SECOND QUARTER FINANCIAL REPORT
JUNE 30, 2020

TORONTO HYDRO CORPORATION

TABLE OF CONTENTS

GLOSSARY

CDM – Conservation and Demand Management

CEAP – COVID-19 Emergency Assistance Program

CEO – Chief Executive Officer

CFO – Chief Financial Officer

CIR – Custom Incentive Rate-setting

City – City of Toronto

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

Corporation – Toronto Hydro Corporation

COVID-19 – Coronavirus disease 2019

ECA – Energy Conservation Agreement

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

ERP – Enterprise resource planning

GWh – Gigawatt hour

HONI – Hydro One Networks Inc.

IAS – International Accounting Standard

IASB – International Accounting Standards Board

IESO – Independent Electricity System Operator

IFRS – International Financial Reporting Standards

kW – Kilowatt

kWh – Kilowatt hour

LDC – Toronto Hydro-Electric System Limited

LEAP – Low-income Energy Assistance Program

LRAM – Lost revenue adjustment mechanism

OEB – Ontario Energy Board

OEB Act – *Ontario Energy Board Act, 1998* (Ontario), as amended

OFHP – Ontario's Fair Hydro Plan

OMERS – Ontario Municipal Employees Retirement System

OPEB – Other post-employment benefits

OREC – *Ontario Rebate for Electricity Consumers Act*, 2016 (Ontario)

PP&E – Property, plant and equipment

TH Energy – Toronto Hydro Energy Services Inc.

Toronto Hydro – Toronto Hydro Corporation and its subsidiaries

TOU – Time-of-use

WMS – Wholesale Market Service

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2020 AND 2019

Executive Summary

- During the COVID-19 pandemic, the Corporation has maintained the full range of its services while focusing on the health and safety of its employees and the community. The Corporation has continued with critical work in its grid investment plan to maintain safety and reliability, support a growing city, and meet customer service needs;
- Net income after net movements in regulatory balances for the three and six months ended June 30, 2020 was \$36.0 million and \$71.4 million, compared to \$46.1 million and \$88.7 million for the comparable periods in 2019;
- Capital expenditures were primarily related to the renewal of the electricity infrastructure of LDC and were \$169.7 million and \$300.0 million for the three and six months ended June 30, 2020, compared to \$135.5 million and \$233.7 million for the comparable periods in 2019;
- On December 19, 2019, the OEB issued its 2020-2024 CIR Decision and on February 20, 2020, the OEB issued its CIR Final Rate Order, both in relation to the rate application filed by LDC on August 15, 2018 ("2020-2024 CIR decision and rate order"). The 2020-2024 CIR decision and rate order approved a rate base of \$4,514.8 million and revenue requirement of \$750.2 million for 2020. The rates for 2020 were implemented on March 1, 2020, with an effective date of January 1, 2020;
- On May 25, 2020, the amount the Corporation may issue under its Commercial Paper Program was increased by \$150.0 million from \$600.0 million to \$750.0 million; and
- On August 19, 2020, the Board of Directors of the Corporation declared a quarterly dividend in the amount of \$23.2 million with respect to the third quarter of 2020 (third quarter of 2019 - \$25.1 million), payable to the City by September 30, 2020.

Introduction

This MD&A should be read in conjunction with:

- the Corporation's unaudited condensed interim consolidated financial statements and accompanying notes as at and for the three and six months ended June 30, 2020 and 2019 (the "Interim Financial Statements), which were prepared in accordance with IAS 34 *Interim Financial Reporting*. The Interim Financial Statements have been prepared following the same accounting policies and methods of computation as described in note 25 to the Corporation's audited consolidated financial statements as at and for the years ended December 31, 2019 and 2018 (the "2019 Annual Financial Statements");

- 2019 Annual Financial Statements; and

- the Corporation's MD&A for the years ended December 31, 2019 and 2018 (the "2019 Annual MD&A") including the sections titled "Electricity Distribution – Industry Overview", "Legal Proceedings", "Share Capital", and "Transactions with Related Parties", which remain substantially unchanged as at the date hereof, except as may be noted below.

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

Business of Toronto Hydro Corporation

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

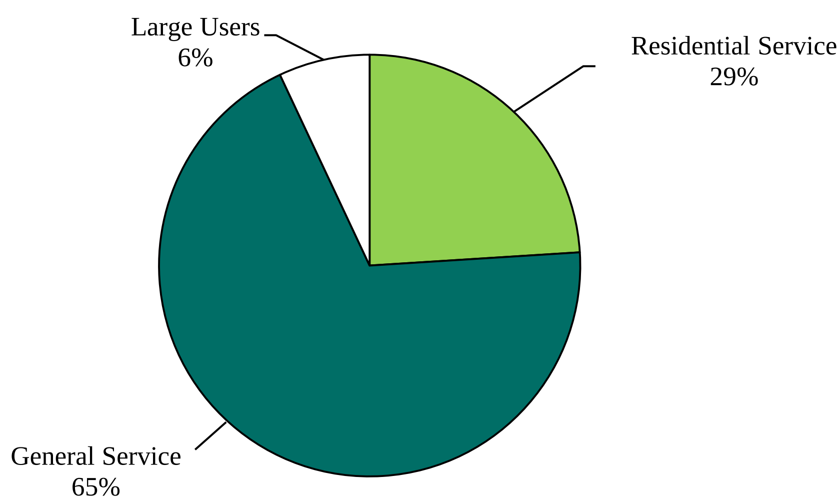
- LDC - distributes electricity; and
- TH Energy - provides street lighting and expressway lighting services in the City.

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

The principal business of the Corporation and its subsidiaries is the distribution of electricity by LDC. LDC owns and operates an electricity distribution system, delivering electricity to approximately 779,000 customers located in the City. LDC serves the largest city in Canada and distributes approximately 18% of the electricity consumed in Ontario. The business of LDC is regulated by the OEB, which has broad powers relating to licensing, standards of conduct and service, and the regulation of electricity distribution rates charged by electricity distributors in Ontario. For the six months ended June 30, 2020, LDC recognized energy sales and distribution revenue of $1,816.7 million from general service users[1], residential service users[2] and large users[3].

LDC Energy Sales and Distribution Revenue by Class

Six months ended June 30, 2020



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

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

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

Results of Operations

Net Income after Net Movements in Regulatory Balances

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

	2020 $	2019 $	Change $
Revenues			
Energy sales	670.8	602.6	68.2
Distribution revenue	158.8	198.3	(39.5)
Other	22.7	23.3	(0.6)
	852.3	824.2	28.1
Expenses			
Energy purchases	690.2	646.9	43.3
Operating expenses	87.0	75.4	11.6
Depreciation and amortization	65.0	60.4	4.6
	842.2	782.7	59.5
Finance costs	(18.9)	(20.0)	1.1
Gain on disposals of PP&E	-	2.2	(2.2)
Income (loss) before income taxes	(8.8)	23.7	(32.5)
Income tax expense	(6.5)	(18.3)	11.8
Net income (loss)	(15.3)	5.4	(20.7)
Net movements in regulatory balances	43.3	28.2	15.1
Net movements in regulatory balances arising from deferred tax assets	8.0	12.5	(4.5)
Net income after net movements in regulatory balances	36.0	46.1	(10.1)

The decrease in net income after net movements in regulatory balances for the three months ended June 30, 2020 was primarily due to lower distribution revenue mainly driven by lower commercial electricity consumption as a result of the COVID-19 pandemic and by lower 2020 distribution rates ($14.4 million) and lower LRAM recovery as a result of the provincial government's changes to CDM programs in Ontario ($7.5 million). These variances were partially offset by lower income taxes including regulatory balances arising from deferred tax assets ($7.3 million) and by lower operating expenses ($7.0 million) excluding an incremental bad debt expense of $18.6 million.

The increase in operating expenses includes an incremental $18.6 million of bad debt expense which represents management's estimate of the impact on the expected credit losses as a result of the COVID-19 pandemic. The Corporation believes this expense will be recovered through rates at some point in the future. The amount was recorded as a regulatory debit on the Consolidated Balance Sheets with a corresponding offset in net movements in regulatory balances. Therefore, with the exception of the tax implication, this amount has no impact on net income after net movements in regulatory balances.

Net Income after Net Movements in Regulatory Balances

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

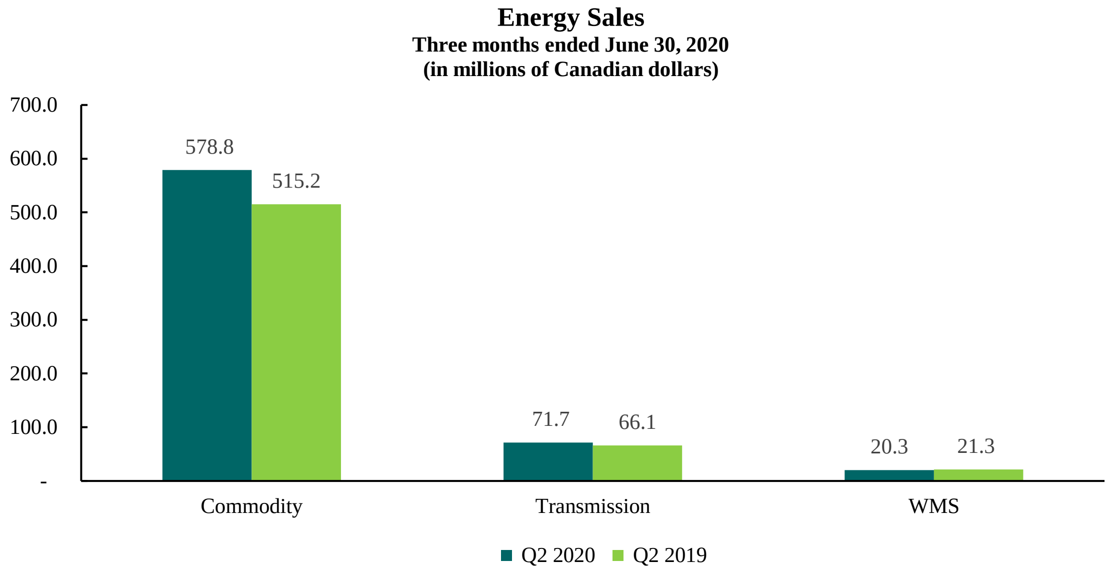
	2020 $	2019 $	Change $
Revenues			
Energy sales	1,470.9	1,266.3	204.6
Distribution revenue	345.8	391.2	(45.4)
Other	43.5	43.7	(0.2)
	1,860.2	1,701.2	159.0
Expenses			
Energy purchases	1,499.7	1,316.4	183.3
Operating expenses	162.8	151.4	11.4
Depreciation and amortization	128.0	118.0	10.0
	1,790.5	1,585.8	204.7
Finance costs	(38.8)	(39.9)	1.1
Gain on disposals of PP&E	-	2.2	(2.2)
Income before income taxes	30.9	77.7	(46.8)
Income tax expense	(16.1)	(35.8)	19.7
Net income	14.8	41.9	(27.1)
Net movements in regulatory balances	41.4	27.5	13.9
Net movements in regulatory balances arising from deferred tax assets	15.2	19.3	(4.1)
Net income after net movements in regulatory balances	71.4	88.7	(17.3)

The decrease in net income after net movements in regulatory balances for the six months ended June 30, 2020 was primarily due to lower distribution revenue mainly driven by lower commercial electricity consumption as a result of the COVID-19 pandemic and by lower 2020 distribution rates ($18.5 million), lower LRAM recovery as a result of the provincial government's changes to CDM programs in Ontario ($12.0 million) and higher depreciation related to new in-service asset additions ($10.0 million). These variances were partially offset by lower income taxes including regulatory balances arising from deferred tax assets ($15.6 million) and by lower operating expenses ($7.2 million) excluding an incremental bad debt expense of $18.6 million.

