TORONTO HYDRO Corporation

THIRD QUARTER REPORT
SEPTEMBER 30, 2014

TORONTO HYDRO CORPORATION

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GLOSSARY

AFUDC – Allowance for funds used during construction

CDM – Conservation and demand management

City – City of Toronto

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

Corporation – Toronto Hydro Corporation

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

ERM – Enterprise risk management

FASB – Financial Accounting Standards Board

GWh – Gigawatt hour

IAS – International Accounting Standard

IASB – International Accounting Standards Board

ICM – Incremental Capital Module

Ice Storm – Refers to an extreme winter storm involving freezing rain, ice pellets and snow that impacted Toronto in December 2013.

IESO – Independent Electricity System Operator

IFRIC – International Financial Reporting Interpretations Committee

IFRS – International Financial Reporting Standards

IRM – Incentive Regulation Mechanism

KPIs – Key performance indicators

kW – Kilowatt

kWh – Kilowatt hour

LDC – Toronto Hydro-Electric System Limited

MD&A – Management's Discussion and Analysis

MED – Major event days as defined by the Institute of Electrical & Electronic Engineers Inc. specification 1366.

OCI – Other comprehensive income

OEB – Ontario Energy Board

OMERS – Ontario Municipal Employees Retirement System

OSC – Ontario Securities Commission

PILs – Payments in lieu of corporate taxes

PP&E – Property, plant and equipment

RARA – Regulatory assets recovery account

RDA – Regulatory deferral account

RRA – Rate-regulated accounting

TH Energy – Toronto Hydro Energy Services Inc.

US GAAP – United States Generally Accepted Accounting Principles

WMS – Wholesale Market Service

MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE
INTERIM PERIOD ENDED
SEPTEMBER 30, 2014

Executive Summary

- Net income for the three months and nine months ended September 30, 2014 was $35.1 million and $88.8 million, compared to net income of $35.8 million and $91.9 million for the comparable periods in 2013;
- capital expenditures were primarily related to the renewal of the electricity infrastructure of LDC and were $178.1 million and $420.4 million for the three months and nine months ended September 30, 2014, compared to $110.1 million and $298.5 million for the comparable periods in 2013;
- on January 16, 2014, the OEB approved LDC's requested disposition of the smart meter deferral account balances, permitting the recovery of $23.9 million and $9.6 million through two separate rate riders effective May 1, 2014;
- during the second quarter of 2014, the gas-insulated transformers and the high and medium voltage switchgear were manufactured and delivered for Copeland Station. During the third quarter of 2014, the tunnel boring machine completed the tunnelling required to connect the new infrastructure to the grid;
- on June 13, 2014, the borrowing capacity under the Revolving Credit Facility was increased from $600.0 million to $700.0 million, and the amount the Corporation may issue under its Commercial Paper Program was increased from $400.0 million to $500.0 million; on July 31, 2014, LDC filed a rate application with the OEB under the custom incentive rate-setting mechanism, seeking approval of separate and successive revenue requirements and corresponding electricity distribution rates for the five rate years commencing on May 1, 2015; and
- on September 16, 2014, the Corporation issued $200.0 million of 4.08% senior unsecured debentures due September 16, 2044.

Introduction

The following MD&A should be read in conjunction with:

- the Corporation's unaudited interim consolidated financial statements and accompanying notes as at and for the three months and nine months ended September 30, 2014 (the "Interim Consolidated Financial Statements");

- the Corporation's audited consolidated financial statements and accompanying notes as at and for the years ended December 31, 2013 and 2012; and

- the Corporation's MD&A for the year ended December 31, 2013 (including the sections entitled "Electricity Distribution – Industry Overview", "Corporate Developments", "Transactions with Related Parties", "Risk Management and Risk Factors", and "Critical Accounting Estimates", which remain substantially unchanged as at the date hereof, except as noted below or as updated by the Interim Consolidated Financial Statements).

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

The Corporation's above noted consolidated financial statements have been prepared in accordance with US GAAP and are presented in Canadian dollars (see "Significant Accounting Policies" below). The OSC granted an exemption to allow the Corporation to file financial statements under US GAAP for the years commencing on or after January 1, 2012 but before January 1, 2015 (See "Future Accounting Pronouncements and IFRS Conversion Project" below).

Business of Toronto Hydro Corporation

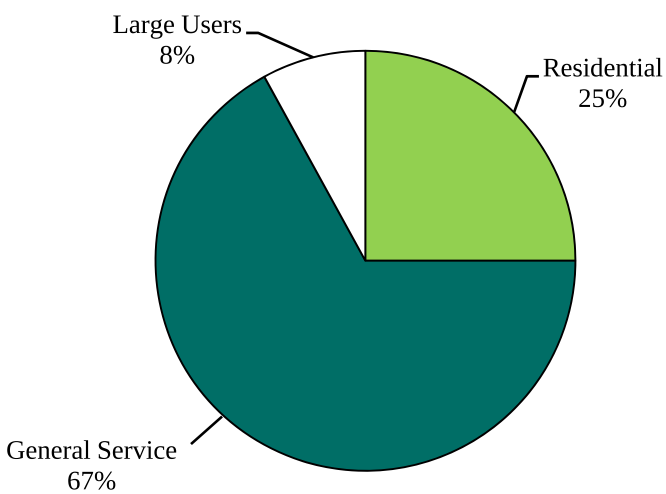
The Corporation is a holding company which wholly owns two subsidiaries:

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

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 736,000 customers located in the City. The City is the sole shareholder of the Corporation. LDC is the largest municipal electricity distribution company 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 LDC and other electricity distributors in Ontario. For the nine months ended September 30, 2014, LDC earned energy sales and distribution revenues of $2,417.5 million. As illustrated in the accompanying chart, 67% of the energy sales and distribution revenues were earned from general service users[1], 25% from residential service users[2], and 8% from large users[3].

LDC Energy Sales and Distribution Revenues by Class %

Nine months ended September 30, 2014



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

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

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

Corporate Strategy

The Corporation's vision is to "continuously maximize customer and stakeholders' satisfaction by being safe, reliable and environmentally responsible at optimal costs". The Corporation has an ERM framework that helps determine whether the Corporation is well positioned to achieve its strategic objectives. The ERM framework provides a consistent, disciplined methodology for controlling risk by identifying, assessing, managing, monitoring and reporting risks for the Corporation.

The Corporation is focused on the following four strategic pillars:

People – the Corporation aims to maintain an engaged, healthy, productive, and safe workforce to meet changing business requirements, as it strives to:

- Provide a healthy and safe workplace
- Develop a skilled and knowledgeable workforce
- Keep its workforce engaged

The Corporation will continue to strengthen its already strong safety culture through various internal initiatives in order to achieve world-class results. The Corporation is committed to employee safety and will remain persistent in its efforts to mitigate the risk of injury to its workforce. This will be accomplished through ongoing safety inspections, audits, annual policy review and the continuation of the safety programs and standards. The Corporation will continue to use the internal responsibility system to reinforce the importance of safety in the workplace.

Financial **–** the Corporation aims to meet the financial objectives of its shareholder, as it strives to:

- Provide a fair return to the shareholder
- Continue to increase shareholder value

The Corporation has provided its shareholder with an annual increase in economic value over the last decade. To meet financial objectives of the shareholder, the Corporation seeks to increase shareholder value and is committed to provide a fair return to its shareholder in the future. Along with excellence in corporate financing and financial management, the Corporation will strive to maintain a strong credit rating.

Operations **–** the Corporation aims to improve reliability through sustainable system management, as it strives to:

- Keep the lights on
- Keep the system safe
- Build a grid that supports a modern Toronto

The Corporation is engaging in resource and capital-intensive programs to improve capacity, reliability and quality. The capital program will replace aging assets and accommodate next generation technology to suit the regulatory trends that incent the increased use of distributed generation.

Customer **–** the Corporation aims to provide value to customers, as it strives to:

- Make it easy to work with
- Help conserve energy
- Provide innovative tools and technology

The Corporation is looking at ways to improve the level of satisfaction that customers experience, whether it is through education and awareness programs, interaction with call centre representatives, their account managers or over the internet. The Corporation continues to undertake initiatives and invest in technology and processes to improve the customer experience. In turn, this focus on customer service will provide long-term value for money.

Performance Measurement

The Corporation measures its performance in relation to the achievement of its strategic objectives by using a balanced scorecard approach. KPIs are monitored throughout the year and appropriate actions are taken as required. The definitions of the 2014 KPIs associated with the previously mentioned four strategic pillars are as follows:

Strategic Pillars	Performance Measure	Definition
People	Safety	• Number of recordable injuries x 200,000 / exposure hours.
	Attendance	• Average days absent per employee.
Financial	Net income	• Net income per the Corporation's consolidated financial statements.
	Productivity: consolidated operating expenses and other productivity related metrics	• Operating expenses per the Corporation's consolidated financial statements, excluding some defined costs and other productivity metrics such as space and fleet utilization.
Operations	System average interruption duration index	• Measure of the annual system average interruption duration per customers served, not including MED.
	System average interruption frequency index	• Measure of the frequency of service interruptions per customers served, not including MED.
	Key accounts worst performing feeders	• Number of feeders experiencing seven or more outages affecting key account customers.
	LDC regulated capital	• Achievement of LDC capital work program.
Customer	First call resolution	• Percentage of telephone enquiries resolved within one call, within a 21-day time period.
	Enhanced online customer engagement	• Increase in customer self-serve transactions / engagements using various self-serve options and media channels.

Capability to Deliver Results

The Corporation strives to manage its performance and deliver results. In 2013, the Corporation exceeded all of its corporate and divisional objectives represented by its KPIs. The Corporation's ability to deliver results in each of its strategic pillars in 2014 is limited by risks inherent in its regulatory environment, business, workforce and in the economic environment. These risks are discussed under the section "Risk Management and Risk Factors" in the Corporation's MD&A for the year ended December 31, 2013.

Selected Consolidated Financial Data

Interim Consolidated Statements of Net Income and Comprehensive Income
Three months ended September 30
(in millions of Canadian dollars, unaudited)

	2014 $	2013 $	Change $
Energy sales	668.1	682.3	(14.2)
Distribution revenue	143.9	138.9	5.0
Other revenue	13.5	12.1	1.4
	825.5	833.3	(7.8)
Energy purchases	668.1	682.3	(14.2)
Operating expenses	63.1	59.8	3.3
Depreciation and amortization	41.3	36.1	5.2
Operating income	53.0	55.1	(2.1)
Net financing charges	(15.8)	(15.3)	(0.5)
Gain on disposals of PP&E	1.5	1.1	0.4
Income before income taxes	38.7	40.9	(2.2)
Income tax expense	3.6	5.1	(1.5)
Net income and comprehensive income	35.1	35.8	(0.7)

Interim Consolidated Statements of Net Income and Comprehensive Income
Nine months ended September 30
(in millions of Canadian dollars, unaudited)

	2014 $	2013 $	Change $
Energy sales	1,997.3	1,940.5	56.8
Distribution revenue	420.2	402.4	17.8
Other revenue	40.9	40.2	0.7
	2,458.4	2,383.1	75.3
Energy purchases	1,997.3	1,940.5	56.8
Operating expenses	199.6	192.7	6.9
Depreciation and amortization	119.0	106.1	12.9
Operating income	142.5	143.8	(1.3)
Net financing charges	(46.8)	(51.2)	4.4
Gain on disposals of PP&E	1.5	1.1	0.4
Income before income taxes	97.2	93.7	3.5
Income tax expense	8.4	1.8	6.6
Net income and comprehensive income	88.8	91.9	(3.1)

Condensed Interim Consolidated Balance Sheet Data
(in millions of Canadian dollars, unaudited)

	As at September 30 2014 $	As at December 31 2013 $
Current assets	530.6	555.3
Non-current assets	3,570.7	3,242.2
Total assets	4,101.3	3,797.5
Current liabilities	792.0	696.4
Non-current liabilities	2,056.4	1,882.6
Total liabilities	2,848.4	2,579.0
Shareholder’s equity	1,252.9	1,218.5
Total liabilities and shareholder’s equity	4,101.3	3,797.5

Results of Operations

Net Income

Net income for the three months and nine months ended September 30, 2014 was $35.1 million and $88.8 million compared to $35.8 million and $91.9 million for the comparable periods in 2013.

The decrease in net income for the three months ended September 30, 2014 was primarily due to higher depreciation and amortization expense ($5.2 million), higher operating expenses ($3.3 million), and higher net financing charges ($0.5 million). These variances were partially offset by higher distribution revenue ($5.0 million), lower income tax expense ($1.5 million), and higher other revenue ($1.4 million).

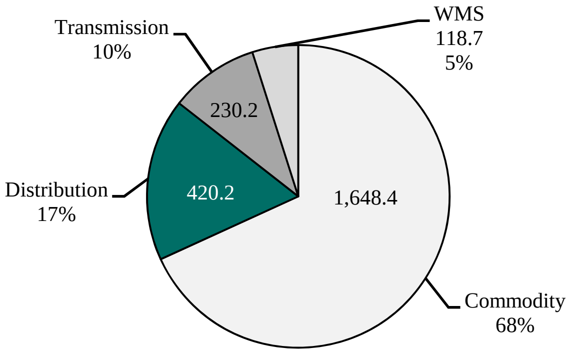
The decrease in net income for the nine months ended September 30, 2014 was primarily due to higher depreciation and amortization expense ($12.9 million), higher operating expenses ($6.9 million), and higher income tax expense ($6.6 million). These variances were partially offset by higher distribution revenue ($17.8 million), lower net financing charges ($4.4 million), and higher other revenue ($0.7 million).

