current assets		**613.4**	490.3
Property, plant and equipment	*4*	**5,615.9**	5,377.2
Intangible assets	*5*	**378.4**	358.0
Other assets		**8.7**	6.9
Total assets		**6,616.4**	6,232.4
Regulatory balances	*6*	**226.3**	181.4
Total assets and regulatory balances		**6,842.7**	6,413.8
LIABILITIES AND EQUITY			
Current			
Working capital facility	*7*	**6.4**	8.8
Commercial paper	*7*	**605.0**	275.0
Accounts payable and accrued liabilities		**437.9**	425.3
Customer deposits		**64.1**	62.3
Deferred revenue	*8*	**30.8**	25.1
Deferred conservation credit	*3[c]*	**12.4**	11.7
Debentures	*9*	**249.9**	—
Total current liabilities		**1,406.5**	808.2
Debentures	*9*	**2,181.4**	2,430.7
Customer deposits		**14.3**	10.1
Deferred revenue	*8*	**689.1**	643.1
Post-employment benefits		**216.3**	306.6
Deferred tax liabilities		**91.2**	63.8
Other liabilities		**6.2**	17.4
Total liabilities		**4,605.0**	4,279.9
Equity			
Share capital	*11*	**817.8**	817.8
Retained earnings		**1,249.3**	1,164.9
Total equity		**2,067.1**	1,982.7
Total liabilities and equity		**6,672.1**	6,262.6
Regulatory balances	*6*	**170.6**	151.2
Total liabilities, equity and regulatory balances		**6,842.7**	6,413.8

Subsequent events *2, 9, and 11*

See accompanying notes to the condensed interim consolidated financial statements.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF INCOME

[in millions of Canadian dollars, unaudited]

		Three months ended September 30,		Nine months ended September 30,	
		2022	2021	**2022**	2021
	Note	**$**	$	**$**	$
Revenues					
Energy sales	*12*	**815.3**	756.9	**2,136.1**	2,077.4
Distribution revenue	*12*	**194.8**	201.4	**568.8**	572.5
Other	*12*	**26.2**	25.2	**77.7**	73.2
		1,036.3	983.5	**2,782.6**	2,723.1
Expenses					
Energy purchases		**789.7**	760.6	**2,203.6**	2,121.9
Operating expenses		**73.3**	76.7	**230.6**	230.4
Depreciation and amortization	*4, 5*	**76.5**	73.8	**222.7**	213.5
		939.5	911.1	**2,656.9**	2,565.8
Finance costs		**(22.8)**	(19.9)	**(62.2)**	(58.8)
Gain on disposals of property, plant and equipment		**—**	0.5	**—**	2.3
Income before income taxes		**74.0**	53.0	**63.5**	100.8
Income tax (expense) recovery	*13*	**9.4**	(8.7)	**(9.1)**	(31.0)
Net income		**83.4**	44.3	**54.4**	69.8
Net movements in regulatory balances	*6*	**(17.0)**	(1.9)	**88.4**	30.8
Net movements in regulatory balances arising from deferred taxes	*6*	**(11.4)**	5.4	**5.1**	20.9
Net income after net movements in regulatory balances		**55.0**	47.8	**147.9**	121.5

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

[in millions of Canadian dollars, unaudited]

		Three months ended September 30,		Nine months ended September 30,	
		2022	2021	**2022**	2021
	Note	**$**	$	**$**	$
Net income after net movements in regulatory balances		**55.0**	47.8	**147.9**	121.5
Other comprehensive income					
Items that will not be reclassified to income or loss					
Remeasurements of post-employment benefits, net of tax [2022 - $1.2, ($24.5), 2021 - ($3.4), ($10.0)]		**(3.3)**	9.2	**68.0**	27.6
Net movements in regulatory balances related to OCI, net of tax [2022 - $1.2, ($24.5), 2021 - ($3.4), ($10.0)]	*6*	**3.3**	(9.2)	**(68.0)**	(27.6)
Other comprehensive income, net of tax		**—**	—	**—**	—
Total comprehensive income		**55.0**	47.8	**147.9**	121.5