The increase in operating expenses includes an incremental $18.6 million of bad debt expense which represents management's estimate of the impact on the expected credit losses as a result of the COVID-19 pandemic. The Corporation believes this expense will be recovered through rates at some point in the future. The amount was recorded as a regulatory debit on the Consolidated Balance Sheets with a corresponding offset in net movements in regulatory balances. Therefore, with the exception of the tax implication, this amount has no impact on net income after net movements in regulatory balances.

Energy Sales

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



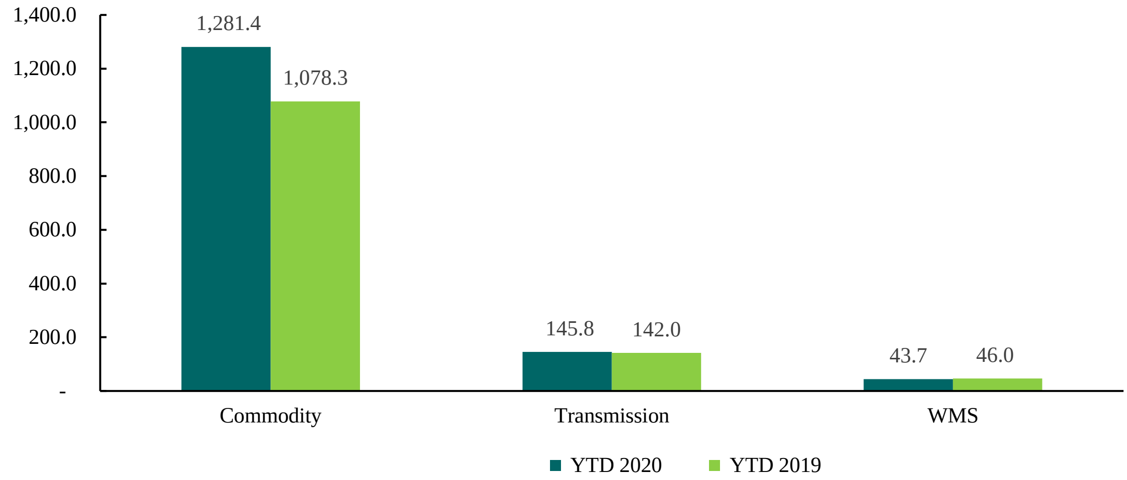
Energy sales for the three months ended June 30, 2020 were $670.8 million compared to $602.6 million for the comparable period in 2019. The increase was primarily due to higher commodity charges ($63.6 million).

Energy Purchases, Energy Sales, and Settlement Variances
Three months ended June 30, 2020
(in millions of Canadian dollars)

	Energy Purchases $	Energy Sales $	Settlement Variances $
Commodity charges	607.3	578.8	28.5
Retail transmission charges	72.7	71.7	1.0
WMS charges	10.2	20.3	(10.1)
Total	690.2	670.8	19.4

For the three months ended June 30, 2020, LDC recognized $670.8 million in energy sales to customers and was billed $690.2 million for energy purchases from the IESO. The difference between energy sales and energy purchases represents a $19.4 million settlement variance for the period. The settlement variance was recorded as an increase to the regulatory debit balance ($19.6 million including carrying charges on the accumulated settlement variance balance) on the Consolidated Balance Sheets, and presented within net movements in regulatory balances on the Consolidated Statements of Income.

Energy Sales
Six months ended June 30, 2020
(in millions of Canadian dollars)



Energy sales for the six months ended June 30, 2020 were $1,470.9 million compared to $1,266.3 million for the comparable period in 2019. The increase was primarily due to higher commodity charges ($203.1 million).

Energy Purchases, Energy Sales, and Settlement Variances
Six months ended June 30, 2020
(in millions of Canadian dollars)

	Energy Purchases $	Energy Sales $	Settlement Variances $
Commodity charges	1,322.7	1,281.4	41.3
Retail transmission charges	144.2	145.8	(1.6)
WMS charges	32.8	43.7	(10.9)
Total	1,499.7	1,470.9	28.8

For the six months ended June 30, 2020, LDC recognized $1,470.9 million in energy sales to customers and was billed $1,499.7 million for energy purchases from the IESO. The difference between energy sales and energy purchases represents a $28.8 million settlement variance for the period. The settlement variance was recorded as a decrease to the regulatory credit balance ($29.1 million including carrying charges on the accumulated settlement variance balance; see the regulatory debit balance table in note 6 to the Interim Financial Statements) on the Consolidated Balance Sheets, and presented within net movements in regulatory balances on the Consolidated Statements of Income.

Distribution Revenue

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

Distribution revenue for the three and six months ended June 30, 2020 was $158.8 million and $345.8 million, respectively, compared to $198.3 million and $391.2 million for the comparable periods in 2019.

The decrease in distribution revenue for the three months and six months ended June 30, 2020 was primarily due to lower revenue collected through OEB-approved rate riders ($24.8 million and $26.5 million, respectively) and lower electricity consumption combined with lower 2020 distribution rates ($14.4 million and $18.5 million, respectively). The lower electricity consumption was driven by lower commercial usage as a result of the COVID-19 pandemic.

The Corporation continues to track lost revenues related to lower commercial electricity consumption as a result of the COVID-19 pandemic and direct relief provided to customers through reduction of late payment charges. These amounts have not been recorded in the COVID-19 Emergency Deferral Account as at June 30, 2020.

Other Revenue

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

Other revenue for the three and six months ended June 30, 2020 was $22.7 million and $43.5 million, respectively, compared to $23.3 million and 43.7 million for the comparable periods in 2019. Other revenue, for the three months and six months ended June 30, 2020, was in line with the comparable periods in 2019.

Operating Expenses

Operating expenses for the three and six months ended June 30, 2020 were $87.0 million and $162.8 million, respectively, compared to $75.4 million and $151.4 million for the comparable periods in 2019.

The increase in operating expenses for the three and six months ended June 30, 2020 was primarily due to an incremental $18.6 million of bad debt expense which represents management's estimate of the impact on the expected credit losses as a result of the COVID-19 pandemic which considers current and forecasted economic factors (see note 9(b) to the Interim Financial Statements). This amount was recorded in the COVID-19 Emergency Deferral Account on the Consolidated Balance Sheets with a corresponding offset in net movements in regulatory balances (see the regulatory debit balance table in note 6 to the Interim Financial Statements). This unfavourable variance was partially offset by lower costs associated with the maintenance and post go-live support of the ERP system.

For three months and six months ended June 30, 2020 the Corporation incurred $1.5 million and $1.8 million respectively, in operating expenses for cleaning supplies, protective equipment and other support costs directly related to the implementation of safety measures as a result of the COVID-19 pandemic. This balance was not recorded in the COVID-19 Emergency Deferral Account as a regulatory debit on the Consolidated Balance Sheets as at June 30, 2020.

Depreciation and Amortization

Depreciation and amortization expense, which includes derecognition of assets removed from service, for the three and six months ended June 30, 2020 was $65.0 million and $128.0 million, respectively, compared to $60.4 million and $118.0 million for the comparable periods in 2019. The increase was primarily due to new in-service asset additions and higher derecognition of assets removed from service, partially offset by certain assets being fully depreciated.

Finance Costs

Finance costs for the three and six months ended June 30, 2020 were $18.9 million and $38.8 million, which are in line with $20.0 million and $39.9 million for the comparable periods in 2019.

Gain on Disposals of PP&E

Gain on disposals of PP&E for the three and six months ended June 30, 2020 was $nil compared to $2.2 million for the comparable periods in 2019.

The decrease in gain on disposals of PP&E for the three and six months ended June 30, 2020 was primarily due to higher gain realized in connection with the disposal of a property in the second quarter of 2019.

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

Income tax expense (recovery) and income tax recorded in net movements in regulatory balances for the three and six months ended June 30, 2020 was $(1.5) million and $0.9 million respectively, compared to $5.8 million and $16.5 million for the comparable periods in 2019.

The favourable variance for the three and six months ended June 30, 2020 was primarily due to lower income before taxes, higher net deductions in permanent and other temporary differences between accounting and tax treatments, and the tax impact of the incremental bad debt provision due to COVID-19.

Net Movements in Regulatory Balances

In accordance with IFRS 14, the Corporation separately presents regulatory balances and related net movements on the Consolidated Balance Sheets and Consolidated Statements of Income.

The increase in the regulatory debit ($57.5 million) and decrease in the regulatory credit ($11.1 million) balances for the six months ended June 30, 2020 equals the sum ($68.6 million) of net movements in regulatory balances, net movements in regulatory balances arising from deferred tax assets and net movement in regulatory balances related to OCI, shown for the period (see “Financial Position” below). Energy purchases record the actual cost of power purchased which varies from month to month. Since the selling price of power within energy sales is fixed for set periods of time, a gain or loss usually results, and is part of the calculation of net income. However, per OEB regulations, such gains or losses on energy sales are deferred within regulatory variance accounts for later disposition to or from rate payers via rate riders after approval by the OEB. Deferrals of gains or losses on energy sales (see discussion on settlement variance under “Results of Operations” above), or disposition of past deferrals in electricity rates will usually represent the largest single element of the net movements in regulatory balances for a given period.

Net movements in regulatory balances for the three and six months ended June 30, 2020 was a recovery of $43.3 million and $41.4 million, respectively, compared to a recovery of $28.2 million and $27.5 million for the comparable periods in 2019. The recovery of $43.3 million for the three months ended June 30, 2020 was primarily due to the settlement variance between the electricity costs billed monthly by the IESO and LDC’s billing to customers, incremental bad debt expense recorded to the COVID-19 Emergency Deferral Account and amounts disposed through OEB-approved rate riders. The recovery of $41.4 million for the six months ended June 30, 2020 was primarily due to the settlement variance between the electricity costs billed monthly by the IESO and LDC’s billing to customers, incremental bad debt expense recorded to the COVID-19 Emergency Deferral Account and amounts disposed through OEB-approved rate riders, partially offset by amounts being deferred into capital-related regulatory accounts and foregone revenue for future refunds to customers.

The recovery of $28.2 million and $27.5 million for the three and six months ended June 30, 2019 was primarily due to the settlement variance between the electricity costs billed monthly by the IESO and LDC’s billing to customers and LRAM, partially offset by amounts being deferred into capital-related regulatory accounts for future refunds to customers and amounts disposed through OEB-approved rate riders.

Summary of Quarterly Results of Operations

The table below presents a summary of the Corporation's results of operations for eight quarters including and immediately preceding June 30, 2020.