Revenues

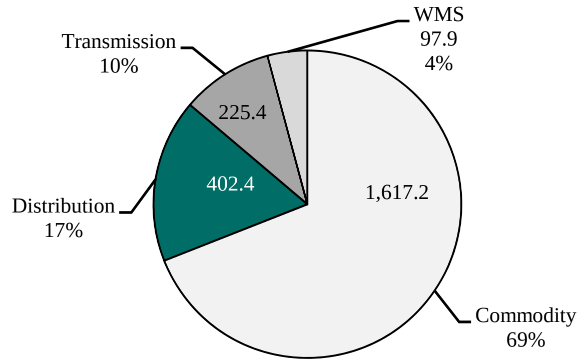
Energy Sales

LDC's energy sales arise from charges to customers for electricity generated by third parties and the related costs of purchased power, which are passed through to the customers at the cost paid. Energy sales include commodity charges (represent the market price of electricity consumed by customers and include a global adjustment), retail transmission charges (represent costs incurred in respect of the transmission of electricity from generating stations to local distribution networks), and WMS charges (represent various wholesale market support costs). These pass-through charges are considered revenue by LDC due to the collection risk of the related balances. In connection with these charges, LDC records an equivalent cost of energy purchases in its income statement as these charges are paid by LDC to the respective third parties.

LDC Energy Sales and Distribution Revenue
($Millions)
Nine months ended September 30, 2014



LDC Energy Sales and Distribution Revenue
($Millions)
Nine months ended September 30, 2013



The energy sales for the nine months ended September 30, 2014 were $1,997.3 million compared to $1,940.5 million for the comparable period in 2013. The increase in energy sales for the nine months ended September 30, 2014 was primarily due to an increase in the commodity charges by the IESO and higher WMS charges in 2014.

Distribution Revenue and Other Revenue

Distribution revenue is recorded based on OEB-approved distribution rates to recover the costs incurred by LDC in delivering electricity to customers. Other revenue includes revenue from services ancillary to the distribution of electricity, revenue from the delivery of street lighting services, and revenue from demand billable activities.

Distribution revenue for the three months and nine months ended September 30, 2014 was $143.9 million and $420.2 million compared to $138.9 million and $402.4 million for the comparable periods in 2013.

The increase in distribution revenue for the three months ended September 30, 2014 was primarily due to higher revenue recognition related to the eligible in-service capital expenditures under ICM, including the IRM annual adjustment ($6.5 million), and revenue recognition related to the implementation of the 2014 smart meter incremental revenue requirement ($2.4 million). These variances were partially offset by lower electricity consumption in the third quarter of 2014 (6,298.4 GWh compared to 6,561.1 GWh) ($3.4 million).

The increase in distribution revenue for the nine months ended September 30, 2014 was primarily due to higher revenue recognition related to the eligible in-service capital expenditures under ICM, including the IRM annual adjustment ($15.3 million), and revenue recognition related to the implementation of the 2014 smart meter incremental revenue requirement ($7.2 million). These variances were partially offset by lower electricity consumption in 2014 (32,020.9 GWh compared to 32,513.7 GWh) ($1.0 million).

Other revenue for the three months and nine months ended September 30, 2014 was $13.5 million and $40.9 million compared to $12.1 million and $40.2 million for the comparable periods in 2013.

The increase in other revenue for the three months ended September 30, 2014 was primarily due to higher demand billable work and higher revenue in connection with pole and duct rental fees.

The increase in other revenue for the nine months ended September 30, 2014 was primarily due to higher revenue in connection with pole and duct rental fees, partially offset by lower demand billable work.

Expenses

Operating expenses for the three months and nine months ended September 30, 2014 were $63.1 million and $199.6 million compared to $59.8 million and $192.7 million for the comparable periods in 2013.

The increase in operating expenses for the three months ended September 30, 2014 was primarily due to higher system maintenance costs ($3.2 million) and an increase in demand billable work ($0.7 million). These variances were partially offset by greater capitalization of compensation costs mainly related to a larger capital work program in the third quarter of 2014 ($1.2 million).

The increase in operating expenses for the nine months ended September 30, 2014 was primarily due to higher system maintenance costs ($4.3 million) and the cost of repairing the electricity distribution infrastructure incurred in 2014 related to the Ice Storm that adversely affected the City at the end of December 2013 ($3.4 million). These variances were partially offset by greater capitalization of compensation costs mainly related to a larger capital work program in the third quarter of 2014 ($1.7 million).

Depreciation and amortization expense for the three months and nine months ended September 30, 2014 was $41.3 million and $119.0 million compared to $36.1 million and $106.1 million for the comparable periods in 2013. The increase in depreciation and amortization expense for the three months and the nine months ended September 30, 2014 was primarily due to in-service asset additions stemming from the increase in capital expenditures.

Net Financing Charges

Net financing charges for the three months and nine months ended September 30, 2014 were $15.8 million and $46.8 million compared to $15.3 million and $51.2 million for the comparable periods in 2013.

The increase in net financing charges for the three months ended September 30, 2014 was primarily due to the higher amount of borrowings outstanding during the third quarter of 2014 (see "Liquidity and Capital Resources" below).

The decrease in net financing charges for the nine months ended September 30, 2014 was primarily due to the refinancing of maturing debentures at a lower interest rate in the second quarter of 2013, partially offset by lower interest income.

Income Tax Expense

Income tax expense for the three months and nine months ended September 30, 2014 was $3.6 million and $8.4 million compared to $5.1 million and $1.8 million for the comparable periods in 2013.

The favourable variance in income tax expense for the three months ended September 30, 2014 was primarily due to higher deductions for permanent and temporary differences between accounting and tax treatments ($0.9 million) and lower earnings before taxes ($0.6 million).

The unfavourable variance in income tax expense for the nine months ended September 30, 2014 was primarily due to the favourable resolution of certain tax positions identified in prior periods and related reassessments by the Ministry of Finance of Ontario in 2013 ($4.9 million), higher earnings before taxes ($0.9 million), and lower deductions for permanent and temporary differences between accounting and tax treatments ($0.8 million).

During the fourth quarter of 2013, substantially all of the benefit of the above noted favourable reassessments was recognized as a regulatory liability payable to customers in the future (see note 14 for the Corporation's effective tax rate).

Quarterly Results of Operations

The table below presents the Corporation's unaudited quarterly consolidated financial information for eight quarters including and immediately preceding September 30, 2014, which has been prepared in accordance with US GAAP. The number of issued and outstanding shares of the Corporation during the eight quarters noted below was 1,000.

Quarterly Results of Operations
(in millions of Canadian dollars, unaudited)

	September 30 2014 $	June 30 2014 $	March 31 2014 $	December 31 2013 $
Revenues	825.5	769.5	863.4	819.7
Net income	35.1	31.2	22.5	29.3
	September 30 2013 $	**June 30 2013 $**	**March 2013 $**	**December 31 2012 $**
Revenues	833.3	792.9	756.9	691.9
Net income	35.8	37.6	18.5	22.9

The Corporation's quarterly results are impacted by changes in revenues resulting from variations in seasonal weather conditions, the fluctuations in electricity prices, and the timing and recognition of regulatory decisions. Consequently, the Corporation's revenues, all other things being equal, 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.

Financial Position

The following table outlines the significant changes in the consolidated balance sheet as at September 30, 2014 as compared to the consolidated balance sheet as at December 31, 2013.

Interim Consolidated Balance Sheet Data
As at September 30, 2014 compared to December 31, 2013
(in millions of Canadian dollars, unaudited)

Balance Sheet Account	Increase (Decrease) $	Explanation of Significant Change
Assets		
Accounts receivable (net of allowance for doubtful accounts) and unbilled revenue	(26.4)	The decrease was primarily due to lower electricity consumption and lower pass-through electricity costs, partially offset by timing variances of billing and collection activities from electricity customers.
PP&E and intangible assets, net	217.7	The increase was primarily due to capital expenditures, partially offset by depreciation during the period and net eligible in-service capital expenditures under ICM reclassified to regulatory assets per the direction from the OEB.
Regulatory assets	130.2	The increase was primarily due to the reclassification of ICM-related net eligible in-service capital expenditures (see note 7a) and the retail settlement variance between IESO charges and approved customer charges.
Deferred income tax assets	(21.8)	The decrease was due to lower net deductible temporary differences between tax and accounting values of PP&E.
Liabilities and Shareholder's Equity		
Working capital facility and commercial paper	46.9	The increase was primarily due to funding required for the increased capital program.
Accounts payable and accrued liabilities	52.5	The increase was primarily due to higher capital activity and fluctuations in the timing of other payments.
Debentures	200.0	The increase was due to the issuance of $200.0 million senior unsecured debentures during the third quarter of 2014, which was required to support the Corporation's increased capital program.
Regulatory liabilities	(21.1)	The decrease was primarily due to a reduction of deferred income tax assets, the benefit of which will be payable to customers.

Interim Consolidated Balance Sheet Data
As at September 30, 2014 compared to December 31, 2013
(in millions of Canadian dollars, unaudited)

Balance Sheet Account	Increase (Decrease) $	Explanation of Significant Change
Retained earnings	34.4	The increase in retained earnings was due to net income for the year ($88.8 million), offset by dividends paid ($54.4 million).

Liquidity and Capital Resources

Sources of Liquidity and Capital Resources

The Corporation's current assets and current liabilities amounted to $530.6 million and $792.0 million, respectively, as at September 30, 2014, resulting in a working capital deficit of $261.4 million. The deficit is due to the Corporation's approach to utilize its Commercial Paper Program and Revolving Credit Facility in lieu of issuing additional debentures to fulfill the Corporation's liquidity requirements, including funding significant capital spending in the current year.

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

The Corporation does not believe that equity contributions from the City, its sole shareholder, will constitute a source of capital.

The Corporation is a party to a revolving credit facility expiring on October 10, 2019 ("Revolving Credit Facility"), pursuant to which it may borrow up to $700.0 million, of which up to $210.0 million is available in the form of letters of credit. On June 13, 2014, the borrowing capacity under the Revolving Credit Facility was increased from $600.0 million to $700.0 million and the expiry date extended from October 10, 2018 to October 10, 2019.

The Corporation has a commercial paper program allowing up to $500.0 million of unsecured short-term promissory notes ("Commercial Paper Program") to be issued in various maturities of no more than one year. On June 13, 2014, the amount the Corporation may issue under this program was increased from $400.0 million to $500.0 million. 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.

Additionally, the Corporation is a party to:

- a demand facility with a Canadian chartered bank for $75.0 million for the purpose of issuing letters of credit mainly to support LDC's prudential requirements with the IESO ("Prudential Facility"); and
- a demand facility with a second Canadian chartered bank for $20.0 million for the purpose of working capital management ("Working Capital Facility").

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

	Facility Limit $	Facility Borrowings $	Commercial Paper $	Facility Availability $
September 30, 2014	700.0	—	206.0	494.0
December 31, 2013	600.0	—	150.0	450.0

As at September 30, 2014, $10.0 million had been drawn under the Working Capital Facility and $29.7 million of letters of credit had been issued against the Prudential Facility.

For the three months and nine months ended September 30, 2014, the average outstanding borrowings on the Corporation's credit facilities and commercial paper, excluding the Prudential Facility, were $325.9 million and $245.0 million with weighted average interest rates of 1.18% and 1.18%.

The Corporation filed a base shelf prospectus dated December 10, 2012 with the securities commissions or similar regulatory authorities in each of the provinces of Canada. These filings allow the Corporation to make offerings of unsecured debt securities of up to $1,500.0 million during the 25-month period following the date of the prospectus.

On September 16, 2014, the Corporation issued $200.0 million of 4.08% senior unsecured debentures due September 16, 2044 ("Series 10"). The Series 10 debentures bear interest payable semi-annually in arrears and contain covenants which, subject to certain exceptions, restrict the ability of the Corporation and LDC to create security interests, incur additional indebtedness or dispose of all or substantially all of their assets. The Corporation may redeem all or part of the Series 10 debentures prior to maturity at a price equal to the greater of the Canada Yield Price (determined in accordance with the terms of the debentures) and par, plus accrued and unpaid interest to the date fixed for redemption. The net proceeds of the debentures were used to repay certain existing indebtedness of the Corporation, fund a portion of the Corporation's capital expenditures, and for general corporate purposes. Debt issuance costs of $1.6 million relating to the Series 10 debentures were deferred as other assets in the third quarter of 2014 and are amortized to net financing charges using the effective interest method.

As at September 30, 2014, the Corporation had long-term debentures outstanding in the principal amount of $1,650.0 million. These debentures mature between 2017 and 2063. The Corporation may issue up to $850.0 million of additional debentures under the existing base shelf prospectus.

The Corporation's commercial paper and debentures were rated as follows:

Credit Ratings
As at September 30, 2014

	Debentures	Commercial Paper
DBRS	A (high)	R-1 (low)
Standard & Poor's	A	-

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

Interim Consolidated Statements of Cash Flows
(in millions of Canadian dollars, unaudited)

	Three months Ended September 30		Nine months Ended September 30	
	2014 $	2013 $	2014 $	2013 $
Cash and cash equivalents, beginning of period	-	33.5	-	76.6
Net cash provided by operating activities	59.9	51.7	199.2	156.6
Net cash used in investing activities	(147.9)	(93.8)	(386.2)	(284.8)
Net cash provided by financing activities	88.0	8.6	187.0	51.6
Cash and cash equivalents, end of period	-	-	-	-

Net Cash Provided by Operating Activities

Net cash provided by operating activities for the three months and nine months ended September 30, 2014 was $59.9 million and $199.2 million compared to $51.7 million and $156.6 million for the comparable periods in 2013.