See accompanying notes to the condensed interim consolidated financial statements.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

[in millions of Canadian dollars, unaudited]

		Three months ended September 30,		Nine months ended September 30,	
		2022	2021	**2022**	2021
	Note	**$**	$	**$**	$
Share capital		**817.8**	817.8	**817.8**	817.8
Retained earnings, beginning of period		**1,215.5**	1,132.8	**1,164.9**	1,094.2
Net income after net movements in regulatory balances		**55.0**	47.8	**147.9**	121.5
Dividends	*11*	**(21.2)**	(17.6)	**(63.5)**	(52.7)
Retained earnings, end of period		**1,249.3**	1,163.0	**1,249.3**	1,163.0
Total equity		**2,067.1**	1,980.8	**2,067.1**	1,980.8

See accompanying notes to the condensed interim consolidated financial statements.

TORONTO HYDRO Corporation

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

[in millions of Canadian dollars, unaudited]

		Three months ended September 30,		Nine months ended September 30,	
		2022	2021	**2022**	2021
	Note	**$**	$	**$**	$
OPERATING ACTIVITIES					
Net income after net movements in regulatory balances		**55.0**	47.8	**147.9**	121.5
Net movements in regulatory balances	*6*	**17.0**	1.9	**(88.4)**	(30.8)
Net movements in regulatory balances arising from deferred taxes	*6*	**11.4**	(5.4)	**(5.1)**	(20.9)
Adjustments					
Depreciation and amortization	*4, 5*	**76.5**	73.8	**222.7**	213.5
Amortization of deferred revenue	*8*	**(4.6)**	(3.1)	**(13.1)**	(8.6)
Finance costs		**22.8**	19.9	**62.2**	58.8
Income tax expense (recovery)		**(9.4)**	8.7	**9.1**	31.0
Post-employment benefits		**0.5**	0.6	**2.2**	1.6
Gain on disposals of property, plant and equipment		**—**	(0.5)	**—**	(2.3)
Other		**0.1**	0.3	**0.3**	0.8
Capital contributions received	*8*	**15.7**	19.6	**56.3**	60.7
Net change in other non-current assets and liabilities		**(4.8)**	(0.4)	**(15.3)**	0.7
Increase in customer deposits		**3.0**	3.8	**6.0**	7.3
Changes in non-cash operating working capital balances	*14*	**(127.8)**	(53.9)	**(110.3)**	(76.0)
Income tax paid		**(0.7)**	—	**(1.7)**	—
Net cash provided by operating activities		**54.7**	113.1	**272.8**	357.3
INVESTING ACTIVITIES					
Purchase of property, plant and equipment	*14*	**(143.9)**	(125.6)	**(430.3)**	(402.9)
Purchase of intangible assets	*14*	**(10.9)**	(9.8)	**(46.2)**	(26.6)
Proceeds on disposals of property, plant and equipment		**—**	0.6	**0.1**	2.4
Net cash used in investing activities		**(154.8)**	(134.8)	**(476.4)**	(427.1)
FINANCING ACTIVITIES					
Increase in commercial paper, net of repayments	*7*	**130.0**	50.0	**330.0**	185.0
Dividends paid	*11*	**(21.2)**	(17.6)	**(63.5)**	(52.7)
Interest paid		**(18.0)**	(14.2)	**(60.5)**	(55.2)
Net cash provided by financing activities		**90.8**	18.2	**206.0**	77.1
Net change in cash and cash equivalents during the period		**(9.3)**	(3.5)	**2.4**	7.3
Cash and cash equivalents (working capital facility), beginning of period		**2.9**	4.6	**(8.8)**	(6.2)
Cash and cash equivalents (working capital facility), end of period		**(6.4)**	1.1	**(6.4)**	1.1

See accompanying notes to the condensed interim consolidated financial statements.

