ANNUAL FINANCIAL REPORT
DECEMBER 31, 2014

TORONTO HYDRO Corporation

TORONTO HYDRO CORPORATION

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TORONTO HYDRO Corporation

GLOSSARY

AFUDC – Allowance for funds used during construction

ASC – Accounting Standards Codification

CDM – Conservation and demand management

City – City of Toronto

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

Corporation – Toronto Hydro Corporation

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

ERM – Enterprise risk management

FASB – Financial Accounting Standards Board

GAAP – Generally Accepted Accounting Principles

GWh – Gigawatt hour

Green Energy Act – *Green Energy Act, 2009* (Ontario)

HST – Harmonized sales tax

IAS – International Accounting Standard

IASB – International Accounting Standards Board

ICM – Incremental Capital Module

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

IESO – Independent Electricity System Operator. The IESO and the OPA were merged under the name Independent Electricity System Operator on January 1, 2015.

IFRIC – International Financial Reporting Interpretations Committee

IFRS – International Financial Reporting Standards

IRM – Incentive Regulation Mechanism

ITA – *Income Tax Act* (Canada)

ITC – Investment tax credit

KPIs – Key performance indicators

kW – Kilowatt

kWh – Kilowatt hour

LDC – Toronto Hydro-Electric System Limited

MD&A – Management's Discussion and Analysis

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

MEU – Municipal electricity utility

MW – Megawatt

OCI – Other comprehensive income

OEB – Ontario Energy Board

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

OMERS – Ontario Municipal Employees Retirement System

OPA – Ontario Power Authority. The IESO and the OPA were merged under the name Independent Electricity System Operator on January 1, 2015.

OSC – Ontario Securities Commission

PILs – Payments in lieu of corporate taxes

PP&E – Property, plant and equipment

RARA – Regulatory assets recovery account

ROC – Risk Oversight Committee

RDA – Regulatory deferral account

RRA – Rate-regulated accounting

TA – *Taxation Act, 2007* (Ontario)

TH Energy – Toronto Hydro Energy Services Inc.

US GAAP – United States Generally Accepted Accounting Principles

WMS – Wholesale Market Service

MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE
THREE MONTHS AND YEARS ENDED
DECEMBER 31, 2014 AND 2013

TORONTO HYDRO Corporation

Executive Summary

- Net income for the three months and year ended December 31, 2014 was $23.7 million and $112.5 million, compared to net income of $29.3 million and $121.2 million for the comparable periods in 2013;
- capital expenditures were primarily related to the renewal of the electricity infrastructure of LDC and were $168.0 million and $588.4 million for the three months and year ended December 31, 2014, compared to $151.9 million and $450.4 million for the comparable periods in 2013;
- on July 31, 2014, LDC filed a rate application with the OEB under the Custom Incentive Rate-setting mechanism, seeking approval of LDC's 2015 test year revenue requirement and corresponding electricity distribution rates effective May 1, 2015, and subsequent annual rate adjustments based on a custom index for the period commencing on January 1, 2016 and ending on December 31, 2019;
- on January 16, 2014, the OEB approved LDC's requested disposition of the smart meter deferral account balances, permitting the recovery of $23.9 million and $9.6 million through two separate rate riders effective May 1, 2014;
- during the second quarter of 2014, the gas-insulated transformers and the high and medium voltage switchgear were manufactured and delivered for Copeland Station. During the third quarter of 2014, the tunnel boring was completed as required to connect the new infrastructure to the transmission grid. During the fourth quarter of 2014, the transformer floor in the new building was completed;
- on September 16, 2014, the Corporation issued $200.0 million of 4.08% senior unsecured debentures due September 16, 2044; and
- on January 9, 2015, the Corporation filed a base shelf prospectus with the securities commissions or similar regulatory authorities in each of the provinces of Canada providing for the issuance of up to $1.0 billion of unsecured debentures.