The increase in net cash provided by operating activities for the three months ended September 30, 2014 was primarily due to the movement in non-cash working capital balances (see note 15) and higher depreciation and amortization expense, partially offset by net changes in regulatory assets and liabilities.

The increase in net cash provided by operating activities for the nine months ended September 30, 2014 was primarily due to the movement in non-cash working capital balances (see note 15), partially offset by net changes in regulatory assets and liabilities.

Net Cash Used in Investing Activities

Net cash used in investing activities for the three months and nine months ended September 30, 2014 was $147.9 million and $386.2 million compared to $93.8 million and $284.8 million for the comparable periods in 2013.

The increase in net cash used in investing activities for the three months and nine months ended September 30, 2014 was primarily due to higher capital expenditures in 2014.

Electricity distribution is a capital-intensive business. As the largest municipal electricity distribution company in Canada, LDC continues to invest in rebuilding existing aging infrastructure to address safety, reliability and customer service requirements. As well, Toronto continues to have the most high-rise buildings under construction in North America, resulting in increased capital programs by LDC.

The following table summarizes the Corporation's capital expenditures for the periods indicated.

Capital Expenditures
(in millions of Canadian dollars, unaudited)

	Three months Ended September 30		Nine months Ended September 30	
	2014 $	**2013 $**	**2014 $**	**2013 $**
Regulated LDC				
Distribution system				
Planned	114.9	81.6	260.3	222.3
Reactive	11.1	7.7	28.4	20.9
Copeland Station	26.6	11.5	56.0	35.8
Facilities consolidation	17.7	3.1	58.1	3.7
Technology assets	4.7	4.3	11.1	10.3
Other [1]	2.6	0.7	4.4	2.1
	177.6	108.9	418.3	295.1
Other [2]	0.5	1.2	2.1	3.4
Total Capital Expenditures	178.1	110.1	420.4	298.5

1 Includes fleet capital.

2 Includes unregulated capital expenditures primarily related to TH Energy equipment.

The total regulated capital expenditures were $177.6 million and $418.3 million for the three months and nine months ended September 30, 2014 compared to $108.9 million and $295.1 million for the comparable periods in 2013. For the nine months ended September 30, 2014, the increase in regulated capital expenditures was primarily related to spending on the facilities consolidation program ($54.4 million), underground infrastructure ($49.8 million), overhead infrastructure ($34.5 million), and Copeland Station ($20.1 million). These variances were partially offset by a decrease in Hydro One capital contributions included in planned expenditures ($13.3 million), externally-initiated plant relocations and expansions ($8.5 million), network infrastructure and equipment spending ($7.6 million), and feeder automation ($5.9 million).

The largest capital initiatives in 2014 include the replacement of underground infrastructure, the replacement of overhead infrastructure, the facilities consolidation program, the construction of Copeland Station in response to the growing need for distribution options in the downtown core of the City, and the delivery of customer connections.

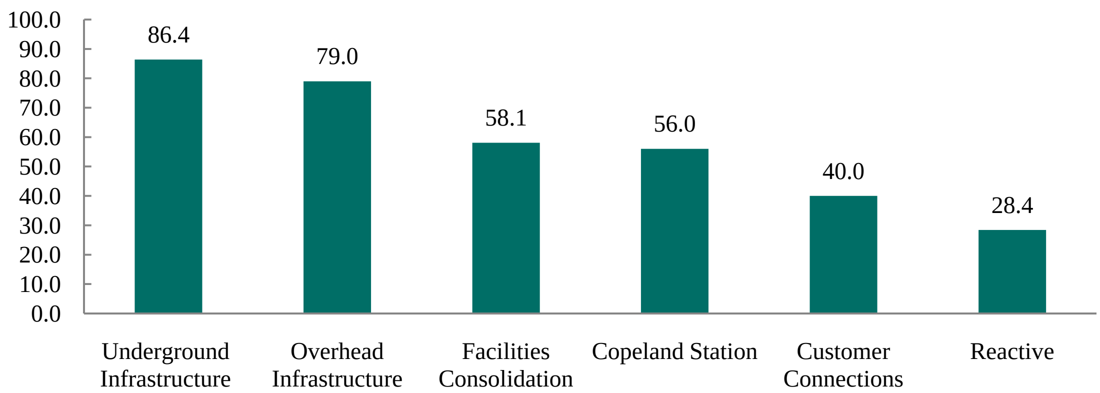
The replacement of underground infrastructure includes replacing direct buried cables, transformer switches, handwells, and other aging underground infrastructure. The replacement of overhead infrastructure includes replacing poles, overhead transformers, conductors, overhead switches and other aging overhead infrastructure and equipment. Both initiatives will allow LDC to continue to provide ongoing safe and reliable service to its customers. For the nine months ended September 30, 2014, capital expenditures for the underground infrastructure and the overhead initiatives were $86.4 million and $79.0 million, respectively.

The facilities consolidation program relates to the consolidation of operating centres to lower operating centre costs and simplify long-term planning. The facilities consolidation program will decrease the total number of operating centres by two upon completion. In 2014, the Corporation began relocating staff, equipment and operations as well as performing the required capital investment on specific properties as part of this program and incurred $44.5 million in costs. Expected net proceeds on the sale of two surplus properties have been included in the rate application to mitigate electricity distribution rate increases. In the second quarter of 2014, the Corporation also purchased a property in the west end of the City for $13.1 million, which will become an operating centre.

On May 22, 2013, the Corporation celebrated the official groundbreaking at Copeland Station. During the second quarter of 2014, the gas-insulated transformers and the high and medium voltage switchgear were manufactured and delivered. During the third quarter of 2014, the tunnel boring machine completed the tunnelling required to connect the new infrastructure to the grid. As at September 30, 2014, the cumulative capital expenditures on the Copeland Station project amounted to $116.4 million, of which $56.0 million was recorded in 2014. The $116.4 million in costs incurred relates to land and building ($36.4 million), capital contributions to Hydro One ($34.5 million), equipment ($23.7 million), and tunnel and other ($21.8 million). All capital expenditures related to Copeland Station are recorded to PP&E. Copeland station is one of the most complex projects ever undertaken by the Corporation and unforeseen delays have extended the expected completion date from the end of 2014 to the end of 2015. The delays were due to a variety of factors, including the effect of unusually adverse weather events, a generally harsh winter and challenging site conditions. The total capital expenditures required to complete Copeland Station are expected to remain at approximately $195.0 million.

The delivery of customer connections includes spending related to new services and upgrades to existing services for specific commercial customers. For the nine months ended September 30, 2014, capital expenditures for the delivery of customer connections were $40.0 million, net of related capital contributions received of $11.6 million.

Most Significant Regulated Capital Initiatives
($ Millions)
Nine months ended September 30, 2014



Net Cash Provided by Financing Activities

Net cash provided by financing activities for the three months and nine months ended September 30, 2014 was $88.0 million and $187.0 million compared to $8.6 million and $51.6 million for the comparable periods in 2013.

The increase in net cash provided by financing activities for the three months and nine months ended September 30, 2014 was primarily due to increased borrowings required to fund the Corporation's larger capital program compared to the prior year. In the third quarter of 2014, net proceeds from the issuance of $200.0 million of senior unsecured debentures due on September 16, 2044 were utilized to reduce the balance of outstanding commercial paper, fund capital expenditures, and for general corporate purposes.

On March 19, 2014, the Board of Directors of the Corporation declared dividends in the amount of $41.9 million. The dividends consisted of $35.6 million with respect to net income for the year ended December 31, 2013, which was paid to the City on March 28, 2014, and $6.3 million with respect to the first quarter of 2014, which was paid to the City on March 31, 2014.

On May 15, 2014, the Board of Directors of the Corporation declared a dividend in the amount of $6.3 million with respect to the second quarter of 2014, which was paid to the City on June 30, 2014.

On August 14, 2014, the Board of Directors of the Corporation declared a dividend in the amount of $6.3 million with respect to the third quarter of 2014, which was paid to the City on September 30, 2014.

On November 13, 2014, the Board of Directors of the Corporation declared a dividend in the amount of $6.3 million with respect to the fourth quarter of 2014. The dividend is payable on December 31, 2014.

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, 2014
(in millions of Canadian dollars, unaudited)

	Total $	2014 [1] $	2015/2016 $	2017/2018 $	After 2018 $
Working capital facility	10.0	10.0	-	-	-
Commercial paper [2]	206.0	206.0	-	-	-
Debentures – principal repayment	1,650.0	-	-	250.0	1,400.0
Debentures – interest payments	1,172.9	30.5	138.3	125.5	878.6
Operating leases	15.5	1.6	11.8	2.1	-
Capital project and other [3]	65.2	24.6	40.6	-	-
Capital leases	10.5	0.7	5.8	4.0	-
Total contractual obligations and other commitments	3,130.1	273.4	196.5	381.6	2,278.6

[1] The amounts disclosed represent the balances due over the period from October 1, 2014 to December 31, 2014.

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

[3] Reflects capital project commitments for construction services and estimated capital contributions, with the majority related to Copeland Station.

Corporate Developments

Changes to the Corporation's Board of Directors and Audit Committee

Effective September 1, 2014, Vince Brescia resigned as an independent director of the Corporation and as a member of the Audit Committee. Effective September 2, 2014, Brian Chu was appointed to the Audit Committee.

Distribution Rates for LDC

Regulatory developments in Ontario's electricity industry, including current and possible future consultations between the OEB and interested stakeholders, may affect LDC's electricity distribution rates and other permitted recoveries in the future.

On May 10, 2012, LDC filed an application for electricity distribution rates for 2012, 2013, and 2014 using the IRM framework, including the filing of an ICM application. On April 2, 2013, the OEB approved new rates for LDC effective June 1, 2013, which reflected approved capital expenditures amounting to $203.3 million for 2012 and $484.2 million for 2013. In a separate decision rendered on December 19, 2013, the OEB approved capital expenditures amounting to $398.8 million for 2014.

On January 16, 2014, the OEB approved LDC's requested disposition of the smart meter deferral account balances related to smart meter installations in 2008, 2009 and 2010, through two separate rate riders effective May 1, 2014. The first rate rider relates to the recovery of $23.9 million, which represents the cumulative revenue requirement net of recoveries from an existing smart meter rate rider. This existing smart meter rate rider was discontinued when the new rate riders became effective. The second rate rider relates to the recovery of $9.6 million, which represents the forecasted 2014 incremental revenue requirement.

On July 31, 2014, LDC filed a rate application with the OEB under the custom incentive rate-setting mechanism, seeking approval of separate and successive revenue requirements and corresponding electricity distribution rates for the five rate years commencing on May 1, 2015. The rate application includes capital expenditures of approximately $2.5 billion and operating expenses as sufficient over the period to provide for a safe and reliable source of electricity and acceptable customer service levels for LDC's customer base. Also included in the rate application are capital amounts spent in 2012 through 2014 that were not specifically approved by the OEB in the

ICM decisions due to the standard operation of the regulatory model and recovery of the net book value of stranded meters (see note 7d for more information on stranded meters). Revenue for LDC over the period will be based on the existing rate base, capital expenditures and operating expenses ultimately approved by the OEB in the rate application plus cost of capital allowed by the OEB.

Legal Proceedings

In the ordinary course of business, the Corporation is subject to various legal actions and claims with customers, suppliers, former employees and other parties. On an ongoing basis, the Corporation assesses the likelihood of any adverse judgments or outcomes as well as potential ranges of probable costs and losses. A determination of the provision required, if any, for these contingencies is made after an analysis of each individual issue. The provision may change in the future due to new developments in each matter or changes in approach, such as a change in settlement strategy. If damages were awarded under these actions, the Corporation and its subsidiaries would make a claim under any applicable liability insurance policies which the Corporation believes would cover any damages which may become payable by the Corporation and its subsidiaries in connection with these actions, subject to such claim not being disputed by the insurer. See note 18 to the Interim Consolidated Financial Statements for a discussion of material legal proceedings.

Share Capital

The authorized share capital of the Corporation consists of an unlimited number of common shares without par value, of which 1,000 common shares are issued and outstanding as at the date hereof. All issued shares were fully paid.

Transactions with Related Parties

As a wholly-owned subsidiary of the City, the Corporation and the City are considered related parties. All transactions with the City are conducted on terms similar to those offered to unrelated parties.

Revenues include amounts charged to the City primarily for electricity, street lighting and ancillary services. Operating expenses and capital expenditures include amounts charged by the City for purchased road cut repairs, property taxes and other services. Dividends are paid to the City.

Accounts receivable include receivables from the City primarily for electricity, street lighting and ancillary services. Unbilled revenue includes receivables from the City related to electricity and other services provided and not yet billed. Accounts payable and accrued liabilities include amounts payable to the City related to road cut repairs and other services, as well as amounts received from the City for the construction of electricity distribution assets. Advance deposits include amounts received from the City for future expansion projects.

Controls and Procedures

For purposes of certain Canadian securities regulations, the Corporation is a “Venture Issuer”. As such, it is exempt from certain of the requirements of National Instrument 52-109 Certification of Disclosure in Issuers’ Annual and Interim Filings. Accordingly, the Chief Executive Officer and Chief Financial Officer have reviewed the Interim Consolidated Financial Statements and the MD&A for the nine months ended September 30, 2014. 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.

Significant Accounting Policies

The Interim Consolidated Financial Statements of the Corporation have been prepared in accordance with US GAAP with respect to the preparation of interim financial information. These Interim Consolidated Financial Statements are presented in Canadian dollars, which is the Corporation’s functional currency. In preparing the Interim Consolidated Financial Statements, management makes estimates and assumptions which affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the Interim Consolidated Financial Statements, and the reported amounts of revenues and expenses for the period. Actual results could differ from those estimates, including changes as a result of future decisions made by the OEB, the

Ministry of Energy of Ontario, or the Ministry of Finance of Ontario. The significant accounting policies of the Corporation are summarized in notes 2 and 4 to the Interim Consolidated Financial Statements.