1. NATURE OF BUSINESS

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

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

2. BASIS OF PRESENTATION

The Corporation's unaudited condensed interim consolidated financial statements as at and for the three and nine months ended September 30, 2022 and 2021 ["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 nine months since the year-end of December 31, 2021. The disclosures in these Interim Financial Statements do not conform in all respects to the IFRS requirements for annual consolidated financial statements. These Interim Financial Statements have been prepared following the same accounting policies and methods of computation as those described in note 25 to the Corporation's audited consolidated financial statements for the year ended December 31, 2021 ["2021 Annual Financial Statements"]. Accordingly, they should be read in conjunction with the Corporation's 2021 Annual Financial Statements.

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

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

The Corporation has evaluated the events and transactions occurring after the condensed interim consolidated balance sheet date through to November 16, 2022 when the Corporation's Interim Financial Statements were authorized for issuance by the Corporation's Board of Directors, and has identified the events and transactions which required recognition in the Interim Financial Statements and/or disclosure in the notes to the Interim Financial Statements *[notes 9 and 11]*.

3. REGULATION

a) COVID-19 Pandemic Considerations

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

On November 15, 2021, the OEB's standard winter disconnection ban commenced and remained in effect until May 1, 2022. Concurrent with the effective end date of the OEB's standard winter disconnection ban, the Corporation ended its voluntary ban on disconnections, which had been in place since the beginning of the pandemic. The Corporation's disconnection practices remain subject to the applicable OEB rules.

On January 7, 2022, the Ontario Government announced further targeted relief measures setting both the TOU rates for on-peak, mid-peak, and off-peak and tiered rates at the TOU off-peak rate of 8.2 cents per kWh, 24 hours a day, seven days a week, effective January 18, 2022 until February 7, 2022. There was no net income impact to the Corporation.

b) Electricity Distribution Rates

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

On August 20, 2021, LDC filed the 2022 rate application seeking the OEB's approval to finalize distribution rates and other charges for the period commencing on January 1, 2022 and ending on December 31, 2022. On December 9, 2021, the OEB issued a decision and rate order approving LDC's 2022 rates and providing for other deferral and variance account dispositions.

On August 23, 2022, LDC filed the 2023 rate application seeking the OEB's approval to finalize distribution rates and other charges for the period commencing on January 1, 2023 and ending on December 31, 2023.

c) CDM Activities

The IESO is responsible for delivery of CDM programs; however, LDC remained responsible for its obligations under participant agreements with customers for many of the programs under its previous joint CDM plan with Oakville Hydro Electricity Distribution Inc. that were in effect before April 1, 2019. On June 10, 2021, the Government of Ontario issued ministerial directives to the IESO directing it to extend the deadline by which participants are to complete the projects from June 30, 2021 to December 31, 2021, and on December 9, 2021, the deadline was further extended to August 31, 2022. The directive also allows for the completion deadline to be further extended to December 31, 2022, if certain conditions are met. Amounts received from the IESO for the funding of the projects under the participant agreements, but not yet spent, are presented on the Corporation's consolidated balance sheets under current liabilities as deferred conservation credit.

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

4. PROPERTY, PLANT AND EQUIPMENT

PP&E consist of the following:

	Distribution assets $	Land and buildings $	Equipment and other $	Construction in progress $	Total $
Cost					
Balance as at December 31, 2021	5,406.2	462.9	434.5	502.2	6,805.8
Additions	—	—	—	**431.4**	**431.4**
Transfers into service	**246.4**	**16.2**	**18.8**	**(281.4)**	—
Disposals and retirements	**(14.4)**	—	**(0.5)**	—	**(14.9)**
Balance as at September 30, 2022	**5,638.2**	**479.1**	**452.8**	**652.2**	**7,222.3**
Accumulated depreciation					
Balance as at December 31, 2021	1,104.3	97.2	227.1	—	1,428.6
Depreciation	**144.9**	**12.6**	**25.2**	—	**182.7**
Disposals and retirements	**(4.5)**	—	**(0.4)**	—	**(4.9)**
Balance as at September 30, 2022	**1,244.7**	**109.8**	**251.9**	—	**1,606.4**
Carrying amount					
Balance as at December 31, 2021	4,301.9	365.7	207.4	502.2	5,377.2
Balance as at September 30, 2022	**4,393.5**	**369.3**	**200.9**	**652.2**	**5,615.9**