Introduction

The MD&A should be read in conjunction with:

- the Corporation's audited consolidated financial statements and accompanying notes as at and for the years ended December 31, 2014 and 2013 (the "Consolidated Financial Statements"); and

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

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

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

Business of Toronto Hydro Corporation

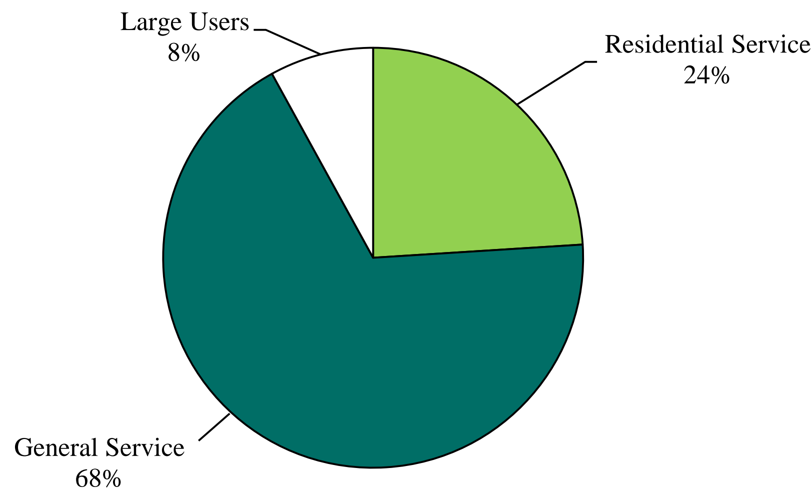
The Corporation is a holding company which wholly owns two subsidiaries:

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

The principal business of the Corporation and its subsidiaries is the distribution of electricity by LDC. LDC owns and operates an electricity distribution system, delivering electricity to approximately 740,000 customers located in the City. The City is the sole shareholder of the Corporation. LDC is the largest municipal electricity distribution company in Canada and distributes approximately 18% of the electricity consumed in Ontario. The business of LDC is regulated by the OEB, which has broad powers relating to licensing, standards of conduct and service, and the regulation of electricity distribution rates charged by LDC and other electricity distributors in Ontario. For the year ended December 31, 2014, LDC earned energy sales and distribution revenues of $3,254.6 million. As illustrated in the accompanying chart, 68% of the energy sales and distribution revenues were earned from general service users[1], 24% from residential service users[2], and 8% from large users[3].

LDC Energy Sales and Distribution Revenues by Class

Year ended December 31, 2014



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

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

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

TORONTO HYDRO Corporation

Electricity Distribution – Industry Overview

In April 1999, the Government of Ontario began restructuring Ontario's electricity industry. Under regulations passed pursuant to the restructuring, LDC and other electricity distributors purchase electricity from the wholesale market administered by the IESO and recover the costs of electricity and certain other costs at a later date in accordance with procedures mandated by the OEB.

The OEB has regulatory oversight of electricity matters in Ontario. The OEB Act sets out the OEB's authority to issue a distribution licence that must be obtained by owners or operators of an electricity distribution system in Ontario. The OEB prescribes licence requirements and conditions including, among other things, specified accounting records, regulatory accounting principles, separation of accounts for distribution and other activities, and requirements for rate-setting and other legal filings.

The OEB's authority and responsibilities include the power to approve and fix rates for the transmission and distribution of electricity, the power to approve the amounts paid to non-contracted generators, the responsibility to provide rate protection for rural or remote electricity customers, and the responsibility for ensuring that electricity distribution companies fulfill their obligations to connect and service customers.

LDC is required to charge its customers for the following amounts (all of which, other than distribution rates, represent a pass-through of amounts payable to third parties):

- *Commodity Charge* – The commodity charge represents the market price of electricity consumed by customers and is passed through the IESO to operators of generating stations. It includes the global adjustment, which represents the difference between the market price of electricity and the rates paid to regulated and contracted generators.

- *Retail Transmission Rate* – The retail transmission rate represents the costs incurred in respect of the transmission of electricity from generating stations to local distribution networks. Retail transmission rates are passed through to operators of transmission facilities.