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

	June 30, 2020 $	March 31, 2020 $	December 31, 2019 $	September 30, 2019 $
Energy sales	670.8	800.1	776.2	737.2
Distribution revenue	158.8	187.0	200.5	207.5
Other	22.7	20.8	25.1	25.6
Revenues	852.3	1,007.9	1,001.8	970.3
Net income after net movements in regulatory balances	36.0	35.4	15.5	50.2
	June 30, 2019 $	**March 31, 2019 $**	**December 31, 2018 $**	**September 30, 2018 $**
Energy sales	602.6	663.7	660.2	741.1
Distribution revenue	198.3	192.9	163.9	175.8
Other	23.3	20.4	23.4	21.7
Revenues	824.2	877.0	847.5	938.6
Net income after net movements in regulatory balances	46.1	42.6	31.9	50.4

The Corporation's revenues, all other things being equal, are impacted by temperature fluctuations and unexpected weather conditions, including increased extreme weather events as a result of climate change, such as heat waves, intense rain events, and higher average maximum temperatures. Revenues would tend to be higher in the first quarter as a result of higher energy consumption for winter heating, and in the third quarter due to air conditioning/cooling. The Corporation's revenues are also impacted by fluctuations in electricity prices and the timing and recognition of regulatory decisions. The variation from the seasonal trend for the fourth quarter of 2019 was due to higher commodity charges charged by the IESO.

Financial Position

The following table outlines the significant changes in the Consolidated Balance Sheet as at June 30, 2020 as compared to the Consolidated Balance Sheet as at December 31, 2019.

Consolidated Balance Sheet Data
(in millions of Canadian dollars)

Balance Sheet Account	Increase (Decrease) $	Explanation of Significant Change
Assets		
Accounts receivable and unbilled revenue	(69.3)	The decrease was primarily due to lower electricity consumption, timing of billing and collection activities and higher allowance for doubtful accounts as a result of the COVID-19 pandemic, partially offset by higher pass-through electricity costs.
Income tax receivable	16.8	The increase was primarily due to instalment payment in excess of the income tax provision.
PP&E and intangible assets	171.4	The increase was primarily due to capital expenditures (see "Investing Activities" below), partially offset by depreciation including derecognition.
Liabilities and Equity		
Commercial paper	136.0	The increase was primarily due to issuances required for general corporate purposes (see "Liquidity and Capital Resources" below).
Accounts payable and accrued liabilities	(101.2)	The decrease was primarily due to higher capital activity during the fourth quarter of 2019 and timing of payments to suppliers, partially offset by higher electricity costs payable to the IESO.
Deferred revenue	86.8	The increase was primarily due to additional capital contributions received in 2020.
Post-employment benefits	19.1	The increase was primarily due to the recognized actuarial loss incurred as a result of the lower discount rate in 2020.
Deferred tax liabilities	10.9	The increase was primarily due to lower tax values as compared to accounting values of PP&E and intangible assets, partially offset by the tax treatment on the actuarial loss recorded on post-employment benefits.
Retained earnings	25.1	The increase was due to net income after net movements in regulatory balances ($71.4 million), offset by dividends paid ($46.3 million).

Consolidated Balance Sheet Data
(in millions of Canadian dollars)

Balance Sheet Account	Increase (Decrease) $	Explanation of Significant Change
Regulatory Balances		
Regulatory debit balances	57.5	The increase was primarily due to the settlement variance between the electricity costs billed monthly by the IESO and LDC's billing to customers, the incremental bad debt expense related to the COVID-19 pandemic and the OPEB actuarial loss recognized as a result of the lower discount rate.
Regulatory credit balances	(11.1)	The decrease was primarily due to amounts disposed through OEB-approved rate riders.

Liquidity and Capital Resources

The Corporation's current assets and current liabilities amounted to $514.3 million and $769.1 million, respectively, as at June 30, 2020, resulting in a working capital deficit of $254.8 million. The deficit is primarily attributable to the Corporation's preference for utilizing its Commercial Paper Program (defined in "Financing Activities" below) and Working Capital Facility (defined below) before issuing additional debentures to fulfill the Corporation's ongoing liquidity requirements, including funding of significant capital spending. The Corporation seeks to maintain an optimal mix of short-term and long-term debt in order to lower overall financing costs and to enhance borrowing flexibility.

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

The amount available under the Revolving Credit Facility (defined in "Financing Activities" below) and the outstanding borrowings under the Revolving Credit Facility and Commercial Paper Program are as follows:

(in millions of Canadian dollars)	Revolving Credit Facility Limit $	Revolving Credit Facility Borrowings $	Commercial Paper Outstanding $	Revolving Credit Facility Availability $
June 30, 2020	800.0	-	272.0	528.0
December 31, 2019	800.0	-	136.0	664.0

The Corporation is a party to a $20.0 million demand facility with a Canadian chartered bank for the purpose of working capital management ("Working Capital Facility"). As at June 30, 2020, $5.8 million had been drawn under the Working Capital Facility, compared to $1.0 million as at December 31, 2019.

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

	Three months ended June 30,		Six months Ended June 30,	
	2020 **$**	**2019** **$**	**2020** **$**	**2019** **$**
Cash and cash equivalents (working capital facility), beginning of period	21.4	(5.8)	(1.0)	(12.6)
Net cash provided by operating activities	202.7	128.1	303.8	236.4
Net cash used in investing activities	(154.0)	(131.2)	(356.2)	(269.9)
Net cash provided by (used in) financing activities	(75.9)	6.9	47.6	44.1
Working capital facility, end of period	(5.8)	(2.0)	(5.8)	(2.0)

Operating Activities

Net cash provided by operating activities for the three and six months ended June 30, 2020 was $202.7 million and $303.8 million, respectively, compared to $128.1 million and $236.4 million for the comparable periods in 2019.

The increase in net cash provided by operating activities for the three months ended June 30, 2020 was primarily due to timing differences in the collection of receivables, partially offset by lower net income before net movements in regulatory balances.

The increase in net cash provided by operating activities for the six months ended June 30, 2020 was primarily due to timing differences in the collection of receivables and higher capital contributions received, partially offset by lower net income before net movements in regulatory balances.

Investing Activities

Net cash used in investing activities for the three and six months ended June 30, 2020 was $154.0 million and $356.2 million, respectively, compared to $131.2 million and $269.9 million for the comparable periods in 2019.

Electricity distribution is a capital-intensive business. As the municipal electricity distribution company serving the largest city in Canada, LDC continues to invest in the renewal of existing aging infrastructure to address safety, reliability and customer service requirements. During the COVID-19 pandemic crisis, LDC has deployed health and safety equipment and measures to protect its employees, its partners and the public, and continued to deliver its capital infrastructure development and maintenance work in accordance with its plans.

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

Capital Expenditures
(in millions of Canadian dollars)

	Three months ended June 30,		Six months ended June 30,	
	2020 **$**	**2019** **$**	**2020** **$**	**2019** **$**
Regulated LDC				
Distribution system				
Planned [1]	129.4	110.5	210.1	189.1
Reactive	16.7	11.6	26.8	23.2
Copeland Station	-	0.9	-	1.5
Technology assets	11.2	9.5	18.5	14.3
Other [2]	2.6	0.9	3.2	2.0
Regulated capital expenditures	159.9	133.4	258.6	230.1
Unregulated capital expenditures [3]	9.8	2.1	41.4	3.6
Total capital expenditures	169.7	135.5	300.0	233.7

1 Includes, among other initiatives, the replacement of underground and overhead infrastructures, delivery of customer connections, acquisition of critical capital equipment and customer-initiated plant relocations and expansions.
2 Includes fleet capital and buildings.
3 Primarily relates to behind-the-meter battery storage projects, street lighting and generation equipment.

The total regulated capital expenditures for the three and six months ended June 30, 2020 were $159.9 million and $258.6 million, respectively, compared to $133.4 million and $230.1 million for the comparable periods in 2019.

For the three months ended June 30, 2020, the increase in regulated capital expenditures was primarily related to higher spending on critical capital equipment to ensure sufficient stock levels are maintained during the COVID-19 pandemic ($17.6 million) and station programs related to the renewal of aging station infrastructure ($7.7 million).

For the six months ended June 30, 2020, the increase in regulated capital expenditures was primarily due to higher spending on station programs related to the renewal of aging station infrastructure ($15.6 million), critical capital equipment to ensure sufficient stock levels are maintained during the COVID-19 pandemic ($13.6 million), overhead infrastructure ($7.2 million), underground infrastructure ($7.1 million) and higher spending on equipment to increase capacity in high-growth areas ($6.9 million). These variances were partially offset by behind-the-meter battery storage projects ($22.7 million) being transferred from regulated to unregulated expenditures as a result of the 2020-2024 CIR decision and rate order.

The largest capital initiatives in 2020 include the delivery of customer connections, the replacement of underground and overhead infrastructures and customer-initiated plant relocations and expansions.

The delivery of customer connections includes spending related to new service and upgrades to existing service for specific commercial customers. For the six months ended June 30, 2020, capital expenditures for the delivery of customer connections were $46.7 million.

The replacement of underground infrastructure includes replacing direct buried cables, transformer switches, hand-wells and other aging underground infrastructure. The replacement of overhead infrastructure includes replacing poles, overhead transformers, conductors, overhead switches and other aging overhead infrastructure and equipment. Both initiatives will allow LDC to continue to provide ongoing safe and reliable service to its customers. For the six months ended June 30, 2020, capital expenditures for underground and overhead infrastructures were $41.5 million and $36.9 million, respectively.

Customer-initiated plant relocations and expansions include relocating infrastructure to accommodate construction by third parties. For the six months ended June 30, 2020, capital expenditures for customer-initiated plant relocations and expansions was $33.0 million.

Copeland Station is the first transformer station built in downtown Toronto since the 1960s and is the second underground transformer station in Canada. It provides electricity to buildings and neighbourhoods in the central-southwest area of Toronto. The Copeland Station construction project was completed in the second quarter of 2019 and the total cumulative capital expenditures were $204.0 million, plus capitalized borrowing costs. Certain previously disclosed disputes between LDC and Carillion Construction Inc. in respect of the Copeland Station construction project have been resolved and such resolution is reflected in an order of the Ontario Superior Court of Justice dated January 13, 2020. LDC's total cumulative capital expenditures for the Copeland Station project have not changed as a result of this resolution.

Financing Activities

Net cash provided by (used in) financing activities for the three and six months ended June 30, 2020 was $(75.9) million and $47.6 million, respectively, compared to $6.9 million and $44.1 million for the comparable periods in 2019.

The increase in cash used in financing activities for the three months ended June 30, 2020 was primarily due to a decrease in net commercial paper issuances during the second quarter of 2020.

The increase in cash provided by financing activities for the six months ended June 30, 2020 was primarily due to lower dividend payments in 2020.

The Corporation is a party to a credit agreement with a syndicate of Canadian chartered banks which established a revolving credit facility ("Revolving Credit Facility"), pursuant to which it may borrow up to $800.0 million, of which up to $210.0 million is available in the form of letters of credit. As at June 30, 2020, the Corporation was in compliance with all covenants included in its Revolving Credit Facility agreement.