[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, 2021	290.2	194.9	27.4	60.4	572.9
Additions	—	—	**29.3**	**22.3**	**51.6**
Transfers into service	**18.6**	**68.3**	**(18.6)**	**(68.3)**	—
Balance as at September 30, 2022	**308.8**	**263.2**	**38.1**	**14.4**	**624.5**
Accumulated amortization					
Balance as at December 31, 2021	182.6	32.3	—	—	214.9
Amortization	**24.0**	**7.2**	—	—	**31.2**
Balance as at September 30, 2022	**206.6**	**39.5**	—	—	**246.1**
Carrying amount					
Balance as at December 31, 2021	107.6	162.6	27.4	60.4	358.0
Balance as at September 30, 2022	**102.2**	**223.7**	**38.1**	**14.4**	**378.4**

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

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

6. REGULATORY BALANCES

Debit balances consist of the following:

	As at January 1, 2022 $	Balances arising in the period $	Recovery/ reversal $	Other movements $	As at September 30, 2022 $	Remaining recovery/ reversal period (months)	Carrying charges applicable
Settlement variances	**58.5**	**68.5**	**(1.5)**	**(0.2)**	**125.3**	(2)	(3)
Deferred taxes	**63.9**	**29.6**	—	—	**93.5**	(2)	—
OPEB net actuarial loss (1)	**48.1**	—	—	**(48.1)**	—	(2)	—
LRAM	**4.2**	—	**(2.3)**	—	**1.9**	(2)	(3)
Other	**6.7**	**1.8**	**(2.9)**	—	**5.6**	3	(3)
	181.4	**99.9**	**(6.7)**	**(48.3)**	**226.3**		

Credit balances consist of the following:

	As at January 1, 2022 $	Balances arising in the period $	Recovery/ reversal $	Other movements $	As at September 30, 2022 $	Remaining recovery/ reversal period (months)	Carrying charges applicable
Capital-related revenue requirement	**78.3**	**0.7**	—	—	**79.0**	(2)	(3)
OPEB net actuarial gain (1)	—	**92.5**	—	**(48.1)**	**44.4**	(2)	—
Development charges	**15.2**	**0.8**	**(2.0)**	**(0.1)**	**13.9**	(2)	(3)
Tax-related variances	**11.2**	**1.0**	—	—	**12.2**	(2)	(3)
Derecognition	**33.4**	**0.2**	**(23.1)**	—	**10.5**	(2)	(3)
Gain on disposal	**4.7**	—	**(2.5)**	—	**2.2**	(2)	(3)
Accounts receivable credits	**2.8**	—	**(0.7)**	**(0.1)**	**2.0**	27	(3)
Other	**5.6**	**1.2**	**(0.4)**	—	**6.4**	27	(3)
	151.2	**96.4**	**(28.7)**	**(48.3)**	**170.6**		

(1) Actuarial gain of $92.5 million was recognized as a result of the remeasurement of post-employment benefits to reflect the increase in discount rate [September 30, 2022 – 5.0%; December 31, 2021 – 3.0%]. As a result of the increase in actuarial gains, the balance changed from a debit balance as at January 1, 2022 to a credit balance as at September 30, 2022, with the reclassification of $48.1 million shown in "Other movements".

(2) There were no significant changes to the disposition period for the nine months ended September 30, 2022. Refer to note 8 to the Corporation's 2021 Annual Financial Statements.