- *WMS Charge* – The WMS charge represents various wholesale market support costs, such as the cost of the IESO to administer the wholesale electricity system, operate the electricity market, and maintain reliable operation of the provincial grid. Wholesale charges are passed through to the IESO.

- *Distribution Rate* – The distribution rate is designed to recover the costs incurred by LDC in delivering electricity to customers, including the OEB-allowed cost of capital. Distribution rates are regulated by the OEB and include fixed and variable (usage-based) components, based on a forecast of LDC's customers and load.

LDC is required to satisfy and maintain prudential requirements with the IESO, which include credit support with respect to outstanding market obligations in the form of letters of credit, cash deposits or guarantees from third parties with prescribed credit ratings.

The Corporation is exempt from tax under the ITA if not less than 90% of the capital of the Corporation is owned by the City and not more than 10% of the income of the Corporation is derived from activities carried on outside the municipal geographical boundaries of the City. In addition, the Corporation's subsidiaries are also exempt from tax under the ITA provided that all of their capital is owned by the Corporation and not more than 10% of their respective income is from activities carried on outside the municipal geographical boundaries of the City. A corporation exempt from tax under the ITA is also exempt from tax under the TA.

The Corporation and each of its subsidiaries are MEUs for purposes of the PILs regime contained in the Electricity Act. The Electricity Act provides that a MEU that is exempt from tax under the ITA and the TA is required to make, for each taxation year, a PILs payment to the Ontario Electricity Financial Corporation in an amount equal to the tax that it would be liable to pay under the ITA and the TA if it were not exempt from tax. The PILs regime came into effect on October 1, 2001, at which time the Corporation and each of its subsidiaries were deemed to have commenced a new taxation year for purposes of determining their respective liabilities for PILs payments.

TORONTO HYDRO Corporation

Corporate Strategy

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

The Corporation is focused on the following four strategic pillars:

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

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

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

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

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

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

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

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

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

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

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

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

Performance Measurement

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

Strategic Pillars	Performance Measure	Definition
People	Safety	• Number of recordable injuries x 200,000 / exposure hours.
	Attendance	• Average days absent per employee.
Financial	Net income	• Net income per the Corporation's Consolidated Financial Statements.
	Productivity - operating expenses and other productivity related metrics	• Consolidated operating expenses (excluding some defined costs) and other productivity related metrics.
Operations	System average interruption duration index	• Measure of the annual system average interruption duration per customers served, not including MED.
	System average interruption frequency index	• Measure of the frequency of service interruptions per customers served, not including MED.
	Key account worst performing feeders	• Total number of feeders experiencing seven or more outages affecting key account customers, including momentary and sustained interruptions, in a 12-month rolling time period.
	LDC regulated capital	• Achievement of LDC's capital work program.
Customer	First call resolution	• Percentage of telephone enquiries resolved within one call, within a 21-day time period.
	Enhanced online customer engagement	• Increase in customer self-serve transactions / engagements using various self-serve options and media channels.

Capability to Deliver Results

The Corporation strives to manage its performance and deliver results. In 2014, the Corporation exceeded all of its corporate targets represented by its KPIs except the key accounts worst performing feeders, primarily due to an under estimation of the impact of uncontrollable momentary outages. Each of the corporate targets were reasonably difficult to attain and served to encourage success in the Corporation's financial and operational results. The Corporation's ability to deliver results in each of its strategic pillars is managed through good governance around the balanced scorecard, short interval control and enterprise risk management. However it is also limited by inherent risks as discussed under the section "Risk Management and Risk Factors" in this MD&A.