The Corporation has a commercial paper program allowing unsecured short-term promissory notes ("Commercial Paper Program") to be issued in various maturities of no more than one year. On May 25, 2020, the amount the Corporation may issue under this program was increased by $150.0 million from $600.0 million to $750.0 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. Proceeds from the Commercial Paper Program are used for general corporate purposes. Borrowings under the Commercial Paper Program bear interest based on the prevailing market conditions at the time of issuance.

Additionally, the Corporation is a party to a $75.0 million demand facility with a Canadian chartered bank for the purpose of issuing letters of credit mainly to support LDC's prudential requirements with the IESO ("Prudential Facility"). As at June 30, 2020, $32.9 million of letters of credit had been issued against the Prudential Facility.

The Corporation filed a base shelf prospectus dated July 30, 2019 with the securities commissions or similar regulatory authorities in each of the provinces of Canada. The base shelf prospectus filings allow the Corporation to make offerings of unsecured debt securities of up to $1.0 billion during the 25-month period following the date of the prospectus.

As at June 30, 2020, the Corporation had debentures outstanding in the principal amount of $2.2 billion. These debentures will mature between 2021 and 2063. As at June 30, 2020, the Corporation was in compliance with all covenants included in its trust indenture and supplemental trust indentures.

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

Credit Ratings
As at June 30, 2020

	DBRS		Standard & Poor's	
	Credit Rating	Trend	Credit Rating	Outlook
Issuer rating	A	Stable	A	Stable
Senior unsecured debentures	A	Stable	A	-
Commercial paper	R-1 (low)	Stable	-	-

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

On August 19, 2020, the Board of Directors of the Corporation declared dividends in the amount of $23.2 million with respect to the third quarter of 2020 (third quarter of 2019 - $25.1 million), payable to the City by September 30, 2020.

Summary of Contractual Obligations and Other Commitments

The following table presents a summary of the Corporation's debentures, major contractual obligations and other commitments.

Summary of Contractual Obligations and Other Commitments
As at June 30, 2020
(in millions of Canadian dollars)

	Total $	2020[1] $	2021/2022 $	2023/2024 $	After 2024 $
Commercial paper [2]	272.0	272.0	-	-	-
Debentures – principal repayment	2,195.0	-	300.0	250.0	1,645.0
Debentures – interest payments	1,508.0	38.4	143.0	121.4	1,205.2
Capital projects [3] and other	12.1	0.6	10.8	0.6	0.1
Leases	0.3	-	0.1	0.1	0.1
Total contractual obligations and other commitments	3,987.4	311.0	453.9	372.1	2,850.4

[1] Due over the period from July 1, 2020 to December 31, 2020
[2] The notes under the Commercial Paper Program were issued at a discount and are repaid at their principal amount.
[3] Primarily commitments for construction services.

Corporate Developments

COVID-19 Pandemic Considerations

On March 11, 2020, the World Health Organization declared that the COVID-19 outbreak was a global pandemic. On March 17, 2020, the Ontario Government declared a State of Emergency pursuant to the *Emergency Management and Civil Protection Act*. The Ontario Government renewed the declaration as required by the legislation, with the most recent declaration effective until July 24, 2020. The Ontario Government began issuing emergency orders under the legislation on March 17, 2020, and additional orders on subsequent dates. Those emergency orders were extended as required by the legislation.

On March 19, 2020, the OEB extended the ban on disconnecting residential customers to July 31, 2020, in light of the COVID-19 pandemic. For the same reason, at the same time, the OEB also banned the disconnection of other low volume customers (as defined in the OEB Act) prior to July 31, 2020. The Corporation has decided to extend the disconnection ban until August 31, 2020 (see note 9(b) to the Interim Financial Statements).

On March 24, 2020, the Ontario Government issued an emergency order setting TOU rates for on-peak, mid-peak, and off-peak at 10.1 cents per kWh, which prior to the emergency order was the TOU off-peak rate. That emergency order was effective through May 7, 2020. On May 6, 2020, the Ontario Government issued an emergency order extending those TOU rates through May 31, 2020. On May 30, 2020, the Ontario Government announced the COVID-19 Recovery Rate, setting a fixed TOU electricity price at 12.8 cents per kWh, 24 hours a day, seven days a week, effective June 1 2020. This fixed electricity price is expected to be in place until October 31, 2020. The Corporation does not expect any impact to net income arising from the TOU change.

On March 25, 2020, the Ontario Government announced a $9 million COVID-19 Energy Assistance Program ("CEAP"), which expanded financial support for residential customers during the COVID-19 pandemic. On June 1, 2020, the Ontario Government announced an additional $8 million for CEAP for Small Business ("CEAP-SB"), which expanded financial support for certain commercial customers. On June 16, 2020, the OEB determined that LDC's portion for CEAP is $0.7 million. On August 7, 2020, the OEB determined that LDC's portion for CEAP-SB is an additional $0.7 million. The Corporation does not expect any impact to net income arising from the additional funding.

On March 25, 2020, the OEB established a deferral account for regulatory balances to record the costs of changes to billing systems resulting from the Ontario Government's TOU emergency order and other incremental costs associated with the COVID-19 pandemic, as well as lost revenues resulting from the COVID-19 pandemic (see note 6 to the Interim Financial Statements).

On May 1, 2020, the Ontario Government announced an emergency order to provide relief to large customers in relation to the global adjustment. Through the emergency order, the global adjustment charges from April 1, 2020 through June 30, 2020 were capped. The Ontario Government indicated that the global adjustment charges above the cap would be temporarily funded by the Province, and ultimately recovered from all Class A and Class B customers in 2021. The IESO invoiced LDC for the global adjustment according to the capped rate for the applicable three months in 2020, and will invoice LDC for the cost recovery rate in 2021. LDC has flowed through the capped rate charges and cost recovery rate charges to its Class A and Class B customers. There is no net income impact to LDC.

CDM Activities

On March 21, 2019, the Government of Ontario issued ministerial directives to the IESO related to the delivery of CDM programs. Previously, LDC and other distributors delivered the CDM programs; under the new method, the IESO will be responsible for delivering the CDM programs.

Under its ECA with the IESO, LDC had a joint CDM plan with Oakville Hydro Electricity Distribution Inc. for the delivery of CDM programs over the 2015-2020 period. As part of implementing its new mandate, the IESO terminated the ECA effective June 20, 2019. LDC was required to cease marketing and business development for all CDM programs immediately and make commercially reasonable efforts to wind down the delivery of programs. Under the ECA, LDC is entitled to reimbursement from the IESO of its eligible expenses and administrative costs relating to the wind-down of its role in the CDM programs. Participant agreements with customers for many of the CDM programs that were in effect before April 1, 2019 remained in effect notwithstanding the termination of the ECA and LDC remains responsible for its obligations under such agreements. On July 22, 2020, the Government of Ontario issued ministerial directives to the IESO directing it to extend the previous deadline of December 31, 2020 to June 30, 2021, for participants to complete the projects. Amounts received from the IESO for the funding of the projects under the participant agreements, but not yet spent, are presented on the Corporation's consolidated balance sheets under current liabilities as deferred conservation credit.

Electricity Distribution Rates

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

On December 19, 2019, the OEB issued its 2020-2024 CIR decision and on February 20, 2020, the OEB issued its CIR rate order, both in relation to the rate application filed on August 15, 2018. The 2020-2024 CIR decision and rate order approved a rate base of $4,514.8 million and revenue requirement of $750.2 million for 2020, and rates calculated on that basis. The rates for 2020 were implemented on March 1, 2020, with an effective date of January 1, 2020. The 2020-2024 CIR decision and rate order approved funding for capital and operating expenditures of approximately $3.8 billion for the 2020-2024 period. The financial considerations of the OEB's 2020-2024 CIR decision and rate order are reflected in the Consolidated Financial Statements including disclosure of approved disposition for a number of requested rate riders (see note 6 to the Interim Financial Statements). In addition, the 2020-2024 CIR decision and rate order approved subsequent annual rate adjustments based on a custom index for the period commencing on January 1, 2021 and ending on December 31, 2024.

Controls and Procedures

For purposes of certain Canadian securities regulations, the Corporation is a "Venture Issuer". As such, it is exempt from certain requirements of National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings. The CEO and CFO have reviewed the Interim Financial Statements and the MD&A for the three and six months ended June 30, 2020 and 2019. Based on their knowledge and exercise of reasonable diligence, they have concluded that these documents fairly present in all material respects the financial condition, financial performance and cash flows of the Corporation as at the date of and for the period presented.

Risk Management and Risk Factors

As part of ongoing risk management practices, the Corporation conducts periodic reviews to assess changes to its risk profile. The following is a discussion of certain further risks that have been identified by the Corporation, in addition to those set forth in the 2019 Annual MD&A. This is not an exhaustive list and there can be no assurance that any steps the Corporation may take to manage risks will avoid any future loss resulting from the occurrence of risks.

Cyber Security Risk

As a consequence of COVID-19, governmental orders and instructions from public health officials, a large proportion of the Corporation's workforce is working remotely. The Corporation's ability to operate effectively is dependent on the security, development, maintenance, and management of complex information technology systems. The LDC's electricity distribution infrastructure and technology systems are potentially vulnerable to damage or interruption from cyber-attacks, breaches or other compromises. Business and service disruptions from any such occurrence may be more lengthy, costly and damaging than under business-as-usual conditions and could have a material adverse effect on the Corporation's business, operations, financial condition or prospects. Preventative and detective controls are employed by the Corporation in seeking to protect and continuously monitor information systems and technology assets to help minimize damage in the event of a cyber-attack, breach or other compromise.

Operations Risk

As a consequence of COVID-19, governmental orders and instructions from public health officials, the Corporation may have greater difficulty undertaking its planned and reactive work and recovering from a business interruption incident that is beyond normal operations. The Corporation's operations are exposed to the effects of natural and other unexpected occurrences such as extreme storm and other weather conditions, natural disasters, terrorism, and pandemics. Operational changes associated with COVID-19 may make the LDC's responses to business interruption events less effective and more costly than under business-as-usual conditions. Failure to adequately respond to a business interruption event during the COVID-19 pandemic could have a material adverse effect on the Corporation's business, operations, financial condition or prospects. The Corporation has implemented various initiatives aimed at improving its operational resiliency, including a grid emergency management program to prepare for and respond to major operational threats. The Corporation has also undertaken significant health and safety actions including investing in support measures and supplies as noted above under "Operating Expenses", and proactive supply chain investments as noted under "Investing Activities" above to address potential challenges to its operations arising from COVID-19.