Future Accounting Pronouncements and IFRS Conversion Project

On July 21, 2011, the OSC granted an exemption to allow the Corporation to prepare its consolidated financial statements in accordance with US GAAP for its fiscal years beginning on or after January 1, 2012 but before January 1, 2015. In the absence of the exemption, the Corporation would have been required to adopt IFRS on January 1, 2012. On March 19, 2014, the Board of Directors of the Corporation approved the adoption of IFRS for the year beginning on January 1, 2015 due to the pending expiration of the exemption. Accordingly, the Corporation's consolidated financial statements for 2015 are expected to be prepared in accordance with IFRS with a transition date of January 1, 2014. The Corporation expects to apply the provisions of IFRS 14 – "Regulatory Deferral Accounts" ("IFRS 14") in its first annual IFRS financial statements.

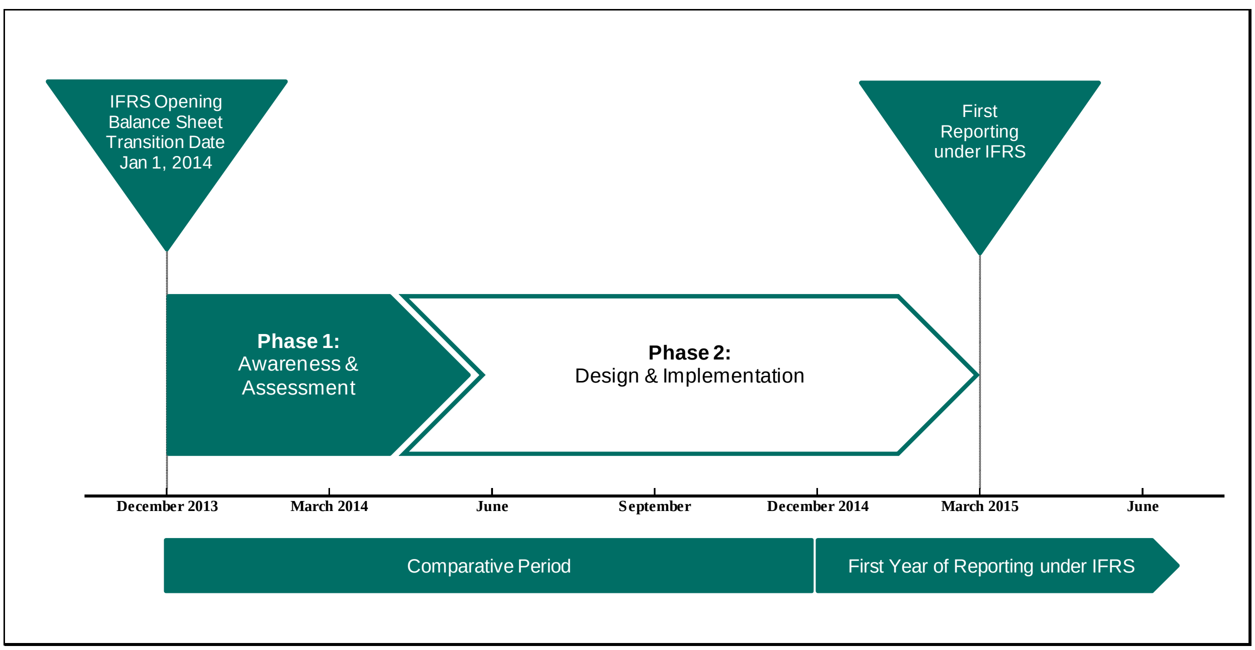
In May 2014, the FASB and IASB issued their converged standard, "Revenue from Contracts with Customers", which replaces existing revenue recognition guidance with a single model for recognizing revenue from contracts with customers except for leases, financial instruments and insurance contracts. The new IFRS standard is effective for annual reporting periods beginning on or after January 1, 2017. The Corporation is currently evaluating the impact of the new standard.

IFRS Conversion Project

The information below is provided for a better understanding of the Corporation's IFRS changeover plan and the resulting possible impacts. The differences identified to date should not be regarded as an exhaustive list and other changes may result from the conversion to IFRS. Furthermore, the disclosed impacts of the conversion reflect the Corporation's most recent assumptions, estimates and expectations. Circumstance may arise, such as changes in IFRS, regulations or economic conditions, which combined with the inherent uncertainty from the use of assumptions, could change the actual impacts of the conversion from those presented below. The Corporation has re-initiated its IFRS conversion project, which was previously suspended as a result of the Corporation's decision to adopt US GAAP. The Corporation established a formal project governance structure. This structure includes a steering committee consisting of senior levels of management from finance, information technology and operations, among others. Regular progress reports are provided to senior executive management.

The Corporation's project consists of two phases:

1) the awareness and assessment phase; and
2) the design and implementation phase.



The Corporation updated its awareness and initial assessment during the fourth quarter of 2013. During the initial assessment it was determined that the areas with the highest potential impact to the Corporation are accounting for PP&E, employee future benefits, RDAs, as well as initial adoption of IFRS under the provisions of IFRS 1 – "First-time Adoption of IFRS" ("IFRS 1"). The Corporation updated the detailed assessment of accounting and disclosure differences during the first quarter of 2014. A detailed assessment of the impact of the IFRS conversion on the Corporation's systems, processes and controls, as well as other business, regulatory and tax is in process. During the awareness and assessment phase, the Corporation established a communication plan and a staff-training plan.

The Corporation is currently executing the design and implementation phase of the project. The design phase involves establishing issue-specific working groups in each of the identified areas. The working groups establish key milestones, which include developing recommendations, analyzing financial system and internal control impact, developing significant accounting policies, and carrying out ongoing discussions with external auditors, in each area. The Corporation has determined the projected impact of adopting IFRS on its opening IFRS consolidated balance sheet as at January 1, 2014, after considering the options available under IFRS 1. It is not currently expected that the cumulative effect of financial statement adjustments to be recorded at the date of transition will result in a significant retrospective adjustment to the January 1, 2014 shareholder's equity balance of $1,218.5 million.

The roll-out of the changes developed in the design phase takes place during the implementation phase and involves the development of new accounting policies and accounting manuals and the associated training for the finance and operational teams, testing the effectiveness of the changes made to systems, a simulation of the financial reporting process, preparation of opening balance sheet on transition date and related reconciliations, assessing the ongoing impact on the IFRS financial statements and related disclosures.

The Corporation has revised its project plan to reflect the necessary work involved in determining the impact of adopting IFRS at the new adoption date of January 1, 2015. The following section provides certain key activities of the changeover plan and an assessment of the Corporation's progress at this time. This information reflects the Corporation's most recent assumptions and expectations. Circumstances may arise, such as changes in IFRS, regulations, or economic conditions, which would affect these assumptions or expectations.

Key Activities	Status
Accounting policies & procedures:	
• High level review of major differences between US GAAP and IFRS • Establish issue-specific working groups in the identified areas • Detailed assessment of accounting and disclosure differences, accounting policy choices and IFRS 1 elections available • Develop recommendations and accounting policies through ongoing discussions with external auditors • Finalize new accounting policies and accounting manuals	• All accounting policy positions have been developed and approved by senior management, the Audit Committee, and the Board of Directors • Continue to monitor ongoing IASB projects and assess potential impact • Accounting policies and procedure manuals continue to be updated based on the IASB project developments
Financial statements preparation:	
• Identify US GAAP to IFRS financial statement presentation differences and design interim and annual financial statement formats and related notes disclosures • Simulate the financial reporting process under IFRS • Prepare the opening balance sheet on the date of transition and IFRS 1 related reconciliations and disclosures • Assess ongoing impact on the IFRS financial statements and related disclosures	• Developed draft financial statement formats • Completed testing of system related modifications to IFRS generated financial statements • Preparation of the opening balance sheet on transition date has been substantially completed and the audit is currently in progress • Calculation of quarterly comparative IFRS amounts for 2014 is in progress
Training & communication:	
• Provide training to affected finance and operational teams, management and the Audit Committee of the Board of Directors • Develop and execute staff training plan, and roll out communication initiatives • Continue to update the Audit Committee and senior management on a quarterly basis for key developments in IFRS and the potential impact to the Corporation's financial statements	• Completed detailed training for resources directly engaged in the changeover and general awareness training to broader group of finance employees. Specific IFRS training for the Audit Committee of the Board of Directors was completed. • Started topic-specific and relevant training to finance and operational teams on all finalized positions. Key areas include RDAs, PP&E, employee benefits, capital contributions, and financial statement presentation • Developed staff training plans with respect to RDAs • Continue ongoing, periodic internal and external communications on the Corporation's progress on the IFRS project and direction
Business impact:	
• Evaluate impact and implement necessary changes to debt covenants, internal performance measures, contracts and processes	• Impact to debt covenants, regulatory and other business processes are being assessed
Information technology systems:	
• Analysis of financial system to identify required modifications • Test the effectiveness of the changes made to systems • Ensure solution captures financial information under US GAAP and IFRS during the year of transition for comparative reporting purposes	• Completed system changes for reporting purposes including subledger configurations for derecognition and depreciation at a component level. System changes to reflect new financial statement presentation required under the RDA standard have also been completed. • Completed the modifications to the system to accommodate the new transition date of January 1, 2014 and begin to accumulate IFRS data for reporting comparative information • Continue to implement remaining required modifications to financial systems
Control environment:	
• Detailed assessment of the impact of IFRS conversion on people, systems, processes and internal controls • Analyze and update internal control processes and documentation • Implement related controls and procedures to ensure the integrity and effectiveness of internal controls over financial reporting ("ICFR") and disclosure controls and procedures ("DC&P")	• Based on the accounting policies and procedures developed, the Corporation continues to evaluate and document the impact on new and existing controls to ensure the integrity and effectiveness of ICFR and DC&P • Additional controls may be required to address first-time IFRS adoption and new processes implemented to support ongoing IFRS reporting requirements. These controls will be implemented and tested on a timely basis for reporting under IFRS in 2015.

IFRS 1 Exemptions

In general, a first-time adopter is required to apply IFRS retrospectively and recognize any consequential adjustments in retained earnings. IFRS 1 contains all of the transitional requirements applicable for the first-time adoption of IFRS. Several mandatory exceptions and optional exemptions to the retrospective application are available. The Corporation has made an assessment of the IFRS 1 optional exemptions and anticipates the following elections upon transition.

IFRS Optional Exemption	Description	Policy Selection
Rate-regulated deemed cost	An entity that is subject to rate regulation may elect to use the previous GAAP carrying amount of PP&E or intangible assets at the date of transition to IFRS as deemed cost.	The Corporation expects to elect this exemption except for construction in progress items for which capital contributions have been received. This will result in a decrease of $2,625.8 million to both cost and accumulated depreciation of PP&E and intangible assets as at January 1, 2014.
Borrowing Costs	IAS 23 – "Borrowing Costs" ("IAS 23") requires the capitalization of borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. IFRS1 provides an optional exemption that permits application of the requirements of IAS 23 prospectively from the date of transition.	The Corporation expects to elect this exemption and consequently, does not expect to have an adjustment to its opening balance sheet as at January 1, 2014.
Decommissioning liabilities included in the cost of PP&E	IFRS 1 provides an optional exemption that permits a first-time adopter to use a simplified method to recalculate its decommissioning provisions in accordance with IFRS at the transition date.	The Corporation expects to elect this exemption. The impact of this election is expected to be an increase to the RDAs and a decrease to PP&E of $0.9 million as at January 1, 2014.
Leases	IFRIC 4 – "Determining whether an Arrangement contains a Lease" ("IFRIC 4") requires the assessment of whether an arrangement contains a lease to be based on the facts and circumstances existing at the date of the inception of the arrangement. IFRS 1 provides an optional exemption that permits an entity that made the same determination of whether an arrangement contains a lease under its previous GAAP as that required by IFRIC 4, but at a date other than that required by IFRIC 4, not to reassess that determination when it adopts IFRS.	The Corporation expects to elect this exemption and thus will not be required to make any additional assessments at the date of transition.
Business Combinations	IFRS 1 provides an optional exemption for a first-time adopter not to apply IFRS 3 – "Business Combinations" retrospectively to past business combinations occurred prior to the date of transition.	The Corporation expects to elect this exemption and thus will not restate any such business combinations.
Transfer of Assets from Customers (Capital Contributions)	IFRS 1 provides an optional exemption for a first-time adopter to apply IFRIC 18 – "Transfer from Customers" ("IFRIC 18") prospectively to transfers of assets from customers received on or after the date of transition.	The Corporation does not expect to elect this exemption and will instead apply IFRIC 18 retrospectively to all customer contributions received prior to the date of transition. However, the use of the rate-regulated deemed cost exemption noted above means that no adjustment will be made to the contributions included in the PP&E deemed cost.

IFRS 14 – RDAs

In January 2014, the IASB issued IFRS 14 as an interim standard giving entities conducting rate regulated activities the option of continuing to recognize RDAs according to their previous GAAP. RDAs provide useful information about the Corporation's financial position, activities, and future cash flows and as such, the Corporation has elected to adopt the provisions of IFRS 14 as part of the conversion from US GAAP to IFRS. IFRS 14 will remain in force until either repealed or replaced by permanent guidance on rate regulated accounting from the IASB.

IFRS Expected Accounting Impacts

The Corporation completed a detailed assessment of the accounting and disclosure differences between US GAAP and IFRS. The following are the major differences between US GAAP and IFRS as identified to date.