Selected Consolidated Financial Data

Consolidated Statements of Net Income and Comprehensive Income
Three months ended December 31
(in millions of Canadian dollars, unaudited)

	2014 $	2013 $	Change $	2012 $
Energy sales	703.1	627.0	76.1	551.3
Distribution revenue	134.0	175.5	(41.5)	127.6
Other revenue	20.7	17.1	3.6	13.0
	857.8	819.6	38.2	691.9
Energy purchases	703.1	627.0	76.1	551.3
Operating expenses	68.0	79.3	(11.3)	65.0
Depreciation and amortization	41.8	66.7	(24.9)	35.9
Operating income	44.9	46.6	(1.7)	39.7
Net financing charges	(17.0)	(15.0)	(2.0)	(18.7)
Gain on disposals of PP&E	-	0.2	(0.2)	1.8
Income before income taxes	27.9	31.8	(3.9)	22.8
Income tax expense (recovery)	4.2	2.5	1.7	(0.1)
Net income and comprehensive income	23.7	29.3	(5.6)	22.9

Consolidated Statements of Net Income and Comprehensive Income
Year ended December 31
(in millions of Canadian dollars)

	2014 $	2013 $	Change $	2012 $
Energy sales	2,700.4	2,567.5	132.9	2,275.2
Distribution revenue	554.2	577.9	(23.7)	524.2
Other revenue	61.6	57.3	4.3	53.1
	3,316.2	3,202.7	113.5	2,852.5
Energy purchases	2,700.4	2,567.5	132.9	2,275.2
Operating expenses	267.6	272.0	(4.4)	245.1
Depreciation and amortization	160.8	172.8	(12.0)	141.6
Operating income	187.4	190.4	(3.0)	190.6
Net financing charges	(63.8)	(66.2)	2.4	(74.0)
Gain on disposals of PP&E	1.5	1.3	0.2	1.8
Restructuring costs	-	-	-	(27.8)
Income before income taxes	125.1	125.5	(0.4)	90.6
Income tax expense	12.6	4.3	8.3	4.6
Net income and comprehensive income	112.5	121.2	(8.7)	86.0

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

	As at December 31 2014 $	As at December 31 2013 $
Current assets	550.3	555.3
Non-current assets	3,726.0	3,242.2
Total assets	4,276.3	3,797.5
Current liabilities	902.6	696.4
Non-current liabilities	2,103.3	1,882.6
Total liabilities	3,005.9	2,579.0
Shareholder’s equity	1,270.4	1,218.5
Total liabilities and shareholder’s equity	4,276.3	3,797.5

Results of Operations – 2014 compared to 2013

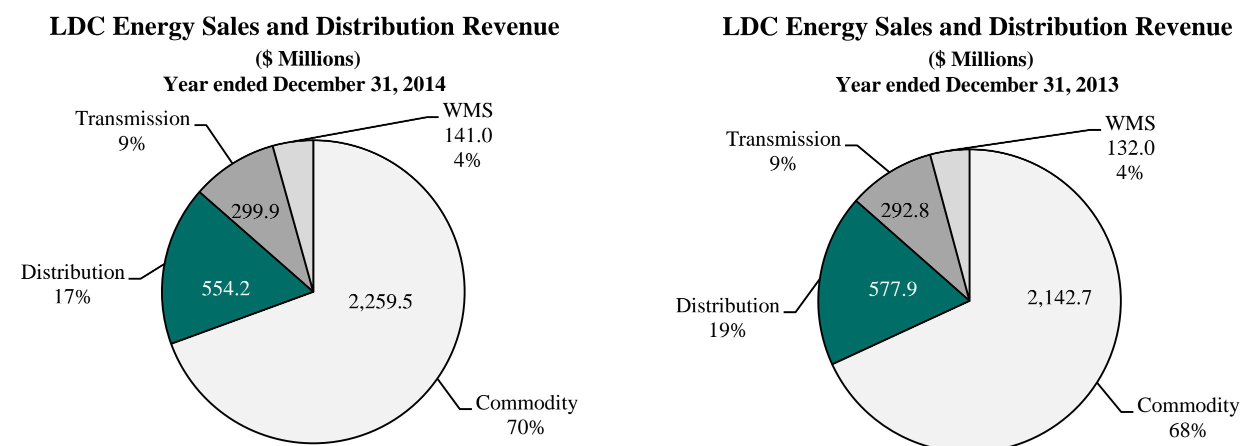
Net Income

Net income for the three months and year ended December 31, 2014 was $23.7 million and $112.5 million compared to $29.3 million and $121.2 million for the comparable periods in 2013.