Financial Risk

As a consequence of COVID-19, governmental orders, instructions from public health officials and adverse changes in general economic and market conditions, the LDC is exposed to reduction in customer consumption, increased credit risk with respect to customer non-payment of electricity bill and increased operating and infrastructure development costs. Increases in outstanding receivables due to reduced or delayed customer collections could also contribute to liquidity risk for LDC as it continues to be charged for electricity commodity, transmission and other charges, which are intended to be flow-through items to customers. The Corporation relies on debt financing through the debt capital markets and existing credit facilities to finance its daily operations, repay existing indebtedness, and fund capital expenditures. The current challenging economic climate is affected by factors including but not limited to the effects of the COVID-19 pandemic and may lead to material adverse changes in cash flows, working capital levels and/or debt balances, which may also have a direct negative impact on the Corporation's operating results and financial position in the future. Accordingly, the Corporation continues to monitor and adapt its response plan as the economic climate evolves. Actions by the provincial government or regulatory authorities may impede LDC's ability to mitigate the risk of customer non-payment using means normally permitted by law at certain times of the year, including security deposits (i.e. letters of credit, surety bonds, cash deposits or lock-box arrangements, under terms prescribed by the OEB), late payment penalties, pre-payment, pre-authorized payment, load limiters or disconnection. The LDC may have no option in certain cases but to assume the amount of any default, whether in whole or in part, and the LDC's security interest or other measures, if any, may not provide sufficient protection. There can be no assurance that the OEB, through the new COVID-19 Emergency Deferral Account or otherwise, would allow recovery of the bad debt expense or of the increased operating or construction costs, and such expenses and costs could have a material adverse effect on the Corporation's business, operations, financial condition or prospects. The Corporation has employed various measures available in seeking to mitigate the occurrence and cost of customer payment delays or non-payments, as well as increased operating and infrastructure development costs. If the level of customer payment delays or non-payment, or increased costs contribute to liquidity challenges, the Corporation expects that it would utilize various mitigation tools at its disposal in seeking to improve its liquidity, such as accessing further debt, including under its expanded Commercial Paper Program, its credit facilities or through the issuance of debentures, or reducing costs and delaying payments.

Critical Accounting Estimates

The preparation of the Corporation's Interim Financial Statements requires management to make judgments, estimates and assumptions which affect the application of accounting policies, reported assets, liabilities and regulatory balances, and the disclosure of contingent assets and liabilities at the date of the Interim Financial Statements, and the reported revenues and expenses for the period. The estimates are based on historical experience, current conditions and various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities as well as for identifying and assessing the accounting treatment with respect to commitments and contingencies. Actual results could differ from those estimates, including changes as a result of future decisions made by the OEB, the IESO, the Ontario Ministry of Energy or the Ontario Ministry of Finance. The assessment of the duration and severity of the developments related to the COVID-19 pandemic is subject to significant uncertainty; accordingly, judgments, estimates and assumptions related to the impact of the pandemic that may have a material adverse effect on the Corporation's operations, financial results and condition in future periods, made by management in the preparation of the Corporation's Interim Financial Statements are also subject to significant uncertainty. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively.

Changes in Accounting Standards

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

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

Effective January 1, 2020, the Corporation has applied the definition of 'material' as amended, with no impact on the consolidated financial statements.

Future Accounting Pronouncements

The IASB has issued a number of standards and amendments to existing standards that are not yet effective. The Corporation continues to analyze these pronouncements and has determined that the following amendments could become applicable when implemented in future periods.

Classification of Liabilities as Current or Non-current (Amendments to IAS 1)

In January 2020, the IASB issued amendments to IAS 1 relating to the classification of liabilities as current or non-current. Specifically, the amendments clarify one of the criteria in IAS 1 for classifying a liability as non-current - that is, the requirement for an entity to have the right to defer settlement of the liability for at least 12 months after the reporting period. The amendments are effective for annual reporting periods beginning on or after January 1, 2022, with early adoption permitted. In July 2020, the IASB deferred the effective date by one year to annual reporting periods beginning on or after January 1, 2023. The amendments are to be applied retrospectively.

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

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

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

Forward-Looking Information

Certain information included in this MD&A constitutes “forward-looking information” within the meaning of applicable securities legislation. The purpose of the forward-looking information is to provide the Corporation's current expectations regarding future results of operations, performance, business prospects and opportunities and may not be appropriate for other purposes. All information, other than statements of historical fact, which address activities, events or developments that we expect or anticipate may or will occur in the future, are forward-looking information. The words “anticipates”, “at-some-point”, “believes”, “budgets”, “can”, “committed”, “could”, “estimates”, “expects”, “focus”, “forecasts”, “future”, “intends”, “may”, “might”, “once”, “plans”, “propose”, “projects”, “schedule”, “seek”, “should”, “trend”, “will”, “would”, “objective”, “outlook” or the negative or other variations of these words or other comparable words or phrases, are intended to identify forward-looking information, although not all forward-looking information contains these identifying words. The forward-looking information reflects the Corporation's current beliefs and is based on information currently available to the Corporation.

Specific forward-looking information in the MD&A includes, but is not limited to, the statements regarding the settlement variance and other regulatory balance variances as described in the section entitled “Results of Operations”; the recovery and quantum of recovery of bad debt expenses in future electricity distribution rates as described in the section entitled “Results of Operations”; the consideration of forecasted economic factors in determining the impact of the COVID-19 pandemic on expected credit losses as set out in the section entitled “Results of Operations”; the effect of changes in energy consumption on future revenue as described in the section entitled “Summary of Quarterly Results of Operations”; the Corporation’s plans to lower overall financing costs and enhance borrowing flexibility as described in the section entitled “Liquidity and Capital Resources”; the Corporation’s available sources of liquidity and capital resources and the sufficiency thereof to satisfy working capital requirements for the next twelve months as described in the section entitled “Liquidity and Capital Resources”; the anticipated contractual obligations and other commitments of the Corporation over the next five years as set out in the section entitled “Liquidity and Capital Resources”; the payment of dividends as described in the section entitled “Liquidity and Capital Resources”; the ability of the Corporation, during the COVID-19 pandemic crisis, to continue to deliver its capital infrastructure development and maintenance work in accordance with its plans, as described in “Liquidity and Capital Resources”; the duration of the emergency orders implemented by the Province of Ontario, including the TOU change, and the impact on operations and performance, including net income, as described in the section entitled “Corporate Developments”; the termination of the ECA, the continuance of participant agreements that were in effect before April

1, 2019, the extension of the date by which participants are to complete the projects thereunder and LDC's continued responsibility for its obligations under the participant agreements as described in the section entitled "Corporate Developments"; the continued settlement with the IESO until all continued projects are completed and the completion of a finance and compliance audit thereafter as described in the section entitled "Corporate Developments"; electricity distribution rates and rate applications as described in the section entitled "Corporate Developments"; the recovery of global adjustment from all Class A and Class B customers in 2021 as described in the section entitled "Corporate Developments"; the impact on the Corporation's operations, operating results and financial position in the future, and the ultimate duration and magnitude of the impact on the economy and the Corporation's business, of COVID-19 as described in the section entitled "Risk Management and Risk Factors"; the success of the Corporation's various measures seeking to mitigate the occurrence and cost of customer payment delays or non-payments, the impact of business interruption incidents and damages arising from cyber-attack, breach or other compromise of technology systems, as described in the section entitled "Risk Management and Risk Factors"; the potential material adverse changes in cash flows, working capital levels and/or debt balances, which may also have a direct negative impact on the Corporation's operating results and financial position in the future, as described in the section entitled "Risk Management and Risk Factors"; the Corporation's assessment of the impact on adoption of the amendments to IAS 1 and IAS 8, if any, as described in the section entitled "Changes in Accounting Standards"; and the Corporation's assessment of the impact on adoption of the amendments to IAS 1 and IAS37, if any, as described in the section entitled "Future Accounting Pronouncements".

The forward-looking information is based on estimates and assumptions made by the Corporation's management in light of past experience and perception of historical trends, current conditions and expected future developments, as well as other factors that management believes to be reasonable in the circumstances, including, but not limited to, the amount of indebtedness of the Corporation, changes in funding requirements, the future course of the economy and financial markets, no unforeseen delays and costs in the Corporation's capital projects, no unforeseen changes to project plans, no significant changes to the seasonal weather patterns in accordance with historical seasonal trends because of climate change, no unforeseen changes in the legislative and operating framework for electricity distribution in Ontario, the receipt of applicable regulatory approvals and requested rate orders, no unexpected delays in obtaining required approvals, the ability of the Corporation to obtain and retain qualified staff, materials, equipment and services in a timely and cost efficient manner, continued contractor performance, compliance with covenants, the receipt of favourable judgments, no unforeseen changes in electricity distribution rate orders or rate setting methodologies, no unfavourable changes in environmental regulation, the ratings issued by credit rating agencies, the level of interest rates and the Corporation's ability to borrow and assumptions regarding general business and economic conditions. These assumptions are based upon the scope of the COVID-19 pandemic as currently understood, including in respect of its duration, as well as the severity of the impacts of government and business mitigation measures on the Corporation, all of which are subject to significant uncertainty.

The forward-looking information is subject to risks, uncertainties and other factors that could cause actual results to differ materially from historical results or results anticipated by the forward-looking information. The factors which could cause results or events to differ from current expectations include, but are not limited to, risks associated with the execution of LDC's capital and maintenance programs necessary to maintain the performance of aging distribution assets and make required infrastructure improvements; risks associated with capital projects; risks associated with electricity industry regulatory developments and other governmental policy changes, including factors relating to LDC's distribution activities and to climate change; risks associated with increased competition from regulated and unregulated entities; risks associated with the timing and results of regulatory decisions regarding LDC's revenue requirements, cost recovery and rates; risks associated with information system security and with maintaining complex information technology systems; risks associated with maintaining the security of the Corporation's information assets, including but not limited to the collection, use and disclosure of personal information; risk of external threats to LDC's facilities, infrastructure and operations posed by unexpected weather conditions caused by climate change and other factors; risks associated with changing weather patterns due to climate change and resultant impacts to electricity consumption based on historic seasonal trends; risks related to terrorism and pandemics, including but not limited to COVID-19, and LDC's limited insurance coverage for losses resulting from these events; risks related to COVID-19, including but not limited to restrictive measures affecting the mobility and availability of human and non-human resources, operational disruptions, electricity consumption levels, customer payments and the availability of financing; risk to the Corporation's employees and the general public of serious/fatal injuries and illnesses relating to or impacting upon its activities; risks of municipal government activity, including the risk that the City could introduce rules, policies or directives that can potentially limit the Corporation's ability to meet its business objectives as laid out in the Shareholder Direction principles; risks related to LDC's work force demographic and its potential inability to train and retain skilled employees; risks of being unable to retain necessary qualified external contracting forces relating to its capital, maintenance and reactive infrastructure program; risks associated with possible labour disputes and LDC's ability to negotiate appropriate collective agreements; risk that the Corporation may fail to monitor the external environment and or develop and pursue strategies through appropriate business models, thus failing to gain a strategic advantage; risk that the Corporation is not able to arrange sufficient and cost-effective debt financing to repay maturing debt and to fund capital expenditures and other obligations; risk that the Corporation is unable to maintain its financial health and performance at acceptable levels; risk that insufficient debt or equity financing will be available to meet the Corporation's requirements, objectives, or strategic opportunities; risk of downgrades to the Corporation's credit rating; risks relating to the finance market and credit rating agency view of the electricity industry generally and the impact on the availability and cost of capital; risks related to the timing and extent of changes in prevailing interest rates and discounts rates and their effect on future revenue requirements and future post-employment benefit obligations; risk associated with the impairment to the Corporation's image in the community, public confidence or brand; risk associated with the Corporation failing to meet its material compliance obligations under legal and regulatory instruments; risk of substantial and currently undetermined or underestimated environmental costs and liabilities; risk that assumptions that form the basis of LDC's recorded environmental liabilities and related regulatory balances may change; risk that the presence or release of hazardous or harmful substances could lead to claims by third parties and/or governmental orders and other factors which are discussed in more detail under the section entitled "Risk Management and Risk Factors" in this MD&A and in the 2019 Annual MD&A. Please review the section "Risk Management and Risk Factors" in this MD&A and in the 2019 Annual MD&A in detail. These risks are based upon the scope of the COVID-19 pandemic as currently understood, including in respect of its duration, as well as the severity of the impacts of government and business mitigation measures on the Corporation, all of which are subject to significant uncertainty. All of the forward-looking information included in this MD&A is qualified by the cautionary statements in this "Forward-Looking Information" section and the "Risk Management and Risk Factors" section in this MD&A and in the 2019 Annual MD&A. These factors are not intended to represent a complete list of the factors that could affect the Corporation; however, these factors should be considered carefully and readers should not place undue reliance on forward-looking information made herein. Furthermore, the forward-looking information contained herein is dated as of the date of this MD&A or as of the date specified in this MD&A, as the case may be, and the Corporation has no intention and undertakes no obligation to update or revise any forward-looking information, whether as a result of new information, future events or otherwise, except as required by law.