(3) Carrying charges were added to the regulatory balances in accordance with the OEB's direction, at a rate of 0.57% for January 1, 2022 to March 31, 2022, 1.02% for April 1, 2022 to June 30, 2022 and 2.20% for July 1, 2022 to September 30, 2022 [January 1, 2021 to December 31, 2021 – 0.57%].

The "Balances arising in the period" column consists of new additions to regulatory balances [for both debits and credits]. The "Recovery/reversal" column consists of amounts disposed through OEB-approved rate riders. The "Other movements" column consists of impairment and reclassification between the regulatory debit and credit balances. In addition, the "Other movements" column includes reclassification of regulatory deferral accounts considered to be insignificant into the "Other" categories.

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

7. SHORT-TERM BORROWINGS

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

	Revolving Credit Facility Limit $	Revolving Credit Facility Borrowings $	Commercial Paper Outstanding $	Revolving Credit Facility Availability $
Balance as at September 30, 2022	**800.0**	**—**	**605.0**	**195.0**
Balance as at December 31, 2021	800.0	—	275.0	525.0

As at September 30, 2022, $6.4 million had been drawn under the Working Capital Facility [December 31, 2021 - $8.8 million] and $57.6 million of letters of credit had been issued against the Prudential Facility [December 31, 2021 - $59.2 million].

8. DEFERRED REVENUE

Deferred revenue consists of the following:

	As at and nine months ended September 30, 2022 $	As at and year ended December 31, 2021 $
Capital contributions, beginning of period	**664.1**	553.7
Capital contributions received [(1)]	**61.6**	123.1
Amortization	**(13.1)**	(12.3)
Other	**(0.2)**	(0.4)
Capital contributions, end of period	**712.4**	664.1
Other deferred revenue	**7.5**	4.1
Total deferred revenue	**719.9**	668.2
Less: Current portion of deferred revenue relating to:		
Capital contributions	**23.3**	21.0
Other deferred revenue	**7.5**	4.1
Current portion of deferred revenue	**30.8**	25.1
Non-current portion of deferred revenue	**689.1**	643.1

[(1)] Includes non-cash contributions of $5.3 million [year ended December 31, 2021 – $21.9 million].

9. DEBENTURES

On October 13, 2022, the Corporation issued $300.0 million of 4.95% senior unsecured debentures due on October 13, 2052 at a price of $999.22 per $1,000 principal amount [“Series 19”]. The Series 19 debentures bear interest payable semi-annually in arrears. Debt issuance costs of $2.1 million relating to the Series 19 debentures will be recorded against the carrying amount of the debentures in the fourth quarter of 2022 and will be amortized to finance costs using the effective interest method.

10. FINANCIAL INSTRUMENTS

a) Fair value

As at September 30, 2022 and December 31, 2021, the fair values of accounts receivable and unbilled revenue, working capital facility, commercial paper, and accounts payable and accrued liabilities approximated their carrying amounts due to the short maturity of these instruments. The fair value of customer deposits approximates their carrying amount taking into account interest accrued on the outstanding balance. Obligations under leases are measured based on a discounted cash flow analysis and fair values approximate the carrying amounts as management believes that the fixed interest rates are representative of current market rates.

The fair value of the debentures is based on the present value of contractual cash flows, discounted at the Corporation’s current borrowing rate for similar debt instruments, and is included in Level 2 of the fair value hierarchy. As at September 30, 2022, the total fair value of the Corporation’s debentures was determined to be approximately $2,127.7 million [December 31, 2021 – $2,684.5 million], with a total carrying amount of $2,431.3 million [December 31, 2021 – $2,430.7 million].

b) Financial risks

The following is a discussion of certain financial risks and related mitigation strategies that have been identified by the Corporation for financial instruments. This is not an exhaustive list of all risks, nor will the mitigation strategies eliminate all risks listed.