The decrease in net income for the three months ended December 31, 2014 was primarily due to lower distribution revenue ($41.5 million), higher net financing charges ($2.0 million), and higher income tax expense ($1.7 million). These variances were partially offset by lower depreciation and amortization expense ($24.9 million), lower operating expenses ($11.3 million), and higher other revenue ($3.6 million).

The decrease in net income for the year ended December 31, 2014 was primarily due to lower distribution revenue ($23.7 million) and higher income tax expense ($8.3 million). These variances were partially offset by lower depreciation and amortization expense ($12.0 million), lower operating expenses ($4.4 million), higher other revenue ($4.3 million), and lower net financing charges ($2.4 million).

Revenues



Energy Sales

LDC's energy sales arise from charges to customers for electricity generated by third parties and the related costs of purchased power, which are passed through to the customers at the cost paid. Energy sales include commodity charges, retail transmission charges and WMS charges. These pass-through charges are considered revenue by LDC due to the collection risk of the related balances. In connection with these charges, LDC records an equivalent cost of energy purchases in its consolidated statements of net income and comprehensive income as these charges are paid by LDC to the respective third parties.

The energy sales for the year ended December 31, 2014 were $2,700.4 million compared to $2,567.5 million for the comparable period in 2013. The increase in energy sales for the year ended December 31, 2014 was primarily due to higher commodity and WMS charges. Commodity charges were higher due to increased market price of electricity consumed by customers, and WMS charges were higher due to greater various wholesale market support costs. Both charges were passed through by the IESO.

Distribution Revenue and Other Revenue

Distribution revenue is recorded based on OEB-approved distribution rates to recover the costs incurred by LDC in delivering electricity to customers, which includes revenue related to eligible capital expenditures under the ICM framework. Other revenue includes revenue from services ancillary to the distribution of electricity, revenue from the delivery of street lighting services, revenue from demand billable activities, and CDM cost efficiency incentives (see "Revenue Recognition" below).

Distribution revenue for the three months and year ended December 31, 2014 was $134.0 million and $554.2 million compared to $175.5 million and $577.9 million for the comparable periods in 2013.

The decrease in distribution revenue for the three months ended December 31, 2014 was primarily due to revenue recognition in 2013 related to the disposition of the 2008-2010 smart meter deferral account balances ($57.5 million), an adjustment to unbilled revenue based on new technology implemented to enhance the revenue estimation process ($10.7 million) (see "Revenue Recognition" below), and lower electricity consumption in the fourth quarter of 2014 (1,794.4 GWh compared to 1,831.2 GWh) ($2.3 million). These variances were partially offset by a reduction in the distribution revenue recorded in the fourth quarter 2013 related to an over-recovery of PILs from customers ($18.5 million) in connection with the revision of prior year tax positions (see note 9(f) to the Consolidated Financial Statements), higher revenue recognition related to the eligible in-service capital expenditures under ICM, including the IRM annual adjustment ($7.9 million), and revenue recognition related to the implementation of the 2014 smart meter incremental revenue requirement ($2.4 million).

The decrease in distribution revenue for the year ended December 31, 2014 was primarily due to revenue recognition in 2013 related to the disposition of the 2008-2010 smart meter deferral account balances ($57.5 million), an adjustment to unbilled revenue based on new technology implemented to enhance the revenue estimation process ($10.7 million) (see "Revenue Recognition" below), and lower electricity consumption in 2014 (7,249.6 GWh compared to 7,278.3 GWh) ($3.1 million). These variances were partially offset by higher revenue recognition related to the eligible in-service capital expenditures under ICM, including the IRM annual adjustment ($22.9 million), a reduction in the distribution revenue recorded in 2013 related to an over-recovery of PILs from customers ($16.5 million) in connection with the revision of prior year tax positions (see note 9(f) to the Consolidated Financial Statements), and revenue recognition related to the implementation of the 2014 smart meter incremental revenue requirement ($9.6 million).