Additional Information

Additional information with respect to the Corporation (including its annual information form) is available on the System for Electronic Document Analysis and Retrieval website at www.sedar.com.

Toronto, Canada

August 19, 2020

UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2020 AND 2019

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

CONDENSED INTERIM CONSOLIDATED BALANCE SHEETS

[in millions of Canadian dollars, unaudited]

	Note	As at June 30, 2020 $	As at December 31, 2019 $
ASSETS			
Current			
Accounts receivable	*9[b]*	**184.0**	247.5
Unbilled revenue	*9[b]*	**288.0**	293.8
Income tax receivable		**17.3**	0.5
Materials and supplies		**8.4**	7.8
Other assets		**16.6**	14.1
Total current assets		**514.3**	563.7
Property, plant and equipment	*4*	**4,868.4**	4,700.9
Intangible assets	*5*	**343.6**	339.7
Other assets		**9.5**	9.4
Total assets		**5,735.8**	5,613.7
Regulatory balances	*6*	**222.5**	165.0
Total assets and regulatory balances		**5,958.3**	5,778.7
LIABILITIES AND EQUITY			
Current			
Working capital facility	*7*	**5.8**	1.0
Commercial paper	*7*	**272.0**	136.0
Accounts payable and accrued liabilities		**403.9**	505.1
Customer deposits		**52.9**	49.1
Deferred revenue	*8*	**21.3**	13.6
Deferred conservation credit	*3[b]*	**13.2**	9.5
Total current liabilities		**769.1**	714.3
Debentures		**2,183.4**	2,183.0
Customer deposits		**20.5**	18.9
Deferred revenue	*8*	**477.4**	398.3
Post-employment benefits		**354.0**	334.9
Deferred tax liabilities		**34.0**	23.1
Other liabilities		**0.2**	0.5
Total liabilities		**3,838.6**	3,673.0
Equity			
Share capital	*10*	**817.8**	817.8
Retained earnings		**1,094.8**	1,069.7
Total equity		**1,912.6**	1,887.5
Total liabilities and equity		**5,751.2**	5,560.5
Regulatory balances	*6*	**207.1**	218.2
Total liabilities, equity and regulatory balances		**5,958.3**	5,778.7

Subsequent events *2*

See accompanying notes to the condensed interim consolidated financial statements.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF INCOME

[in millions of Canadian dollars, unaudited]

	Note	Three months ended June 30, 2020 $	Three months ended June 30, 2019 $	Six months ended June 30, 2020 $	Six months ended June 30, 2019 $
Revenues					
Energy sales	*11*	**670.8**	602.6	**1,470.9**	1,266.3
Distribution revenue	*11*	**158.8**	198.3	**345.8**	391.2
Other	*11*	**22.7**	23.3	**43.5**	43.7
		852.3	824.2	**1,860.2**	1,701.2
Expenses					
Energy purchases		**690.2**	646.9	**1,499.7**	1,316.4
Operating expenses		**87.0**	75.4	**162.8**	151.4
Depreciation and amortization	*4, 5*	**65.0**	60.4	**128.0**	118.0
		842.2	782.7	**1,790.5**	1,585.8
Finance costs		**(18.9)**	(20.0)	**(38.8)**	(39.9)
Gain on disposals of property, plant and equipment		**-**	2.2	**-**	2.2
Income (loss) before income taxes		**(8.8)**	23.7	**30.9**	77.7
Income tax expense	*12*	**(6.5)**	(18.3)	**(16.1)**	(35.8)
Net income (loss)		**(15.3)**	5.4	**14.8**	41.9
Net movements in regulatory balances	*6*	**43.3**	28.2	**41.4**	27.5
Net movements in regulatory balances arising from deferred tax assets	*6*	**8.0**	12.5	**15.2**	19.3
Net income after net movements in regulatory balances		**36.0**	46.1	**71.4**	88.7

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

[in millions of Canadian dollars, unaudited]

	Note	Three months ended June 30, 2020 $	Three months ended June 30, 2019 $	Six months ended June 30, 2020 $	Six months ended June 30, 2019 $
Net income after net movements in regulatory balances		**36.0**	46.1	**71.4**	88.7
Other comprehensive income					
Items that will not be reclassified to income or loss					
Remeasurements of post-employment benefits, net of tax [2020 - $14.4, $4.3, 2019 - $nil]		**(39.9)**	-	**(12.0)**	-
Net movements in regulatory balances related to OCI, net of tax [2020 - $14.4, $4.3, 2019 - $nil]	*6*	**39.9**	-	**12.0**	-
Other comprehensive income, net of tax		**-**	-	**-**	-
Total comprehensive income		**36.0**	46.1	**71.4**	88.7

See accompanying notes to the condensed interim consolidated financial statements.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

[in millions of Canadian dollars, unaudited]

		Three months ended June 30,		Six months ended June 30,	
		2020	**2019**	**2020**	**2019**
	Note	**$**	**$**	**$**	**$**
Share capital		**817.8**	817.8	**817.8**	817.8
Retained earnings, beginning of period		**1,080.1**	1,033.2	**1,069.7**	1,015.7
Net income after net movements in regulatory balances		**36.0**	46.1	**71.4**	88.7
Dividends	*10*	**(21.3)**	(25.1)	**(46.3)**	(50.2)
Retained earnings, end of period		**1,094.8**	1,054.2	**1,094.8**	1,054.2
Total equity		**1,912.6**	1,872.0	**1,912.6**	1,872.0

See accompanying notes to the condensed interim consolidated financial statements.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

[in millions of Canadian dollars, unaudited]

	Note	Three months ended June 30, 2020 $	Three months ended June 30, 2019 $	Six months ended June 30, 2020 $	Six months ended June 30, 2019 $
OPERATING ACTIVITIES					
Net income after net movements in regulatory balances		**36.0**	46.1	**71.4**	88.7
Net movements in regulatory balances	*6*	**(43.3)**	(28.2)	**(41.4)**	(27.5)
Net movements in regulatory balances arising from deferred tax assets	*6*	**(8.0)**	(12.5)	**(15.2)**	(19.3)
Adjustments					
Depreciation and amortization	*4, 5*	**65.0**	60.4	**128.0**	118.0
Amortization of deferred revenue	*8*	**(1.9)**	(1.3)	**(3.6)**	(2.7)
Finance costs		**18.9**	20.0	**38.8**	39.9
Income tax expense		**6.5**	18.3	**16.1**	35.8
Post-employment benefits		**1.5**	1.0	**2.8**	2.1
Gain on disposals of property, plant and equipment		**-**	(2.2)	**-**	(2.2)
Other		**0.2**	0.4	**0.2**	0.3
Capital contributions received	*8*	**26.9**	32.3	**83.5**	48.8
Net change in other non-current assets and liabilities		**(1.0)**	(0.7)	**(1.1)**	(2.3)
Increase (decrease) in customer deposits		**1.5**	1.2	**5.4**	(0.7)
Changes in non-cash operating working capital balances	*13*	**106.8**	2.3	**34.1**	(23.8)
Income tax paid		**(6.4)**	(9.0)	**(15.2)**	(18.7)
Net cash provided by operating activities		**202.7**	128.1	**303.8**	236.4
INVESTING ACTIVITIES					
Purchase of property, plant and equipment	*13*	**(145.9)**	(120.6)	**(342.2)**	(254.9)
Purchase of intangible assets	*13*	**(8.1)**	(12.8)	**(14.1)**	(17.2)
Proceeds on disposals of property, plant and equipment		**-**	2.2	**0.1**	2.2
Net cash used in investing activities		**(154.0)**	(131.2)	**(356.2)**	(269.9)
FINANCING ACTIVITIES					
Increase (decrease) in commercial paper, net	*7*	**(28.0)**	59.0	**136.0**	137.0
Dividends paid	*10*	**(21.3)**	(25.1)	**(46.3)**	(50.2)
Repayment of lease liability		**-**	-	**-**	(0.1)
Interest paid		**(26.6)**	(27.0)	**(42.1)**	(42.6)
Net cash provided by (used in) financing activities		**(75.9)**	6.9	**47.6**	44.1
Net change in cash and cash equivalents during the period		**(27.2)**	3.8	**(4.8)**	10.6
Cash and cash equivalents (working capital facility), beginning of period		**21.4**	(5.8)	**(1.0)**	(12.6)
Working capital facility, end of period		**(5.8)**	(2.0)	**(5.8)**	(2.0)

See accompanying notes to the condensed interim consolidated financial statements.

1. NATURE OF BUSINESS

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

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

2. BASIS OF PRESENTATION

The Corporation's unaudited condensed interim consolidated financial statements as at and for the three and six months ended June 30, 2020 and 2019 ["Interim Financial Statements"] have been prepared in accordance with IAS 34 *Interim Financial Reporting*. The notes presented in these Interim Financial Statements include only significant transactions and changes occurring for the six months since the year-end of December 31, 2019. The disclosures in these Interim Financial Statements do not conform in all respects to the IFRS requirements for annual consolidated financial statements. These Interim Financial Statements have been prepared following the same accounting policies and methods of computation as described in note 25 to the Corporation's audited consolidated financial statements for the year ended December 31, 2019 ["2019 Annual Financial Statements"]. Accordingly, they should be read in conjunction with the Corporation's 2019 Annual Financial Statements.

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

The Corporation's revenues, all other things being equal, are impacted by temperature fluctuations and unexpected weather conditions, including increased extreme weather events as a result of climate change, such as heat waves, intense rain events, and higher average maximum temperatures. Revenues would tend to be higher in the first quarter as a result of higher energy consumption for winter heating, and in the third quarter due to air conditioning/cooling. The Corporation's results are also impacted by fluctuations in electricity prices and the timing and recognition of regulatory decisions.

The Corporation has evaluated the events and transactions occurring after the condensed interim consolidated balance sheet date through August 19, 2020 when the Corporation's Interim Financial Statements were authorized for issuance by the Corporation's Board of Directors, and identified the events and transactions which required recognition in the Interim Financial Statements and/or disclosure in the notes to the Interim Financial Statements *[notes 3[a], 3[b], 6, 10 and 14[c]]*.