RDAs

IFRS 14 requires that all RDA balances and related deferred tax amounts be reclassified to a new and separate section of the consolidated statement of financial position. As well, the profit or loss effect of all changes in RDAs must be segregated in a new separate section of the consolidated statement of profit or loss. Amounts that are permitted or required to be recognized under another IFRS standard are excluded from the RDAs. The effect of the reclassifications will be to enhance comparability of IFRS 14 compliant financial statements with those of entities not applying IFRS 14. IFRS 14 also requires disclosure regarding the movements in the period, risks, and expected period of recovery/amortization of individual RDAs.

For the Corporation, the impact of IFRS 14 at January 1, 2014 will be to transfer most of the ICM regulatory asset amounts (see note 7a) to PP&E and to transfer the RDA debit and credit balances to separate lines below what was formerly known as "Total assets" and "Total liabilities and shareholder's equity" respectively.

PP&E

The Corporation follows the group depreciation practices under US GAAP. Assets in a group are not removed from the accounts on disposition and instead depreciation continues to be recorded until the asset group is fully depreciated. Under IFRS, the carrying amount of such PP&E will be derecognized upon disposal or when no future economic benefits are expected. The loss arising from the derecognition of these items of PP&E shall be included in the statement of profit or loss. Since the Corporation expects to elect the IFRS 1 optional exemption for rate-regulated deemed cost, derecognition will be prospectively applied under IFRS. For the near to medium term, the impact of the derecognition will be to decrease PP&E and increase depreciation expense.

Debt issuance costs

Under US GAAP, debt issuance costs are recognized as deferred charges in other non-current assets. Under IFRS, debt issuance costs will be netted against the principal balance of the related debenture. As at January 1, 2014, this presentation difference will result in a decrease in other non-current assets by approximately $7.0 million and a corresponding decrease to the carrying amount of debentures.

Prepaid lease

Under US GAAP, a prepaid land lease is included in other non-current assets. Under IFRS, the prepaid land lease will be included in PP&E as a finance lease as it transferred substantially all of the risks and rewards incidental to ownership of the land to the Corporation. As at January 1, 2014, this presentation difference will decrease other non-current assets by approximately $7.0 million, and increase PP&E by a similar amount.

Employee benefits

The attribution period and attribution methods are different between IFRS and US GAAP and result in a minor measurement difference of the post-employment liability. In addition, under IFRS a liability is recognized for both non-vested and vested sick leave benefits, unlike US GAAP, which only requires a liability for the vested sick leave component. As at January 1, 2014, the impact of these recognition and measurement differences will be to reduce the balance of the post-employment liability by approximately $3.0 million. The annual post-employment benefit expense under IFRS will be slightly different than under US GAAP depending on the facts and circumstances of each year.

The Corporation will elect under IFRS (which was not permitted under US GAAP) to classify all post-employment benefits as non-current since they are not expected to be settled wholly within twelve months. As at January 1, 2014, the impact of this election will be to decrease current liabilities and increase non-current liabilities by approximately $8.0 million.

Capital contributions

Under US GAAP, capital contributions received and used to finance additions to PP&E are offset against the cost of the constructed asset and depreciated at an equivalent rate as the related PP&E, as a reduction in depreciation expense. Under IFRIC 18, contributions received in order to construct an item of PP&E are treated as deferred revenues and recognized as revenue over the useful lives of the related PP&E. The Corporation will apply IFRIC 18 to capital contributions received for projects not yet in service, excluding PP&E items to which the deemed cost election was applied. As at January 1, 2014, the impact of the conversion to IFRS will be to increase PP&E by approximately $16.0 million, decrease accounts payable and accrued liabilities by approximately $29.0 million, and increase deferred revenues by approximately $45.0 million. On an ongoing basis, both revenue and depreciation expense will be higher than what was reported under US GAAP.

Forward-Looking Information

The Corporation includes forward-looking information in its MD&A within the meaning of applicable securities laws in Canada. The purpose of the forward-looking information is to provide management's expectations regarding the Corporation's future results of operations, performance, business prospects and opportunities and may not be appropriate for other purposes. All forward-looking information is given pursuant to the "safe harbour" provisions of applicable Canadian securities legislation. The words "aims", "believes", "committed", "could", "estimates", "expected", "focus", "forecasted", "may", "plans", "projected", "seek", "should", "strives", "will", "would" and similar expressions are often intended to identify forward-looking information, although not all forward-looking information contains these identifying words. The forward-looking information reflects management's current beliefs and is based on information currently available to the Corporation's management.

The forward-looking information in the MD&A includes, but is not limited to, statements regarding the Corporation's achievement of its strategic pillars as described in the section entitled "Corporate Strategy", the Corporation's plans to finance the investment in LDC's infrastructure and the Corporation's available sources of liquidity and capital resources and the sufficiency thereof to satisfy working capital requirements for the next 12 months as described in the sections entitled "Liquidity and Capital Resources", the anticipated capacity to be provided by Copeland Station, the expected capital expenditures required to complete Copeland Station and the anticipated completion date for Copeland Station as described in the section entitled "Liquidity and Capital Resources", the planned and proposed capital initiatives for 2014 and the expected results of such initiatives as described in the section entitled "Liquidity and Capital Resources", the anticipated contractual obligations and other commitments of the Corporation over the next five years as set out in the section entitled "Liquidity and Capital Resources", expectations regarding the current rate application under the custom incentive rate-setting mechanism and the forecasted 2014 incremental revenue requirement as disclosed in the section entitled "Corporate Developments", the ability to pay any damages in connection with legal actions and claims as described in the section entitled "Legal Proceedings", and the plans in connection with the IFRS conversion project and the anticipated effects of the transition to IFRS as described in the section entitled "Future Accounting Pronouncements and IFRS Conversion Project. The statements that make up the forward-looking information are based on assumptions that include, but are not limited to, the future course of the economy and financial markets, the receipt of applicable regulatory approvals and requested rate orders, the receipt of favourable judgments, the level of interest rates and the Corporation's ability to borrow, and the effectiveness of the future transition to IFRS by the Corporation.

The forward-looking information is subject to risks, uncertainties and other factors that could cause actual results to differ materially from historical results or results anticipated by the forward-looking information. The factors which could cause results or events to differ from current expectations include, but are not limited to, market liquidity and the quality of the underlying assets and financial instruments, the timing and extent of changes in prevailing interest rates, inflation levels, legislative, judicial and regulatory developments that could affect revenues and the results of borrowing efforts.

All forward-looking information in the MD&A is qualified in its entirety by the above cautionary statements and, except as required by law, the Corporation undertakes no obligation to revise or update any forward-looking information as a result of new information, future events or otherwise after the date hereof.

Selected Financial Highlights

The following table sets forth selected financial information of the Corporation for the three months and nine months ended September 30, 2014 and for the comparable periods in 2013. This information has been derived from the Interim Consolidated Financial Statements.

Selected Financial Highlights
(in millions of Canadian dollars, unaudited)

	Three months Ended September 30		Nine months Ended September 30	
	2014 $	2013 $	2014 $	2013 $
Distribution revenue and other revenue [1]	157.4	151.0	461.1	442.6
Operating expenses [1]	63.1	59.8	199.6	192.7
Net income [1]	35.1	35.8	88.8	91.9
Capital expenditures [2]	178.1	110.1	420.4	298.5
Total debt to capitalization ratio [3]			59.8%	56.7%
Return on equity [4]			9.6%	9.9%

1 See "Results of Operations" for further details on distribution revenue, other revenue, operating expenses and net income.

2 See "Liquidity and Capital Resources" for further details on capital expenditures.

3 Total debt to capitalization ratio = (total debt) / (total debt + total shareholder's equity), where total debt = (Working Capital Facility + Commercial Paper + current portion of debentures + long-term portion of debentures).

4 Return on equity = net income / average total shareholder's equity. Return on equity is measured over a 12-month period.

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 13, 2014

TORONTO HYDRO Corporation

UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

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

INTERIM CONSOLIDATED BALANCE SHEETS

[in millions of Canadian dollars, unaudited]

	As at September 30, 2014 $	As at December 31, 2013 $
ASSETS		
Current		
Accounts receivable, net of allowance for doubtful accounts *[note 11[b]]*	**223.1**	202.6
Unbilled revenue *[note 11[b]]*	**280.0**	326.9
Income tax receivable	**2.1**	0.5
Inventories	**8.3**	8.6
Regulatory assets *[note 7]*	**6.1**	7.1
Other assets	**11.0**	9.6
Total current assets	**530.6**	555.3
Property, plant and equipment, net *[note 5]*	**2,865.6**	2,664.4
Intangible assets, net *[note 6]*	**188.0**	171.5
Regulatory assets *[note 7]*	**365.6**	234.4
Other assets	**15.7**	14.3
Deferred income tax assets	**135.8**	157.6
Total assets	**4,101.3**	3,797.5
LIABILITIES AND SHAREHOLDER'S EQUITY		
Current		
Working capital facility *[note 8]*	**10.0**	19.1
Commercial paper *[note 8]*	**206.0**	150.0
Accounts payable and accrued liabilities *[note 11[b]]*	**509.2**	456.7
Customers' advance deposits	**37.7**	37.3
Deferred conservation credit	**17.3**	20.7
Post-retirement benefits *[note 10]*	**8.2**	8.0
Other liabilities	**2.6**	2.1
Regulatory liabilities *[note 7]*	**1.0**	2.5
Total current liabilities	**792.0**	696.4
Customers' advance deposits	**4.8**	7.4
Debentures *[note 9]*	**1,649.3**	1,449.3
Post-retirement benefits *[note 10]*	**234.2**	230.8
Other liabilities	**7.1**	14.5
Regulatory liabilities *[note 7]*	**161.0**	180.6
Total liabilities	**2,848.4**	2,579.0
Commitments, contingencies and subsequent events *[notes 2, 17 and 18]*		
Shareholder's equity		
Share capital *[note 12]*	**567.8**	567.8
Retained earnings	**685.1**	650.7
Total shareholder's equity	**1,252.9**	1,218.5
Total liabilities and shareholder's equity	**4,101.3**	3,797.5

The accompanying notes are an integral part of the interim consolidated financial statements.

INTERIM CONSOLIDATED STATEMENTS OF NET INCOME AND COMPREHENSIVE INCOME

[in millions of Canadian dollars, unaudited]

	Three months ended September 30,		Nine months ended September 30,	
	2014	**2013**	**2014**	**2013**
	$	**$**	**$**	**$**
Energy sales	**668.1**	682.3	**1,997.3**	1,940.5
Distribution revenue	**143.9**	138.9	**420.2**	402.4
Other revenue	**13.5**	12.1	**40.9**	40.2
	825.5	833.3	**2,458.4**	2,383.1
Energy purchases	**668.1**	682.3	**1,997.3**	1,940.5
Operating expenses	**63.1**	59.8	**199.6**	192.7
Depreciation and amortization *[notes 5, 6 and 7]*	**41.3**	36.1	**119.0**	106.1
Operating income	**53.0**	55.1	**142.5**	143.8
Net financing charges *[note 13]*	**(15.8)**	(15.3)	**(46.8)**	(51.2)
Gain on disposals of property, plant and equipment	**1.5**	1.1	**1.5**	1.1
Income before income taxes	**38.7**	40.9	**97.2**	93.7
Income tax expense *[note 14]*	**3.6**	5.1	**8.4**	1.8
Net income and comprehensive income for the period	**35.1**	35.8	**88.8**	91.9

INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY

[in millions of Canadian dollars, unaudited]

	Three months ended September 30,		Nine months ended September 30,	
	2014	**2013**	**2014**	**2013**
	$	**$**	**$**	**$**
Share capital ***[note 12]***	**567.8**	567.8	**567.8**	567.8
Retained earnings, beginning of period	**656.3**	598.1	**650.7**	572.5
Net income for the period	**35.1**	35.8	**88.8**	91.9
Dividends *[notes 12 and 16]*	**(6.3)**	(6.2)	**(54.4)**	(36.7)
Retained earnings, end of period	**685.1**	627.7	**685.1**	627.7
Total shareholder's equity	**1,252.9**	1,195.5	**1,252.9**	1,195.5

The accompanying notes are an integral part of the interim consolidated financial statements.