Other revenue for the three months and year ended December 31, 2014 was $20.7 million and $61.6 million compared to $17.1 million and $57.3 million for the comparable periods in 2013.

The increase in other revenue for the three months ended December 31, 2014 was primarily due to the cost efficiency incentive recorded in 2014 related to the completion of the 2011-2014 CDM programs (see "CDM Activities" below), partially offset by lower revenue in connection with duct rental fees and solar panel installations.

The increase in other revenue for the year ended December 31, 2014 was primarily due to the cost efficiency incentive recorded in 2014 related to the completion of the 2011-2014 CDM programs (see "CDM Activities" below), partially offset by lower demand billable work and lower revenue related to solar panel installations.

Expenses

Operating expenses for the three months and year ended December 31, 2014 were $68.0 million and $267.6 million compared to $79.3 million and $272.0 million for the comparable periods in 2013.

The decrease in operating expenses for the three months ended December 31, 2014 was primarily due to cost of power restoration incurred in the fourth quarter of 2013 as a result of the Ice Storm that adversely affected the City ($10.2 million) and the recognition of operating expenses in 2013 related to the disposition of the 2008-2010 smart meter deferral account balances ($7.1 million). These variances were partially offset by higher spending related to the tree-trimming program ($2.0 million) and higher system maintenance costs ($1.0 million).

The decrease in operating expenses for the year ended December 31, 2014 was primarily due to the recognition of operating expenses in 2013 related to the disposition of the 2008-2010 smart meter deferral account balances ($7.1 million) and lower cost of power restoration incurred in the first quarter of 2014 compared to 2013 as a result of the Ice Storm that adversely affected the City ($6.8 million). These variances were partially offset by higher system maintenance costs ($6.9 million) and higher spending related to the tree-trimming program in 2014 ($3.2 million).

Depreciation and amortization expense for the three months and year ended December 31, 2014 was $41.8 million and $160.8 million compared to $66.7 million and $172.8 million for the comparable periods in 2013.

The decrease in depreciation and amortization expense for the three months and year ended December 31, 2014 was primarily due to the recognition of depreciation and amortization expense related to the disposition of the 2008-2010

smart meter deferral account balances in 2013, partially offset by in-service asset additions stemming from the increase in capital expenditures.

Net Financing Charges

Net financing charges for the three months and year ended December 31, 2014 were $17.0 million and $63.8 million compared to $15.0 million and $66.2 million for the comparable periods in 2013.

The increase in net financing charges for the three months ended December 31, 2014 was primarily due to the issuance of $200.0 million senior unsecured debentures during the third quarter of 2014 (see "Liquidity and Capital Resources" below).

The decrease in net financing charges for the year ended December 31, 2014 was primarily due to the refinancing of maturing debentures at a lower interest rate in the second quarter of 2013, partially offset by higher interest expense related to the issuance of $200.0 million senior unsecured debentures during the third quarter of 2014.

Income Tax Expense

Income tax expense for the three months and year ended December 31, 2014 was $4.2 million and $12.6 million compared to $2.5 million and $4.3 million for the comparable periods in 2013.

The unfavourable variance in income tax expense for the three months ended December 31, 2014 was due to lower deductions for permanent and temporary differences between accounting and tax treatments.

The unfavourable variance in income tax expense for the year ended December 31, 2014 was primarily due to the favourable resolution of certain tax positions identified in prior periods and related reassessments by the Ontario Ministry of Finance in 2013 ($4.9 million) and lower deductions for permanent and temporary differences between accounting and tax treatments in 2014 ($3.4 million).

Results of Operations – 2013 compared to 2012

Net income was $121.2 million in 2013 compared to $86.0 million in 2012. The increase in net income was primarily due to higher distribution revenue ($53.7 million), restructuring costs recognized in the first quarter of 2012 ($27.8 million) related to the cost reduction initiatives at LDC, lower net financing charges ($7.8 million), and higher other revenue ($4.2 million). These favourable variances were partially offset by higher depreciation expense ($31.2 million) and higher operating expenses ($26.9 million). For further details, see "Selected Consolidated Financial Data" above and the Corporation's 2013 annual MD&A as filed on the System for Electronic Document Analysis and Retrieval website at www.sedar.com.