3. REGULATION

a) COVID-19 Pandemic Considerations

On March 11, 2020, the World Health Organization declared that the COVID-19 outbreak was a global pandemic. On March 17, 2020, the Ontario Government declared a State of Emergency pursuant to the *Emergency Management and Civil Protection Act*. The Ontario Government renewed the declaration as required by the legislation, with the most recent declaration effective until July 24, 2020. The Ontario Government began issuing emergency orders under the legislation on March 17, 2020, and additional orders on subsequent dates. Those emergency orders were extended as required by the legislation.

On March 19, 2020, the OEB extended the ban on disconnecting residential customers to July 31, 2020, in light of the COVID-19 pandemic. For the same reason, at the same time, the OEB also banned the disconnection of other low volume customers (as defined in the OEB Act) prior to July 31, 2020. The Corporation has decided to extend the disconnection ban until August 31, 2020 *[note 9[b]]*.

On March 24, 2020, the Ontario Government issued an emergency order setting TOU rates for on-peak, mid-peak, and off-peak at 10.1 cents per kWh, which prior to the emergency order was the TOU off-peak rate. That emergency order was effective through May 7, 2020. On May 6, 2020, the Ontario Government issued an emergency order extending those TOU rates through May 31, 2020. On May 30, 2020, the Ontario Government announced the COVID-19 Recovery Rate, setting a fixed TOU electricity price at 12.8 cents per kWh, 24 hours a day, seven days a week, effective June 1, 2020. This fixed electricity price is expected to be in place until October 31, 2020. The Corporation does not expect any impact to net income arising from the TOU change.

On March 25, 2020, the Ontario Government announced a $9 million COVID-19 Energy Assistance Program [“CEAP”], which expanded financial support for residential customers during the COVID-19 pandemic. On June 1, 2020, the Ontario Government announced an additional $8 million for CEAP for Small Business [“CEAP-SB”], which expanded financial support for certain commercial customers. On June 16, 2020, the OEB determined that LDC’s portion for CEAP is $0.7 million. On August 7, 2020, the OEB determined that LDC’s portion for CEAP-SB is an additional $0.7 million. The Corporation does not expect any impact to net income arising from the additional funding.

On March 25, 2020, the OEB established a deferral account for regulatory balances to record the costs of changes to billing systems resulting from the Ontario Government’s TOU emergency order and other incremental costs associated with the COVID-19 pandemic, as well as lost revenues resulting from the COVID-19 pandemic *[note 6]*.

b) CDM Activities

On March 21, 2019, the Government of Ontario issued ministerial directives to the IESO related to the delivery of CDM programs. Previously, LDC and other distributors delivered the CDM programs; under the new method, the IESO will be responsible for delivering the CDM programs.

Under its ECA with the IESO, LDC had a joint CDM plan with Oakville Hydro Electricity Distribution Inc. for the delivery of CDM programs over the 2015-2020 period. As part of implementing its new mandate, the IESO terminated the ECA effective June 20, 2019. LDC was required to cease marketing and business development for all CDM programs immediately and make commercially reasonable efforts to wind down the delivery of programs. Under the ECA, LDC is entitled to reimbursement from the IESO of its eligible expenses and administrative costs relating to the wind-down of its role in the CDM programs. Participant agreements with customers for many of the CDM programs that were in effect before April 1, 2019 remained in effect notwithstanding the termination of the ECA and LDC remains responsible for its obligations under such agreements. On July 22, 2020, the Government of Ontario issued ministerial directives to the IESO directing it to extend the previous deadline of December 31, 2020 to June 30, 2021, for participants to complete the projects. Amounts received from the IESO for the funding of the projects under the participant agreements, but not yet spent, are presented on the Corporation’s consolidated balance sheets under current liabilities as deferred conservation credit.

c) Electricity Distribution Rates

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

On December 19, 2019, the OEB issued its 2020-2024 CIR Decision and on February 20, 2020, the OEB issued its CIR Final Rate Order, both in relation to the rate application filed on August 15, 2018 [“2020-2024 CIR decision and rate order”]. The 2020-2024 CIR decision and rate order approved a rate base of $4,514.8 million and revenue requirement of $750.2 million for 2020, and rates calculated on that basis. The rates for 2020 were implemented on March 1, 2020, with an effective date of January 1, 2020. The 2020-2024 CIR decision and rate order approved funding for capital and operating expenditures of approximately $3.8 billion for the 2020-2024 period. The financial considerations of the OEB's 2020-2024 CIR decision and rate order are reflected in the consolidated financial statements including disclosure of approved disposition for a number of requested rate riders *[note 6]*. In addition, the 2020-2024 CIR decision and rate order approved subsequent annual rate adjustments based on a custom index for the period commencing on January 1, 2021 and ending on December 31, 2024.

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

4. PROPERTY, PLANT AND EQUIPMENT

PP&E consist of the following:

	Distribution assets $	Land and buildings $	Equipment and other $	Construction in progress $	Total $
Cost					
Balance as at December 31, 2019	4,465.1	426.9	331.1[1]	481.2	5,704.3
Additions/(Transfers), net	**167.9**	**4.3**	**14.1**	**91.9**	**278.2**
Disposals and retirements	**(6.9)**	**(0.5)**	**(0.3)**	**—**	**(7.7)**
Balance as at June 30, 2020	**4,626.1**	**430.7**	**344.9**	**573.1**	**5,974.8**
Accumulated depreciation					
Balance as at December 31, 2019	768.1	65.8	169.5[1]	—	1,003.4
Depreciation	**82.9**	**7.8**	**14.5**	**—**	**105.2**
Disposals and retirements	**(1.8)**	**(0.1)**	**(0.3)**	**—**	**(2.2)**
Balance as at June 30, 2020	**849.2**	**73.5**	**183.7**	**—**	**1,106.4**
Carrying amount					
Balance as at December 31, 2019	3,697.0	361.1	161.6	481.2	4,700.9
Balance as at June 30, 2020	**3,776.9**	**357.2**	**161.2**	**573.1**	**4,868.4**

(1) Includes reclassification of $3.4 million from amounts previously reported.

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

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

5. INTANGIBLE ASSETS

Intangible assets consist of the following:

	Computer software $	Contributions $	Software in development $	Contributions for work in progress $	Total $
Cost					
Balance as at December 31, 2019	235.6	176.6	21.7	45.9	479.8
Additions/(Transfers), net	**8.7**	**—**	**4.0**	**9.1**	**21.8**
Balance as at June 30, 2020	**244.3**	**176.6**	**25.7**	**55.0**	**501.6**
Accumulated amortization					
Balance as at December 31, 2019	122.6	17.5	—	—	140.1
Amortization	**14.3**	**3.6**	**—**	**—**	**17.9**
Balance as at June 30, 2020	**136.9**	**21.1**	**—**	**—**	**158.0**
Carrying amount					
Balance as at December 31, 2019	113.0	159.1	21.7	45.9	339.7
Balance as at June 30, 2020	**107.4**	**155.5**	**25.7**	**55.0**	**343.6**

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

“Software in development” and “Contributions for work in progress” additions are net of transfers to the other intangible asset categories.

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

6. REGULATORY BALANCES

Debit balances consist of the following:

	January 1, 2020 $	Balances arising in the period $	Recovery/ reversal $	Other movements $	June 30, 2020 $	Remaining recovery/ reversal period (months)	Carrying charges applicable
OPEB net actuarial loss [1]	**86.3**	**16.3**	**(1.9)**	**—**	**100.7**	[2]	—
LRAM	**35.9**	**(2.6)**	**(0.9)**	**—**	**32.4**	[2]	[3]
Deferred taxes	**21.4**	**10.9**	**—**	**—**	**32.3**	[2]	—
Settlement variances	**—**	**29.1**	**2.3**	**(8.9)**	**22.5**	[2]	[3]
COVID-19 emergency	**—**	**18.6**	**—**	**—**	**18.6**	—	[3]
OPEB cash versus accrual	**7.1**	**—**	**(2.1)**	**—**	**5.0**	6	[3]
Foregone revenue	**2.8**	**—**	**—**	**(2.8)**	**—**	—	—
Other	**11.5**	**0.4**	**(0.9)**	**—**	**11.0**	30	[3]
	165.0	**72.7**	**(3.5)**	**(11.7)**	**222.5**		

Credit balances consist of the following:

	January 1, 2020 $	Balances arising in the period $	Recovery/ reversal $	Other movements $	June 30, 2020 $	Remaining recovery/ reversal period (months)	Carrying charges applicable
Capital-related revenue requirement	**77.1**	**9.0**	**—**	**—**	**86.1**	[2]	[3]
Gain on disposal	**61.8**	**0.7**	**(8.5)**	**—**	**54.0**	18	[3]
Derecognition	**32.8**	**0.3**	**—**	**—**	**33.1**	[2]	[3]
Development charges	**10.9**	**0.4**	**—**	**—**	**11.3**	[2]	[3]
Tax-related variances	**11.4**	**(0.3)**	**0.1**	**—**	**11.2**	[2]	[3]
Accounts receivable credits	**3.4**	**0.1**	**—**	**—**	**3.5**	[2]	[3]
Foregone revenue [4]	**—**	**4.0**	**0.8**	**(2.8)**	**2.0**	18	—
IFRS transitional adjustments	**0.8**	**—**	**0.1**	**—**	**0.9**	6	—
Settlement variances	**8.9**	**—**	**—**	**(8.9)**	**—**	—	[3]
Other	**11.1**	**0.7**	**(6.8)**	**—**	**5.0**	6-48	[3]
	218.2	**14.9**	**(14.3)**	**(11.7)**	**207.1**		

[1] Actuarial loss of $16.3 million was recognized as a result of the lower discount rate [June 30, 2020 - 2.75%; December 31, 2019 - 3.00%].
[2] There were no significant changes to the disposition period for the six months ended June 30, 2020. Refer to note 8 to the Corporation's 2019 Annual Financial Statements for details.
[3] Carrying charges were added to the regulatory balance in accordance with the OEB's direction, at a rate of 2.18% for January 1, 2020 to June 30, 2020 [January 1, 2019 to March 31, 2019 - 2.45% , April 1, 2019 to December 31, 2019 - 2.18%].
[4] The 2020 balance arising of $4.0 million are revenues to be returned to customers, related to January and February 2020 as a result of implementing new OEB-approved rates on March 1, 2020. In the 2020-2024 CIR decision and rate order, the OEB approved the disposition of 2020 foregone revenue over a 22-month period commencing on March 1, 2020.

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

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

On March 25, 2020, the OEB established the COVID-19 Emergency Deferral Account in recognition that distributors will incur incremental costs and lost revenues resulting from the COVID-19 pandemic. This account consists of three sub-accounts to record such incremental costs and lost revenues related to: Billing and System Changes as a Result of the Emergency Order Regarding TOU Pricing; Lost Revenues Arising from the COVID-19 Emergency; and Other Costs. The OEB accounting guidance specified that incremental bad debt expense can be included in the Other Costs COVID-19 Emergency Deferral Account. As at June 30, 2020 the balance recorded in the COVID-19 Emergency Deferral Account was $18.6 million and represents management's estimate of the incremental bad debt expense as a result of the COVID-19 pandemic that is considered to be probable of recovery in future rates. The amount ultimately recoverable is subject to the OEB's final decision process with respect to this account which involves a degree of uncertainty. The Corporation is also tracking certain incremental costs and lost revenues that have arisen due to the COVID-19 pandemic. Incremental costs include costs related to cleaning supplies, protective equipment and other support costs directly related to the implementation of safety measures as a result of the COVID-19 pandemic. The lost revenues being tracked relate to lower commercial electricity consumption as a result of the COVID-19 pandemic and direct relief provided to customers through reduction of late payment charges. These amounts have not been recorded in the COVID-19 Emergency Deferral Account as at June 30, 2020. On May 14, 2020, the OEB has launched a consultation process which intends to provide clarity around how the account will operate and the process and timing for the disposition of the COVID-19 Emergency Deferral Account. On August 14, 2020, the OEB established a new sub-account to record amounts related to bad debt resulting from the COVID-19 emergency, and any bad debt amounts previously recorded in the Other Costs sub-account will be transferred to this sub-account.