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

[in millions of Canadian dollars, unaudited]

	Three months ended September 30, 2014 $	Three months ended September 30, 2013 $	Nine months ended September 30, 2014 $	Nine months ended September 30, 2013 $
OPERATING ACTIVITIES				
Net income for the period	**35.1**	35.8	**88.8**	91.9
Adjustments for non-cash items				
Depreciation and amortization *[notes 5, 6 and 7]*	**41.3**	36.1	**119.0**	106.1
Post-retirement benefits	**2.6**	2.0	**4.3**	6.0
Deferred income taxes	**0.4**	0.3	**1.0**	(0.4)
Gain on disposals of property, plant and equipment	**(1.5)**	(1.1)	**(1.5)**	(1.1)
Other	**1.4**	0.5	**0.9**	0.7
Net change in regulatory assets and liabilities *[note 7]*	**(18.0)**	13.7	**(52.4)**	(6.1)
Net change in other non-current assets and liabilities	**0.2**	(0.5)	**(6.2)**	0.1
Changes in non-cash working capital balances *[note 15]*	**(1.6)**	(35.1)	**45.3**	(40.6)
Net cash provided by operating activities	**59.9**	51.7	**199.2**	156.6
INVESTING ACTIVITIES				
Purchase of property, plant and equipment *[note 15]*	**(133.2)**	(90.0)	**(356.9)**	(241.3)
Purchase of intangible assets *[note 15]*	**(15.7)**	(4.5)	**(31.1)**	(44.9)
Proceeds on disposals of property, plant and equipment	**1.0**	0.7	**1.8**	1.4
Net cash used in investing activities	**(147.9)**	(93.8)	**(386.2)**	(284.8)
FINANCING ACTIVITIES				
Increase (decrease) in working capital facility *[note 8]*	**6.5**	3.8	**(9.1)**	3.8
Increase (decrease) in commercial paper *[note 8]*	**(110.0)**	-	**56.0**	-
Increase in revolving credit facility *[note 8]*	**-**	10.0	**-**	110.0
Dividends paid *[notes 12 and 16]*	**(6.3)**	(6.2)	**(54.4)**	(36.7)
Increase (decrease) in customers' advance deposits	**-**	1.5	**(2.2)**	(0.9)
Proceeds from debentures *[note 9]*	**199.9**	-	**199.9**	449.7
Debt issuance costs paid *[note 9]*	**(1.6)**	-	**(1.6)**	(2.7)
Repayment of debentures	**-**	-	**-**	(470.1)
Repayment of capital lease liability	**(0.5)**	(0.5)	**(1.6)**	(1.5)
Net cash provided by financing activities	**88.0**	8.6	**187.0**	51.6
Net decrease in cash and cash equivalents during the period	**-**	(33.5)	**-**	(76.6)
Cash and cash equivalents, beginning of period	**-**	33.5	**-**	76.6
Cash and cash equivalents, end of period	**-**	-	**-**	-
Supplementary disclosure of operating cash flows				
Total interest paid	**1.1**	0.9	**33.2**	38.8
Total income taxes paid (recovered)	**3.4**	-	**8.0**	(3.1)

The accompanying notes are an integral part of the interim consolidated financial statements.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2014
[all tabular amounts in millions of Canadian dollars, unaudited]

1. INCORPORATION

On June 23, 1999, the Corporation was incorporated under the *Business Corporations Act* (Ontario), and is wholly-owned by the City. The incorporation was required in accordance with the provincial government's Electricity Act. The Corporation is domiciled in Canada and its registered office is located at 14 Carlton Street, Toronto, Ontario, M5B 1K5.

The Corporation supervises the operations and provides corporate, management services and strategic direction to two subsidiaries incorporated under the *Business Corporations Act* (Ontario) and wholly-owned by the Corporation:

[i] LDC (incorporated June 23, 1999) – distributes electricity to customers located in the City and is subject to rate regulation. LDC is also engaged in the delivery of CDM activities; and

[ii] TH Energy (incorporated June 23, 1999) – provides street lighting services.

The principal business of the Corporation and its subsidiaries is the distribution of electricity by LDC.

2. BASIS OF PRESENTATION

These unaudited interim consolidated financial statements of the Corporation have been prepared in accordance with US GAAP with respect to the preparation of interim financial information. These interim consolidated financial statements are presented in Canadian dollars, which is the Corporation's functional currency. The disclosures in these statements do not conform in all respects to the requirements of US GAAP for annual consolidated financial statements. These unaudited interim consolidated financial statements follow the same accounting policies and methods of application as the audited consolidated financial statements of the Corporation for the year ended December 31, 2013, and should be read in conjunction with the annual consolidated financial statements. The OSC granted an exemption to allow the Corporation to file financial statements under US GAAP for the years commencing on or after January 1, 2012 but before January 1, 2015.

The Corporation has evaluated the events and transactions occurring after the interim consolidated balance sheet date through November 13, 2014 when the Corporation's interim consolidated financial statements were available to be issued after the approval by the Corporation's Board of Directors, and identified the events and transactions which required recognition in the interim consolidated financial statements and/or disclosure in the notes to the interim consolidated financial statements *[note 12]*.

3. REGULATION

Regulatory developments in Ontario's electricity industry, including current and possible future consultations between the OEB and interested stakeholders, may affect LDC's electricity distribution rates and other permitted recoveries in the future.

Electricity Distribution Rates

On May 10, 2012, LDC filed an application for electricity distribution rates for 2012, 2013, and 2014 using the IRM framework, including the filing of an ICM application. On April 2, 2013, the OEB approved new rates for LDC effective June 1, 2013, which reflected approved capital expenditures amounting to $203.3 million for 2012 and $484.2 million for 2013. In a separate decision rendered on December 19, 2013, the OEB approved capital expenditures amounting to $398.8 million for 2014.

On January 16, 2014, the OEB approved LDC's requested disposition of the smart meter deferral account balances related to smart meter installations in 2008, 2009 and 2010, through two separate rate riders effective May 1, 2014 *[note 7[d]]*. The first rate rider relates to the recovery of $23.9 million, which represents the cumulative revenue requirement net of recoveries from an existing smart meter rate rider. This existing smart meter rate rider was discontinued when the new rate riders became effective. The second rate rider relates to the recovery of $9.6 million, which represents the forecasted 2014 incremental revenue requirement.

On July 31, 2014, LDC filed a rate application with the OEB under the custom incentive rate-setting mechanism, seeking approval of separate and successive revenue requirements and corresponding electricity distribution rates for the five rate years commencing on May 1, 2015. The rate application includes capital expenditures of approximately $2.5 billion and operating expenses as sufficient over the period to provide for a safe and reliable source of electricity and acceptable customer service levels for LDC's customer base. Also included in the rate application are capital amounts spent in 2012 through 2014 that were not specifically approved by the OEB in the ICM decisions due to the standard operation of the regulatory model and recovery of the net book value of stranded meters *[note 7[d]]*. Revenue for LDC over the period will be based on the existing rate base, capital expenditures and operating expenses ultimately approved by the OEB in the rate application plus cost of capital allowed by the OEB.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Revenue recognition

Effective January 1, 2014, the Corporation has disaggregated the components of revenues into energy sales, distribution revenue and other revenue in the consolidated statements of net income and comprehensive income, with no change to the method of revenue recognition. Revenues from energy sales and distribution are recorded on the basis of cyclical billings and include an estimated amount for electricity delivered and not yet billed, which is impacted by energy demand, customer class usage patterns and composition, and weather conditions.

Energy sales arise from charges to customers for electricity generated by third parties and the related costs of purchased power, which are passed through to the customers at the cost paid. Under RRA, energy sales are equal to the cost of energy purchased in the period as settlement variances are recorded for the difference between the amounts charged by LDC to customers, based on regulated rates, and the corresponding cost of non-competitive electricity service incurred by LDC charged by the IESO.

Distribution revenue is recorded based on OEB-approved distribution rates to recover the costs incurred by LDC in delivering electricity to customers. Revenue related to eligible capital expenditures under the ICM framework, included as part of distribution revenue, is recognized on the basis of in-service assets.

Other revenue, which includes revenue from services ancillary to the distribution of electricity, revenue from the delivery of street lighting services and revenue from demand billable activities, is recognized as the services are rendered.

b) Use of estimates

The preparation of the Corporation’s unaudited interim consolidated financial statements in accordance with US GAAP requires management to make estimates and assumptions which affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the interim consolidated financial statements, and the reported amounts of 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. Significant areas requiring the use of management estimates relate to unbilled revenue, regulatory assets and liabilities, post-retirement benefits, income taxes (including deferred income taxes), and revenue recognition. Actual results could differ from those estimates, including changes as a result of future decisions made by the OEB, the Ministry of Energy of Ontario, or the Ministry of Finance of Ontario.

[all tabular amounts in millions of Canadian dollars, unaudited]

c) Future Accounting Pronouncements and Adoption of IFRS

On July 21, 2011, the OSC granted an exemption to allow the Corporation to prepare its consolidated financial statements in accordance with US GAAP for its fiscal years beginning on or after January 1, 2012 but before January 1, 2015. In the absence of the exemption, the Corporation would have been required to adopt IFRS on January 1, 2012. On March 19, 2014, the Board of Directors of the Corporation approved the adoption of IFRS for the year beginning on January 1, 2015 due to the pending expiration of the exemption. Accordingly, the Corporation's consolidated financial statements for 2015 are expected to be prepared in accordance with IFRS with a transition date of January 1, 2014. The Corporation expects to apply the provisions of IFRS 14 - "RDAs" in its first annual IFRS financial statements.

The Corporation has an internal initiative to govern the conversion process and is currently in the process of evaluating the potential impact of the conversion to IFRS on its consolidated financial statements. The Corporation has completed a detailed assessment of the accounting and disclosure differences between US GAAP and IFRS and identified the areas that potentially may materially impact the consolidated financial statements on the date of transition to IFRS and post-IFRS implementation, which included RDAs, PP&E, capital contributions, employee benefits and debt issuance costs.

In May 2014, the FASB and IASB issued their converged standard, "Revenue from Contracts with Customers", which replaces existing revenue recognition guidance with a single model for recognizing revenue from contracts with customers except for leases, financial instruments and insurance contracts. The new IFRS standard is effective for annual reporting periods beginning on or after January 1, 2017. The Corporation is currently evaluating the impact of the new standard.

5. PROPERTY, PLANT AND EQUIPMENT

PP&E consist of the following:

	September 30 2014			December 31 2013		
	Cost $	**Accumulated depreciation $**	**Net book value $**	**Cost $**	**Accumulated depreciation $**	**Net book value $**
Distribution assets	**4,350.5**	**2,204.4**	**2,146.1**	4,257.5	2,130.6	2,126.9
Land and buildings	**202.2**	**82.3**	**119.9**	189.1	76.8	112.3
Equipment and other	**359.7**	**262.4**	**97.3**	349.7	245.2	104.5
Construction in progress	**502.3**	**—**	**502.3**	320.7	—	320.7
	5,414.7	**2,549.1**	**2,865.6**	5,117.0	2,452.6	2,664.4

As at September 30, 2014, Equipment and other included assets under capital lease with cost of $15.8 million [December 31, 2013 - $13.7 million] and accumulated depreciation of $8.0 million [December 31, 2013 - $4.8 million].

[all tabular amounts in millions of Canadian dollars, unaudited]

For the three months and the nine months ended September 30, 2014, AFUDC in the amount of $0.8 million and $1.8 million [three months and nine months ended September 30, 2013 - $0.4 million and $0.7 million] was capitalized to PP&E and credited to net financing charges.

For the three months and the nine months ended September 30, 2014, capital contributions in the amount of $4.7 million and $14.2 million [three months and nine months ended September 30, 2013 - $5.8 million and $17.2 million] were credited to PP&E.

For the three months and the nine months ended September 30, 2014, the Corporation recorded depreciation expense on PP&E of $33.8 million and $97.7 million [three months and nine months ended September 30, 2013 - $31.0 million and $91.7 million], of which $2.2 million and $3.2 million [three months and nine months ended September 30, 2013 - $0.5 million and $1.5 million] related to assets under capital lease.

6. INTANGIBLE ASSETS

Intangible assets consist of the following:

	September 30 2014			December 31 2013		
	Cost $	Accumulated amortization $	Net book value $	Cost $	Accumulated amortization $	Net book value $
Computer software	**278.7**	**212.7**	**66.0**	268.4	198.8	69.6
Contributions	**23.1**	**3.8**	**19.3**	22.1	3.1	19.0
Software in development	**12.4**	**—**	**12.4**	11.7	—	11.7
Contributions for work in progress	**90.3**	**—**	**90.3**	71.2	—	71.2
	404.5	**216.5**	**188.0**	373.4	201.9	171.5

Contributions for work in progress relate to payments made by the Corporation for connection projects to increase the electricity distribution system capacity.

For the three months and the nine months ended September 30, 2014, AFUDC in the amount of $0.7 million and $2.0 million [three months and nine months ended September 30, 2013 - $0.7 million and $1.4 million] was capitalized to intangible assets and credited to net financing charges.

For the three months and the nine months ended September 30, 2014, the Corporation recorded amortization expense on intangible assets of $4.9 million and $14.6 million [three months and nine months ended September 30, 2013 - $4.4 million and $13.5 million].

[all tabular amounts in millions of Canadian dollars, unaudited]

7. REGULATORY ASSETS AND LIABILITIES

Regulatory assets consist of the following:

	September 30 2014 $	December 31 2013 $
ICM	**231.5**	151.9
Settlement variances	**62.4**	8.2
Post-retirement benefits	**38.2**	38.8
Smart meters	**22.9**	25.2
Stranded meters	**15.0**	16.9
Other	**1.7**	0.5
Total regulatory assets	**371.7**	241.5
Less: Current portion of regulatory assets	**6.1**	7.1
Long-term portion of regulatory assets	**365.6**	234.4

Regulatory liabilities consist of the following:

	September 30 2014 $	December 31 2013 $
Deferred income taxes	**135.1**	155.9
Revision of prior year tax position	**21.6**	19.4
Income and other taxes variance account	**2.5**	2.4
RARA	**1.7**	4.3
Other	**1.1**	1.1
Total regulatory liabilities	**162.0**	183.1
Less: Current portion of regulatory liabilities	**1.0**	2.5
Long-term portion of regulatory liabilities	**161.0**	180.6

For the three months and the nine months ended September 30, 2014, LDC disposed of approved regulatory liabilities amounting to $0.2 million and $2.6 million through permitted distribution rate adjustments [three months and nine months ended September 30, 2013 - approved regulatory liabilities of $1.8 million and approved net regulatory assets of $1.8 million].

The regulatory assets and liabilities of the Corporation consist of the following:

a) Incremental Capital Module

The ICM regulatory asset account relates to the ICM application approved by the OEB and the associated rate rider, which became effective June 1, 2013 *[note 3]*. As directed by the OEB, this account includes the cost of the eligible in-service capital expenditures under ICM, offset by the amount collected through the rate rider. This account is also adjusted by the amount recognized into revenues related to the eligible in-service capital expenditures and the associated depreciation.