TORONTO HYDRO Corporation

Quarterly Results of Operations

The table below presents the Corporation's unaudited quarterly consolidated financial information for 2014 and 2013, which has been prepared in accordance with US GAAP. The number of issued and outstanding shares of the Corporation during the eight quarters noted below was 1,000.

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

	December 31 2014 $	September 30 2014 $	June 30 2014 $	March 31 2014 $
Revenues	857.8	825.5	769.5	863.4
Net income	23.7	35.1	31.2	22.5
	December 31 2013 $	**September 30 2013 $**	**June 30 2013 $**	**March 31 2013 $**
Revenues	819.6	833.3	792.9	756.9
Net income	29.3	35.8	37.6	18.5

The Corporation's revenues, all other things being equal, are impacted by changes in temperature. Revenues would tend to be higher in the first quarter as a result of higher energy consumption for winter heating, and in the third quarter due to air conditioning/cooling.

The Corporation's quarterly results are also impacted by fluctuations in electricity prices and the timing and recognition of regulatory decisions. This resulted in a variation from the trend noted above for 2014 and 2013. Commodity costs increased throughout the year as a result of global adjustments (see "Electricity Distribution – Industry Overview" above) in both years, and higher distribution revenue was recognized in the fourth quarter of 2013 as a result of the disposition of the 2008-2010 smart meter deferral account balances.

Financial Position

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

Consolidated Balance Sheet Data
(in millions of Canadian dollars)

Balance Sheet Account	Increase (Decrease) $	Explanation of Significant Change
Assets		
Accounts receivable (net of allowance for doubtful accounts) and unbilled revenue	(15.1)	The decrease was primarily due to lower electricity consumption and an adjustment in unbilled revenue based on new technology implemented (see "Revenue Recognition" below), partially offset by timing variances of billing and collection activities from electricity customers.

Consolidated Balance Sheet Data
(in millions of Canadian dollars)

Balance Sheet Account	Increase (Decrease) $	Explanation of Significant Change
PP&E and intangible assets, net	179.9	The increase was primarily due to capital expenditures, partially offset by net eligible in-service capital expenditures under ICM reclassified to regulatory assets per the direction from the OEB and depreciation during the period.
Regulatory assets	334.7	The increase was primarily due to the reclassification of ICM-related net eligible in-service capital expenditures (see note 9(a) to the Consolidated Financial Statements), the recognition of actuarial losses of post-retirement benefits, and the retail settlement variance between IESO charges and approved customer charges.
Deferred income tax assets	(27.2)	The decrease was due to lower net deductible temporary differences between tax and accounting values of PP&E.
Liabilities and Shareholder's Equity		
Working capital facility and commercial paper	145.0	The increase was primarily due to funding required for the Corporation's significant capital program.
Accounts payable and accrued liabilities	79.4	The increase was primarily due to higher capital activity and higher electricity commodity costs payable to the IESO.
Deferred conservation credit and deferred revenue	(19.0)	The decrease was primarily due to the actual spend related to CDM activities in 2014, reclassification of a payable due to the IESO, and cost efficiency incentives related to the 2011-2014 CDM programs (see "CDM Activities" below).
Debentures	200.0	The increase was due to the issuance of $200.0 million senior unsecured debentures during the third quarter of 2014, which was required to support the Corporation's significant capital program.
Post-retirement benefits	54.8	The increase was primarily due to the actuarial loss recorded in 2014 driven by changes in actuarial assumptions and discount rate.
Regulatory liabilities	(25.3)	The decrease was primarily due to a reduction of deferred income tax assets, the benefit of which will be payable to customers.

Consolidated Balance Sheet Data
(in millions of Canadian dollars)

Balance Sheet Account	Increase (Decrease) $	Explanation of Significant Change
Retained earnings	51.9	The increase in retained earnings was due to net income for the year ($112.5 million), offset by dividends paid ($60.6 million).