7. SHORT-TERM BORROWINGS

The Corporation has a Commercial Paper Program allowing unsecured short-term promissory notes to be issued in various maturities of no more than one year. On May 25, 2020, the amount the Corporation may issue under this program was increased by $150.0 million from $600.0 million to $750.0 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.

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

	Revolving Credit Facility Limit $	Revolving Credit Facility Borrowings $	Commercial Paper Outstanding $	Revolving Credit Facility Availability $
June 30, 2020	800.0	—	272.0	528.0
December 31, 2019	800.0	—	136.0	664.0

As at June 30, 2020, $5.8 million had been drawn under the Working Capital Facility [December 31, 2019 – $1.0 million] and $32.9 million of letters of credit were issued against the Prudential Facility [December 31, 2019 – $33.2 million].

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

8. DEFERRED REVENUE

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

	As at and six months ended June 30, 2020 $	As at and year ended December 31, 2019 $
Capital contributions, beginning of period	**410.4**	288.6
Capital contributions received	**83.5**	127.8
Amortization	**(3.6)**	(5.9)
Other	**—**	(0.1)
Capital contributions, end of period	**490.3**	410.4
Other	**8.4**	1.5
Total deferred revenue	**498.7**	411.9
Less: Current portion of deferred revenue relating to:		
Capital contributions	**12.9**	12.1
Other	**8.4**	1.5
Current portion of deferred revenue	**21.3**	13.6
Non-current portion of deferred revenue	**477.4**	398.3

9. FINANCIAL INSTRUMENTS

a) Recognition and measurement

As at June 30, 2020 and December 31, 2019, the fair values of accounts receivable, unbilled revenue, Working Capital Facility, commercial paper, and accounts payable approximated their carrying amounts due to the short maturity of these instruments. The fair value of customer deposits approximates their carrying amount taking into account interest accrued on the outstanding balance. Obligations under leases are measured based on a discounted cash flow analysis and approximate the carrying amounts as management believes that the fixed interest rates reasonably approximate current market rates.

The fair value of the debentures is based on the present value of contractual cash flows, discounted at the Corporation's current borrowing rate for similar debt instruments, and is included in Level 2 of the fair value hierarchy. As at June 30, 2020, the total fair value of the Corporation's debentures was determined to be approximately $2,573.3 million [December 31, 2019 – $2,420.0 million], with a total carrying amount of $2,183.4 million [December 31, 2019 – $2,183.0 million].

b) Financial risks

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

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

Credit risk

As a result of the COVID-19 pandemic and material disruptions to businesses and the economy, the Corporation's credit risk has increased due to some customers not being able to pay their electricity bills when due, and LDC's security interest or other measures, if any, may also not provide sufficient protection. In addition, certain measures were introduced by governments and regulators which prevented the disconnection of customers for nonpayment, which has also increased the credit risk of the Corporation. The Corporation considers the current economic and credit conditions to determine the loss allowance of its accounts receivable. Given the high degree of uncertainty caused by the COVID-19 outbreak, the estimates and judgments made by management in the preparation of the expected credit loss allowance are subject to a high degree of estimation uncertainty. Based on the Corporation's current estimates and assumptions, which are based on the recent trend for customer collections and current and forecasted economic and other conditions, the expected credit loss provision has been adjusted to account for the higher level of expected customer defaults. The Corporation continues to actively monitor its exposure to credit risk and as at June 30, 2020, has recorded an incremental provision of $18.6 million to its expected credit loss allowance as a result of the COVID-19 pandemic *[note 6]*.

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

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

	June 30, 2020 $	**December 31, 2019 $**
Accounts receivable (net of loss allowance)		
Outstanding for not more than 30 days	**115.0**	198.7
Outstanding for more than 30 days and not more than 120 days	**44.2**	41.9
Outstanding for more than 120 days	**24.8**	6.9
Total accounts receivable	**184.0**	247.5
Unbilled revenue (net of loss allowance)	**288.0**	293.8
Total accounts receivable and unbilled revenue	**472.0**	541.3

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

	As at and six months ended June 30, 2020 $	**As at and year ended December 31, 2019 $**
Balance, beginning of period	**(11.8)**	(10.8)
Loss allowance	**(21.3)**	(6.3)
Write-offs	**4.6**	5.5
Recoveries	**(2.4)**	(0.2)
Balance, end of period	**(30.9)**	(11.8)

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

Liquidity risk

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

10. SHARE CAPITAL

On May 13, 2020, the Board of Directors of the Corporation declared dividends in the amount of $21.3 million with respect to the second quarter of 2020 [second quarter of 2019 – $25.1 million], paid to the City on June 30, 2020.

On August 19, 2020, the Board of Directors of the Corporation declared dividends in the amount of $23.2 million with respect to the third quarter of 2020 [third quarter of 2019 – $25.1 million], payable to the City by September 30, 2020.

11. REVENUES

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

	Three months ended June 30,		Six months ended June 30,	
	2020 $	**2019[(1)] $**	**2020 $**	**2019[(1)] $**
Revenue from contracts with customers				
Energy sales	**670.8**	602.6	**1,470.9**	1,266.3
Distribution revenue	**158.8**	198.3	**345.8**	391.2
Pole and duct rentals	**5.4**	3.9	**10.1**	10.4
Street lighting service fee	**4.5**	4.5	**9.0**	8.9
Ancillary services revenue	**3.0**	6.9	**5.9**	9.5
Other regulatory service charges	**1.6**	3.1	**3.7**	5.5
Miscellaneous	**4.0**	1.0	**6.7**	2.1
Revenue from other sources				
Capital contributions	**1.9**	1.3	**3.6**	2.7
Other	**2.3**	2.6	**4.5**	4.6
	852.3	824.2	**1,860.2**	1,701.2

(1) Includes reclassification from amounts previously reported.

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

12. INCOME TAXES

The Corporation's effective tax rate after net movements in regulatory balances for the three and six months ended June 30, 2020 was (4.3)% and 1.2% [three and six months ended June 30, 2019 – 11.2% and 15.7%]. The effective tax rate for the three and six months ended June 30, 2020 was lower than the three and six months ended June 30, 2019 primarily due to the higher net deductions in permanent and other temporary differences between accounting and tax treatments and the tax impact of the incremental bad debt provision due to COVID-19.

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

	Three months ended June 30,		Six months ended June 30,	
	2020 $	2019 $	2020 $	2019 $
Income tax expense	**6.5**	18.3	**16.1**	35.8
Income tax recorded in net movements in regulatory balances	**(8.0)**	(12.5)	**(15.2)**	(19.3)
Income tax expense (recovery) and income tax recorded in net movements in regulatory balances	**(1.5)**	5.8	**0.9**	16.5
Income tax recovery in OCI	**(14.4)**	—	**(4.3)**	—
Income tax expense in OCI recorded in net movements in regulatory balances	**14.4**	—	**4.3**	—
Income tax expense in OCI	**—**	—	**—**	—

13. CONSOLIDATED STATEMENTS OF CASH FLOWS

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

	Three months ended June 30,		Six months ended June 30,	
	2020 $	2019 $	2020 $	2019 $
Accounts receivable	**91.1**	4.7	**63.5**	(9.4)
Unbilled revenue	**10.5**	(10.4)	**5.8**	12.2
Income tax receivable	**(10.4)**	—	**(16.8)**	—
Materials and supplies	**0.1**	(0.5)	**(0.6)**	(0.3)
Other current assets	**(3.6)**	2.1	**(2.5)**	(4.3)
Accounts payable and accrued liabilities	**7.7**	11.3	**(26.7)**	(26.7)
Income tax payable	**—**	(5.9)	**—**	(5.0)
Deferred revenue	**6.9**	(1.7)	**7.7**	4.9
Deferred conservation credit	**4.5**	2.7	**3.7**	4.8
	106.8	2.3	**34.1**	(23.8)

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

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

	Three months ended June 30,		Six months ended June 30,	
	2020 $	2019 $	2020 $	2019 $
Purchase of PP&E, cash basis	**145.9**	120.6	**342.2**	254.9
Net change in accounts payable and accruals related to PP&E	**7.3**	2.1	**(64.6)**	(32.7)
Other	**0.4**	0.2	**0.6**	0.4
Total additions to PP&E	**153.6**	122.9	**278.2**	222.6
Purchase of intangible assets, cash basis	**8.1**	12.8	**14.1**	17.2
Net change in accounts payable and accruals related to intangible assets	**8.0**	(0.2)	**7.7**	(1.5)
Total additions to intangible assets	**16.1**	12.6	**21.8**	15.7

14. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Use of judgments and estimates

The preparation of the Corporation's Interim Financial Statements requires management to make judgments, estimates and assumptions which affect the application of accounting policies, reported assets, liabilities and regulatory balances, and the disclosure of contingent assets and liabilities at the date of the Interim Financial Statements, and the reported revenues and expenses for the period. The estimates are based on historical experience, current conditions and various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities as well as for identifying and assessing the accounting treatment with respect to commitments and contingencies. Actual results could differ from those estimates, including changes as a result of future decisions made by the OEB, the IESO, the Ontario Ministry of Energy or the Ontario Ministry of Finance. The assessment of the duration and severity of the developments related to the COVID-19 pandemic is subject to significant uncertainty; accordingly, judgments, estimates and assumptions related to the impact of the pandemic that may have a material adverse effect on the Corporation's operations, financial results and condition in future periods, made by management in the preparation of the Corporation's Interim Financial Statements are also subject to significant uncertainty. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively.

b) Changes in accounting standards

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

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

Effective January 1, 2020, the Corporation has applied the definition of 'material' as amended, with no impact on the consolidated financial statements.

c) Future accounting pronouncements

The IASB has issued a number of standards and amendments to existing standards that are not yet effective. The Corporation continues to analyze these pronouncements and has determined that the following amendments could become applicable when implemented in future periods.

Classification of Liabilities as Current or Non-current (Amendments to IAS 1)

In January 2020, the IASB issued amendments to IAS 1 relating to the classification of liabilities as current or non-current. Specifically, the amendments clarify one of the criteria in IAS 1 for classifying a liability as non-current - that is, the requirement for an entity to have the right to defer settlement of the liability for at least 12 months after the reporting period. The amendments are effective for annual reporting periods beginning on or after January 1, 2022, with early adoption permitted. In July 2020, the IASB deferred the effective date by one year to annual reporting periods beginning on or after January 1, 2023. The amendments are to be applied retrospectively.

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

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

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