For the three months and the nine months ended September 30, 2014, eligible in-service capital expenditures of $51.4 million and $85.5 million [three months and nine months ended September 30, 2013 - $27.6 million and $65.3 million] were reclassified from PP&E to regulatory assets. As a non-cash transaction, this reclassification has been excluded from the consolidated statements of cash flows. As at September 30, 2014, eligible in-service capital expenditures, net of accumulated depreciation, totalling $238.6 million, were recorded in regulatory assets [December 31, 2013 - $157.9 million]. In the absence of rate regulation, PP&E would have been $238.6 million higher as at September 30, 2014 [December 31, 2013 - $157.9 million higher].

For the three months and the nine months ended September 30, 2014, LDC recorded depreciation expense of $1.9 million and $4.8 million [three months and nine months ended September 30, 2013 - $0.7 million and $0.9 million] related to the eligible in-service capital expenditures.

For the three months and the nine months ended September 30, 2014, the revenues related to the eligible in-service capital expenditures were $5.9 million and $14.9 million [three months and nine months ended September 30, 2013 - $1.0 million and $2.8 million]. In the absence of rate regulation, for the three months and the nine months ended September 30, 2014, revenues would have been $0.7 million lower and $1.1 million higher [three months and nine months ended September 30, 2013 - $4.5 million higher].

b) Settlement Variances

This account includes the variances between amounts charged by LDC to customers, based on regulated rates, and the corresponding cost of non-competitive electricity service incurred by LDC. The settlement variances relate primarily to service charges, non-competitive electricity charges and the global adjustment. Accordingly, LDC has deferred the variances between the costs incurred and the related recoveries in accordance with the criteria set out in the accounting principles prescribed by the OEB. The balance for settlement variances continues to be calculated and attracts carrying charges in accordance with the OEB’s direction.

For the three months and the nine months ended September 30, 2014, settlement variances included in the RARA of $nil were disposed through rate adjustments [three months and nine months ended September 30, 2013 - $nil].

c) Post-Retirement Benefits

This regulatory asset account relates to the expected future electricity distribution charges to customers arising from timing differences in the recognition of actuarial losses of other post-retirement benefits. In the absence of rate regulation, these amounts would be recorded in OCI and accumulated other comprehensive income. The amount is amortized over the same period as the corresponding actuarial losses. The period in which recovery is expected cannot be determined at this time.

d) Smart Meters and Stranded Meters

The smart meters and stranded meters regulatory asset accounts relate to the provincial government’s decision to install smart meters throughout Ontario. LDC substantially completed its smart meter project as at December 31, 2010. In connection with this initiative, the OEB ordered LDC to record all expenditures and related revenues from 2008 to 2010 to a regulatory asset account and allowed LDC to keep the net book value of the stranded meters in PP&E. Effective January 1, 2011, LDC has recorded post-2010 smart meter costs in PP&E and intangible assets as a regular distribution activity as directed by the OEB. On January 16, 2014, the OEB approved LDC's request for incremental revenue and disposition of the smart meter deferral account balances *[note 3]*.

The OEB ruling on smart meters also permitted the recovery in principle of LDC's allowed cost of capital on smart meters since 2008, with a rate order issued to this effect. Accordingly, a new regulatory asset of $25.2 million was recorded as at December 31, 2013 to reflect the future amount to be recovered through rates over a 36-month period commencing on May 1, 2014 and ending on April 30, 2017, with a related amount recorded in revenue.

In addition, the net book value of stranded meters related to the deployment of smart meters was reclassified from PP&E to regulatory assets as at December 31, 2013. Depreciation expense continues to be recorded on the stranded meters in regulatory assets in 2014. For the three months and the nine months ended September 30, 2014, LDC recorded depreciation expense of $0.7 million and $1.9 million [three months and nine months ended September 30, 2013 - $0.7 million and $1.9 million] related to the stranded meters. Included in the 2015-2019 rate application is the recovery of the forecasted net book value of the stranded meters as at December 31, 2014 *[note 3]*.

For the three months and the nine months ended September 30, 2014, LDC recognized $2.4 million and $7.0 million of the forecasted 2014 smart meter incremental revenue requirement [three months and nine months ended September 30, 2013 - $nil]. In the absence of rate regulation, for the three months and the nine months ended September 30, 2014, revenues relating to smart meters would have been $2.0 million and $2.3 million higher [three months and nine months ended September 30, 2013 - $1.5 million and $4.5 million higher], and depreciation and amortization expenses relating to smart meters and stranded meters would have been $0.7 million and $1.9 million lower [three months and nine months ended September 30, 2013 - $0.8 million and $2.7 million higher].

e) Deferred Income Taxes

This regulatory liability account relates to the expected future electricity distribution rate reduction for customers arising from timing differences in the recognition of deferred income tax assets.

As at September 30, 2014, LDC had a deferred income tax asset and a corresponding regulatory liability of $135.1 million [December 31, 2013 - $155.9 million] with respect to its rate-regulated activities that will be included in the rate-setting process.

f) Revision of Prior Year Tax Position

The revision of prior year tax position regulatory liability account relates to changes to certain prior year tax positions based on reassessments received and in process, not reflected in electricity distribution rates charged to customers. As at September 30, 2014, the balance in this account consisted of an over-recovery of PILs from customers of $21.6 million [December 31, 2013 - $19.4 million].

g) Income and Other Taxes Variance Account

The income and other taxes variance regulatory liability account relates to the differences that have resulted from a legislative or regulatory change to the tax rates or rules assumed in applications for electricity distribution rates. As at September 30, 2014, the balance in this account consisted of an over-recovery of PILs from customers of $2.5 million [December 31, 2013 - $2.4 million].

h) Regulatory Assets Recovery Account

The RARA consists of balances of regulatory assets or regulatory liabilities approved for disposition by the OEB through rate riders. The RARA is subject to carrying charges following the OEB-prescribed methodology and related rates.

On February 22, 2011, the OEB approved the disposition of the Late Payment Penalties Settlement regulatory asset of $7.5 million, over a 21-month period commencing on August 1, 2011 and ending on April 30, 2013.

[all tabular amounts in millions of Canadian dollars, unaudited]

On April 2, 2013, the OEB approved the disposition of net regulatory liabilities of $6.5 million, primarily consisting of PILs regulatory variance accounts, over an 11-month period commencing on June 1, 2013 and ending on April 30, 2014.

8. SHORT-TERM BORROWINGS

The Corporation is a party to a revolving credit facility expiring on October 10, 2019 [“Revolving Credit Facility”], pursuant to which it may borrow up to $700.0 million, of which up to $210.0 million is available in the form of letters of credit. On June 13, 2014, the borrowing capacity under the Revolving Credit Facility was increased from $600.0 million to $700.0 million and the expiry date extended from October 10, 2018 to October 10, 2019. The Revolving Credit Facility contains certain covenants, the most significant of which is a requirement that the Corporation’s debt to capitalization ratio not exceed 75%. As at September 30, 2014, the Corporation was in compliance with all covenants included in its Revolving Credit Facility.

The Corporation has a commercial paper program allowing up to $500.0 million of unsecured short-term promissory notes [“Commercial Paper Program”] to be issued in various maturities of no more than one year. On June 13, 2014, the amount the Corporation may issue under this program was increased from $400.0 million to $500.0 million. 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.

Additionally, the Corporation is a party to:

- a demand facility with a Canadian chartered bank for $75.0 million for the purpose of issuing letters of credit mainly to support LDC’s prudential requirements with the IESO [“Prudential Facility”]; and
- a demand facility with a second Canadian chartered bank for $20.0 million for the purpose of working capital management [“Working Capital Facility”].

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

	Facility Limit $	Facility Borrowings $	Commercial Paper $	Facility Availability $
September 30, 2014	700.0	—	206.0	494.0
December 31, 2013	600.0	—	150.0	450.0

As at September 30, 2014, $10.0 million had been drawn under the Working Capital Facility [December 31, 2013 - $19.1 million] and $29.7 million of letters of credit had been issued against the Prudential Facility [December 31, 2013 - $50.1 million].

For the three months and the nine months ended September 30, 2014, the average outstanding borrowings on the Corporation’s credit facilities and commercial paper, excluding the Prudential Facility, were $325.9 million and $245.0 million [three months and nine months ended September 30, 2013 - $119.7 million and $54.1 million] with weighted average interest rates of 1.18% and 1.18% [three months and nine months ended September 30, 2013 – 2.02% and 2.18%].

[all tabular amounts in millions of Canadian dollars, unaudited]

9. DEBENTURES

On September 16, 2014, the Corporation issued $200.0 million of 4.08% senior unsecured debentures due September 16, 2044 [“Series 10”]. The Series 10 debentures bear interest payable semi-annually in arrears and contain covenants which, subject to certain exceptions, restrict the ability of the Corporation and LDC to create security interests, incur additional indebtedness or dispose of all or substantially all of their assets. The Corporation may redeem all or part of the Series 10 debentures prior to maturity at a price equal to the greater of the Canada Yield Price (determined in accordance with the terms of the debentures) and par, plus accrued and unpaid interest to the date fixed for redemption. The net proceeds of the debentures were used to repay certain existing indebtedness of the Corporation, fund a portion of the Corporation’s capital expenditures, and for general corporate purposes. Debt issuance costs of $1.6 million relating to the Series 10 debentures were deferred as other assets in the third quarter of 2014 and are amortized to net financing charges using the effective interest method.

10. EMPLOYEE FUTURE BENEFITS

a) Pension

The Corporation’s full-time employees participate in a pension plan through OMERS. For the three months and the nine months ended September 30, 2014, the Corporation’s contributions to the plan were $4.4 million and $13.8 million [three months and nine months ended September 30, 2013 - $4.7 million and $14.6 million].

b) Post-retirement benefits other than pension

The components of net periodic benefit cost are:

	Three months ended September 30		Nine months ended September 30	
	2014 $	2013 $	2014 $	2013 $
Service cost	**1.3**	1.3	**3.6**	4.0
Interest cost	**2.8**	2.7	**8.5**	8.1
Amortization of net actuarial loss	**0.2**	0.5	**0.6**	1.5
Net periodic benefit cost	**4.3**	4.5	**12.7**	13.6
Capitalized as part of PP&E	**1.8**	1.7	**4.9**	4.8
Charged to operations	**2.5**	2.8	**7.8**	8.8

11. FINANCIAL INSTRUMENTS

a) Recognition and measurement

As at September 30, 2014 and December 31, 2013, the fair values of cash and cash equivalents, net accounts receivable, unbilled revenue, Working Capital Facility, commercial paper, and accounts payable and accrued liabilities approximate their carrying values due to the short maturity of these instruments. The fair values of customers’ advance deposits approximate their carrying values taking into account interest accrued on the outstanding balance. Obligations under capital lease are measured based on a discounted cash flow analysis and approximate the carrying value as management believes that the fixed interest rates are representative of current market rates.

[all tabular amounts in millions of Canadian dollars, unaudited]

The fair values of the debentures are calculated by discounting the related cash flows at the estimated yield to maturity of similar debt instruments, and are included in Level 2 of the fair value hierarchy. As at September 30, 2014, the total fair value of the Corporation's debentures (including the current portion) was determined to be approximately $1,747.2 million [December 31, 2013 - $1,480.8 million], with a total carrying value of $1,649.3 million [December 31, 2013 - $1,449.3 million].

b) Financial Risks

The following is a discussion of 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.

The Corporation is exposed to a variety of financial risks, particularly credit risk, interest rate risk and liquidity risk.

Credit risk

The Corporation is exposed to credit risk as a result of the risk of counterparties defaulting on their obligations. The Corporation's exposure to credit risk primarily relates to accounts receivable and unbilled revenue. The Corporation monitors and limits its exposure to credit risk on a continuous basis.

The Corporation's credit risk associated with accounts receivable is primarily related to electricity bill payments from LDC customers. LDC has approximately 736,000 customers. LDC obtains security instruments from certain customers in accordance with direction provided by the OEB. As at September 30, 2014, LDC held security deposits in the amount of $42.5 million [December 31, 2013 - $44.7 million], of which $19.8 million [December 31, 2013 - $22.2 million] were related to security deposits on Offers to Connect to guarantee the payment of additional costs related to expansion projects. As at September 30, 2014, there were no significant concentrations of credit risk with respect to any customer.

The Corporation did not have any single customer that generated more than 10% of total consolidated revenues for the nine months ended September 30, 2014 and September 30, 2013.

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

	September 30 2014 $	December 31 2013 $
Unbilled revenue	**280.0**	326.9
Accounts receivable		
Outstanding for not more than 30 days	**194.7**	176.9
Outstanding for more than 30 days and not more than 120 days	**25.8**	24.4
Outstanding for more than 120 days	**14.6**	12.2
Less: Allowance for doubtful accounts	**(12.0)**	(10.9)
Total accounts receivable, net	**223.1**	202.6
Total accounts receivable and unbilled revenue	**503.1**	529.5

Unbilled revenue represents amounts for which the Corporation has a contractual right to receive cash through future billings and are unbilled at period-end. Unbilled revenue is considered current and no allowance for doubtful accounts had been provided as at September 30, 2014 and December 31, 2013.

The credit risk related to cash, cash equivalents and investments is mitigated by the Corporation's treasury policies on assessing and monitoring the credit exposures of counterparties. The Corporation's maximum exposure to credit risk is approximately equal to the carrying value of its financial assets.

Interest rate risk

The Corporation is exposed to short-term interest rate risk on the net of cash and cash equivalents, short-term borrowings under its Revolving Credit Facility, Working Capital Facility and Commercial Paper Program *[note 8]*, and customers' advance deposits. The Corporation manages interest rate risk by monitoring the mix of fixed and floating rate instruments, and taking action as necessary to maintain an appropriate balance.