Credit risk

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

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

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

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

	As at September 30, 2022 $	As at December 31, 2021 $
Accounts receivable, gross		
Outstanding for not more than 30 days	**297.6**	190.1
Outstanding for more than 30 days and not more than 120 days	**27.0**	23.8
Outstanding for more than 120 days	**41.4**	37.7
Total accounts receivable, gross	**366.0**	251.6
Unbilled revenue, gross	**247.9**	240.9
Credit loss allowance	**(30.2)**	(33.5)
Total accounts receivable and unbilled revenue	**583.7**	459.0

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

	As at and nine months ended September 30, 2022 $	As at and year ended December 31, 2021 $
Balance, beginning of period	**(33.5)**	(30.5)
Additional credit loss allowance	**(0.6)**	(7.1)
Write-offs	**4.1**	4.3
Recoveries of previously written-off balances	**(0.2)**	(0.2)
Balance, end of period	**(30.2)**	(33.5)

Liquidity risk

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

Inflation risk

The general rate of inflation in Canada and many other countries saw a significant increase during 2021 and continuing throughout the first nine months of 2022, with some regions experiencing multi-decade highs. Certain underlying factors include, but are not limited to, global supply chain disruptions, shipping restrictions, labor market constraints, geopolitical instability and side effects from monetary and fiscal expansions. The global economic recovery remains uncertain. Prices for certain services and materials continue to evolve in response to fast-changing commodity markets, industry activities, supply chain dynamics, and government policies impacting operating and capital costs. The global economic recovery and rising inflationary trends are widely expected to result in rising interest rates. In March 2022, the Bank of Canada began raising its benchmark interest rates for the first time since 2018 and further interest rate increases may continue to occur. The Corporation closely monitors market trends and seeks to mitigate cost impacts through various measures, including project management, procurement and other management actions.

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

11. SHARE CAPITAL

On March 2, 2022, the Board of Directors of the Corporation declared a dividend in the amount of $21.2 million with respect to the first quarter of 2022 [first quarter of 2021 – $17.6 million], paid to the City on March 31, 2022.

On May 16, 2022, the Board of Directors of the Corporation declared a dividend in the amount of $21.1 million with respect to the second quarter of 2022 [second quarter of 2021 – $17.5 million], paid to the City on June 30, 2022.

On August 24, 2022, the Board of Directors of the Corporation declared a dividend in the amount of $21.2 million with respect to the third quarter of 2022 [third quarter of 2021 – $17.6 million], paid to the City on September 29, 2022.

On November 16, 2022, the Board of Directors of the Corporation declared a dividend in the amount of $21.1 million with respect to the fourth quarter of 2022 [fourth quarter of 2021 – $17.6 million], payable to the City by December 30, 2022.

12. REVENUES

Revenues consist of the following:

	Three months ended September 30,		Nine months ended September 30,	
	2022 $	2021 $	2022 $	2021 $
Revenue from contracts with customers				
Energy sales	**815.3**	756.9	**2,136.1**	2,077.4
Distribution revenue	**194.8**	201.4	**568.8**	572.5
Ancillary services revenue	**3.9**	3.9	**14.5**	10.2
Street lighting services	**4.8**	4.9	**14.4**	14.1
Pole and duct rentals	**4.5**	4.9	**13.4**	14.0
Other regulatory service charges	**2.9**	2.0	**6.6**	5.8
Capital contributions - energy storage systems	**0.4**	—	**1.0**	—
Miscellaneous	**1.2**	4.7	**6.8**	14.4
Revenue from other sources				
Capital contributions - developers and other	**4.2**	3.1	**12.1**	8.6
Other	**4.3**	1.7	**8.9**	6.1
	1,036.3	983.5	**2,782.6**	2,723.1

13. INCOME TAXES

The Corporation's effective tax rate after net movements in regulatory balances for the three and nine months ended September 30, 2022 was 3.5% and 2.6% [three and nine months ended September 30, 2021 – 6.5% and 7.7%]. The effective tax rate for the three months ended September 30, 2022 was 3.0% lower than the three months ended September 30, 2021 primarily due to higher net deductions in permanent and temporary differences between accounting and tax treatments.

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

The effective tax rate for the nine months ended September 30, 2022 was 5.1% lower than the nine months ended September 30, 2021 primarily due to higher net deductions in permanent and temporary differences between accounting and tax treatments and lower tax recognized on property dispositions.

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

	Three months ended September 30,		Nine months ended September 30,	
	2022 $	2021 $	2022 $	2021 $
Income tax (expense) recovery	**9.4**	(8.7)	**(9.1)**	(31.0)
Income tax recorded in net movements in regulatory balances	**(11.4)**	5.4	**5.1**	20.9
Income tax expense and income tax recorded in net movements in regulatory balances	**(2.0)**	(3.3)	**(4.0)**	(10.1)
Income tax (expense) recovery in OCI	**1.2**	(3.4)	**(24.5)**	(10.0)
Income tax (expense) recovery in OCI recorded in net movements in regulatory balances	**(1.2)**	3.4	**24.5**	10.0
Income tax in OCI	**—**	—	**—**	—

14. CONSOLIDATED STATEMENTS OF CASH FLOWS

Changes in non-cash operating working capital provided [used] cash as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2022 $	2021 $	2022 $	2021 $
Accounts receivable and unbilled revenue	**(97.4)**	(20.3)	**(124.7)**	(55.1)
Income tax receivable	**1.8**	3.5	**1.9**	7.6
Materials and supplies	**(0.3)**	(0.1)	**(0.8)**	(0.5)
Other current assets	**1.7**	0.5	**0.5**	(3.9)
Accounts payable and accrued liabilities	**(27.1)**	(30.3)	**6.4**	(21.1)
Deferred revenue	**(2.6)**	(2.2)	**5.7**	6.1
Deferred conservation credit	**(3.9)**	(5.0)	**0.7**	(9.1)
	(127.8)	(53.9)	**(110.3)**	(76.0)

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

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

	Three months ended September 30,		Nine months ended September 30,	
	2022 $	2021 $	2022 $	2021 $
Purchase of PP&E, cash basis	**143.9**	125.6	**430.3**	402.9
Net change in accounts payable and accruals related to PP&E	**9.5**	13.8	**(5.1)**	21.9
Non-cash contributed assets	**1.9**	—	**5.3**	7.3
Other	**0.3**	0.2	**0.9**	0.9
Total additions to PP&E	**155.6**	139.6	**431.4**	433.0
Purchase of intangible assets, cash basis	**10.9**	9.8	**46.2**	26.6
Net change in accounts payable and accruals related to intangible assets	**4.0**	3.2	**5.4**	2.9
Total additions to intangible assets	**14.9**	13.0	**51.6**	29.5

15. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Use of judgments and estimates

The preparation of the Corporation's Interim Financial Statements requires management to make judgments, estimates and assumptions which affect the application of accounting policies, reported assets, liabilities and regulatory balances, and the disclosure of contingent assets and liabilities at the date of the Interim Financial Statements, and the reported revenues and expenses for the period. The estimates are based on historical experience, current conditions and various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities as well as for identifying and assessing the accounting treatment with respect to commitments and contingencies. Actual results could differ from those estimates, including changes as a result of future decisions made by the OEB, the IESO, the Ontario Ministry of Energy, or the Ontario Ministry of Finance. The assessment of the duration and severity of the COVID-19 pandemic is subject to significant uncertainty; accordingly, judgments, estimates and assumptions related to the impact of the COVID-19 pandemic made by management in the preparation of the Corporation's Interim Financial Statements are also subject to significant uncertainty. The extent of the future impact of the COVID-19 pandemic on the Corporation's financial results and business operations is not known at this time. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively.

b) Changes in accounting standards

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

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

Effective January 1, 2022, the Corporation adopted these amendments, with no impact on the consolidated financial statements.

c) *Future accounting pronouncements*

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

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

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

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

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

Disclosure of Accounting Policies [Amendments to IAS 1]

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

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

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

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