As at September 30, 2014, the Corporation was exposed to interest rate risk predominately from short-term borrowings under its Commercial Paper Program, while most of its remaining obligations were either non-interest bearing or bear fixed interest rates, and its financial assets were predominately short-term in nature and mostly non-interest bearing. The Corporation estimates that a 100 basis point increase (decrease) in short-term interest rates, with all other variables held constant, would result in an increase (decrease) of approximately $2.6 million to annual net financing charges.

Liquidity risk

The Corporation is exposed to liquidity risk related to its ability to fund its obligations as they become due. The Corporation monitors and manages its liquidity risk to ensure access to sufficient funds to meet operational and financial requirements. The Corporation has access to credit facilities and debt capital markets and monitors cash balances daily. The Corporation's objective is to ensure that sufficient liquidity is on hand to meet obligations as they fall due while minimizing net financing charges.

[all tabular amounts in millions of Canadian dollars, unaudited]

Liquidity risks associated with financial commitments are as follows:

	September 30, 2014					
	Due within 1 year $	Due within 2 years $	Due within 3 years $	Due within 4 years $	Due within 5 years $	Due after 5 years $
Working Capital Facility	**10.0**	—	—	—	—	—
Commercial paper [1]	**206.0**	—	—	—	—	—
Accounts payable and accrued liabilities [2]	**484.5**	—	—	—	—	—
Obligations under capital lease	**3.0**	**2.8**	**2.7**	**2.0**	—	—
Senior unsecured debentures						
Series 2 – 5.15% due November 14, 2017	—	—	—	**250.0**	—	—
Series 3 – 4.49% due November 12, 2019	—	—	—	—	—	**250.0**
Series 6 – 5.54% due May 21, 2040	—	—	—	—	—	**200.0**
Series 7 – 3.54% due November 18, 2021	—	—	—	—	—	**300.0**
Series 8 – 2.91% due April 10, 2023	—	—	—	—	—	**250.0**
Series 9 – 3.96% due April 9, 2063	—	—	—	—	—	**200.0**
Series 10 – 4.08% due September 16, 2044	—	—	—	—	—	**200.0**
Interest payments on debentures	**69.2**	**69.2**	**69.2**	**62.7**	**56.2**	**846.4**
	772.7	**72.0**	**71.9**	**314.7**	**56.2**	**2,246.4**

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

[2] Accounts payable and accrued liabilities exclude $24.7 million of accrued interest on debentures included within "Interest payments on debentures".

Foreign exchange risk

As at September 30, 2014, the Corporation had limited exposure to the changing values of foreign currencies. While the Corporation purchases goods and services which are payable in US dollars, and purchases US currency to meet the related commitments when required, the impact of these transactions is not material to the interim consolidated financial statements.

[all tabular amounts in millions of Canadian dollars, unaudited]

12. SHARE CAPITAL

Share capital consists of the following:

	September 30 2014 $	December 31 2013 $
Authorized		
The authorized share capital of the Corporation consists of an unlimited number of common shares without par value.		
Issued and outstanding		
1,000 common shares, of which all were fully paid.	**567.8**	567.8

Dividends

On March 19, 2014, the Board of Directors of the Corporation declared dividends in the amount of $41.9 million. The dividends consisted of $35.6 million with respect to net income for the year ended December 31, 2013, which was paid to the City on March 28, 2014, and $6.3 million with respect to the first quarter of 2014, which was paid to the City on March 31, 2014.

On May 15, 2014, the Board of Directors of the Corporation declared a dividend in the amount of $6.3 million with respect to the second quarter of 2014, which was paid to the City on June 30, 2014.

On August 14, 2014, the Board of Directors of the Corporation declared a dividend in the amount of $6.3 million with respect to the third quarter of 2014, which was paid to the City on September 30, 2014.

On November 13, 2014, the Board of Directors of the Corporation declared a dividend in the amount of $6.3 million with respect to the fourth quarter of 2014. The dividend is payable on December 31, 2014.

13. NET FINANCING CHARGES

Net financing charges consist of the following:

	Three months ended September 30		Nine months ended September 30	
	2014 $	2013 $	2014 $	2013 $
Interest income	**0.3**	0.3	**0.4**	1.7
Interest expense				
Long-term debt [1]	**(15.7)**	(15.4)	**(46.5)**	(52.2)
Other interest	**(1.9)**	(1.3)	**(4.5)**	(2.8)
AFUDC	**1.5**	1.1	**3.8**	2.1
	(15.8)	(15.3)	**(46.8)**	(51.2)

[1] Includes amortization of debt issuance costs, premiums and discounts.

[all tabular amounts in millions of Canadian dollars, unaudited]

14. INCOME TAXES

The Corporation's effective tax rate for the three months and the nine months ended September 30, 2014 was 9.30% and 8.64% [three months and nine months ended September 30, 2013 – 12.47% and 1.92%]. The effective tax rate for the nine months ended September 30, 2014 was higher than the nine months ended September 30, 2013, primarily due to favourable resolution of certain tax positions identified in prior periods and related reassessments by the Ministry of Finance of Ontario in 2013. During the fourth quarter of 2013, substantially all of the benefit of the favourable reassessments was recognized as a regulatory liability, payable to customers in the future, resulting in an overall effective tax rate for the year ended December 31, 2013 of 3.45%.

15. CONSOLIDATED STATEMENTS OF CASH FLOWS

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

	Three months ended September 30		Nine months ended September 30	
	2014 $	2013 $	2014 $	2013 $
Accounts receivable	**(35.0)**	(38.1)	**(20.5)**	(48.2)
Unbilled revenue	**24.1**	(3.4)	**46.9**	(25.0)
Income tax receivable	**0.1**	4.8	**(1.6)**	4.4
Inventories	**0.2**	0.6	**0.3**	(0.1)
Other current assets	**(0.9)**	0.2	**(1.4)**	(2.1)
Accounts payable and accrued liabilities	**14.0**	2.5	**24.8**	38.0
Restructuring accrual	**—**	(3.2)	**—**	(10.2)
Deferred conservation credit	**(4.2)**	1.5	**(3.4)**	2.5
Other current liabilities	**0.1**	—	**0.2**	0.1
	(1.6)	(35.1)	**45.3**	(40.6)

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

	Three months ended September 30		Nine months ended September 30	
	2014 $	2013 $	2014 $	2013 $
Purchase of PP&E, cash basis	**133.2**	90.0	**356.9**	241.3
Net change in accruals related to PP&E	**26.6**	15.1	**28.8**	10.3
Capital lease additions	**2.1**	—	**2.1**	0.3
Capitalized overhead costs	**0.5**	0.5	**1.5**	1.7
Total additions to PP&E	**162.4**	105.6	**389.3**	253.6
Purchase of intangible assets, cash basis	**15.7**	4.5	**31.1**	44.9
Total additions to PP&E and intangible assets	**178.1**	110.1	**420.4**	298.5

[all tabular amounts in millions of Canadian dollars, unaudited]

16. RELATED PARTY TRANSACTIONS

As a wholly-owned subsidiary of the City, the Corporation and the City are considered related parties. All transactions with the City are conducted on terms similar to those offered to unrelated parties.

Revenues include amounts charged to the City primarily for electricity, street lighting and ancillary services. Operating expenses and capital expenditures include amounts charged by the City for purchased road cut repairs, property taxes and other services. Dividends are paid to the City *[note 12]*.

Accounts receivable include receivables from the City primarily for electricity, street lighting and ancillary services. Unbilled revenue includes receivables from the City related to electricity and other services provided and not yet billed. Accounts payable and accrued liabilities include amounts payable to the City related to road cut repairs and other services, as well as amounts received from the City for the construction of electricity distribution assets. Advance deposits include amounts received from the City for future expansion projects.

17. COMMITMENTS

Operating leases and capital projects

As at September 30, 2014, the future minimum annual payments under property operating leases, capital projects and other commitments with remaining terms from one to five years and thereafter were as follows:

	Operating leases $	Capital projects [3] and other $
2014 [1]	**1.6**	**24.6**
2015	**6.1**	**39.4**
2016	**5.7**	**1.2**
2017	**2.1**	—
2018	—	—
Thereafter	—	—
Total amount of future minimum payments [2]	**15.5**	**65.2**

(1) Represents the balance due over the period from October 1, 2014 to December 31, 2014.
(2) Refer to note 11 for future cash outflows excluded from the table above.
(3) Reflects capital project commitments for construction services and estimated capital contributions, with the majority related to Copeland Station.

[all tabular amounts in millions of Canadian dollars, unaudited]

Capital leases

As at September 30, 2014, the future minimum annual lease payments under capital leases with remaining lease terms from one to five years and thereafter were as follows:

	$
2014 (1)	**0.7**
2015	**2.9**
2016	**2.9**
2017	**2.7**
2018	**1.3**
Thereafter	**—**
Total amount of future minimum lease payments	**10.5**
Less: interest and executory costs	**0.8**
	9.7
Current portion included in Other liabilities	**2.6**
Long-term portion included in Other liabilities	**7.1**

(1) Represents the balance due over the period from October 1, 2014 to December 31, 2014.

18. CONTINGENCIES

Legal Proceedings

In the ordinary course of business, the Corporation is subject to various legal actions and claims with customers, suppliers, former employees and other parties. On an ongoing basis, the Corporation assesses the likelihood of any adverse judgments or outcomes as well as potential ranges of probable costs and losses. A determination of the provision required, if any, for these contingencies is made after an analysis of each individual issue. The provision may change in the future due to new developments in each matter or changes in approach, such as a change in settlement strategy. If damages were awarded under these actions, the Corporation and its subsidiaries would make a claim under any applicable liability insurance policies which the Corporation believes would cover any damages which may become payable by the Corporation and its subsidiaries in connection with these actions, subject to such claim not being disputed by the insurer.

2 Secord Avenue

An action was commenced against LDC in September 2008 in the Ontario Superior Court of Justice under the *Class Proceedings Act, 1992* (Ontario) which sought damages in the amount of $30.0 million as compensation for damages allegedly suffered as a result of a fire and explosion in an underground vault at 2 Secord Avenue on July 20, 2008. On June 16, 2014, a settlement reached by the parties was approved by Order of the Ontario Superior Court of Justice pursuant to which LDC paid the amount of $6.5 million, including all taxes and legal fees in settlement of the action of the class plaintiffs. LDC's liability insurance covered the settlement payment.

On March 10, 2009, a third party claim was served by LDC related to the above action and on June 15, 2009, a third party defence and counterclaim against LDC seeking damages in the amount of $51.0 million were served by the owner and manager of 2 Secord Avenue. Given the preliminary status of the unsettled actions, it is not possible to reasonably quantify the effect, if any, of this action on the financial performance of the Corporation. If damages were awarded, LDC would make a claim under its liability insurance which the Corporation believes would cover any damages which may become payable by LDC in connection with the action.

On December 20, 2010, LDC was served with a statement of claim by the City seeking damages in the amount of $2.0 million as a result of the fire at 2 Secord Avenue. A statement of defence and a third party claim have been served. Given the preliminary status of this action, it is not possible to reasonably quantify the effect, if any, of this action on the financial performance of the Corporation. If damages were awarded, LDC would make a claim under its liability insurance which the Corporation believes would cover any damages which may become payable by LDC in connection with the action.

By order of the court dated January 24, 2012, the above actions involving the same incident will be tried at the same time or consecutively.

2369 Lakeshore Boulevard West

A third party action was commenced against LDC in October 2009 in the Ontario Superior Court of Justice under the *Class Proceedings Act, 1992* (Ontario) seeking damages in the amount of $30.0 million as compensation for damages allegedly suffered as a result of a fire in the electrical room at 2369 Lakeshore Boulevard West on March 19, 2009. Subsequently, in March 2010, the plaintiff in the main action amended its statement of claim to add LDC as a defendant. The plaintiff in the main action seeks general damages in the amount of $10.0 million and special damages in the amount of $20.0 million from LDC. The plaintiff's motion for certification of the class action was granted on September 11, 2014. Statements of defence to the main action and to the third party claim have not been filed. Given the preliminary status of these actions, it is not possible at this time to reasonably quantify the effect, if any, of these actions on the financial performance of the Corporation. If damages were awarded, LDC would make a claim under its liability insurance which the Corporation believes would cover any damages which may become payable by LDC in connection with these actions.

On August 29, 2011, LDC was served with a statement of claim by the owner of the building and the property management company for the building seeking damages in the amount of $2.0 million as a result of the fire at 2369 Lakeshore Boulevard West. LDC has filed a statement of defence and counterclaim. Given the preliminary status of this action, it is not possible to reasonably quantify the effect, if any, of this action on the financial performance of the Corporation. If damages were awarded, LDC would make a claim under its liability insurance which the Corporation believes would cover any damages which may become payable by LDC in connection with the action.

19. SEASONAL OPERATIONS

The Corporation's quarterly results are impacted by changes in revenues resulting from variations in seasonal weather conditions, the fluctuations in electricity prices, and the timing and recognition of regulatory decisions. Consequently, the Corporation's revenues, all other things being equal, 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.

20. COMPARATIVE FIGURES

Certain comparative figures have been reclassified from financial statements previously presented to conform to the presentation of the September 30, 2014 interim consolidated financial statements. During the fourth quarter of 2013, the Corporation changed the presentation on the consolidated statements of cash flows of the net change in regulatory assets and liabilities from investing activities to operating activities. Prior year comparatives have been reclassified with cash inflows of $14.2 million and cash outflows of $4.5 million previously presented as investing activities for the three months and nine months ended September 30, 2013 reclassified to operating activities.