Liquidity and Capital Resources

Sources of Liquidity and Capital Resources

The Corporation's current assets and current liabilities amounted to $550.3 million and $902.6 million, respectively, as at December 31, 2014, resulting in a working capital deficit of $352.3 million. The deficit is attributable to the Corporation's preference for utilizing its Commercial Paper Program and Working Capital Facility before issuing additional debentures to fulfill the Corporation's liquidity requirements, including significant capital spending in the current year. The Corporation seeks to maintain an optimal mix of short-term and long-term debt in order to lower financing costs and enhance borrowing flexibility.

The Corporation's primary sources of liquidity and capital resources are cash provided by operating activities, issuances of commercial paper, amounts available to be drawn against its credit facilities, and borrowings from debt capital markets. The Corporation's liquidity and capital resource requirements are mainly for capital expenditures to maintain and improve the electricity distribution system of LDC, to purchase power, and to meet financing obligations. See "Liquidity Risk" under note 15 (b) to the Consolidated Financial Statements.

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

The Corporation is a party to a credit agreement with a syndicate of Canadian chartered banks which established a revolving credit facility expiring on October 10, 2019 ("Revolving Credit Facility"), pursuant to which it may borrow up to $700.0 million, of which up to $210.0 million is available in the form of letters of credit. On June 13, 2014, the borrowing capacity under the Revolving Credit Facility was increased from $600.0 million to $700.0 million and the expiry date extended from October 10, 2018 to October 10, 2019. Borrowings under the Revolving Credit Facility bear interest at short-term floating rates with reference to the Corporation's credit rating.

The Revolving Credit Facility contains certain covenants, the most significant of which is a requirement that the Corporation's debt to capitalization ratio not exceed 75%. As at December 31, 2014, the Corporation was in compliance with all covenants included in its Revolving Credit Facility.

The Corporation has a commercial paper program allowing up to $500.0 million of unsecured short-term promissory notes ("Commercial Paper Program") to be issued in various maturities of no more than one year. On June 13, 2014, the amount the Corporation may issue under this program was increased from $400.0 million to $500.0 million. The Commercial Paper Program is supported by liquidity facilities available under the Revolving Credit Facility; hence, available borrowing under the Revolving Credit Facility is reduced by the amount of commercial paper outstanding at any point in time. Proceeds from the Commercial Paper Program are being used for general corporate purposes. Borrowings under the Commercial Paper Program bear interest based on the prevailing market conditions at the time of issuance.

Additionally, the Corporation is a party to:

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

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

	Facility Limit $	Facility Borrowings $	Commercial Paper $	Facility Availability $
December 31, 2014	700.0	—	308.0	392.0
December 31, 2013	600.0	—	150.0	450.0

As at December 31, 2014, $6.1 million had been drawn under the Working Capital Facility and $29.7 million of letters of credit had been issued against the Prudential Facility.

For the three months and year ended December 31, 2014, the average outstanding borrowings under the Corporation's credit facilities and commercial paper, excluding the Prudential Facility, were $265.9 million and $250.3 million with weighted average interest rates of 1.19% and 1.18%, respectively.

The Corporation filed a base shelf prospectus dated January 9, 2015 with the securities commissions or similar regulatory authorities in each of the provinces of Canada. These filings allow the Corporation to make offerings of unsecured debt securities of up to $1.0 billion during the 25-month period following the date of the prospectus.

On September 16, 2014, the Corporation issued $200.0 million of 4.08% senior unsecured debentures at a price of $999.48 per $1,000 principal amount due September 16, 2044 ("Series 10"). The Series 10 debentures bear interest payable semi-annually in arrears. The net proceeds of the debentures were used to repay certain existing indebtedness of the Corporation and for general corporate purposes. Debt issuance costs of $1.6 million relating to the Series 10 debentures were deferred as other assets in the third quarter of 2014 and are amortized to net financing charges using the effective interest method.

The Corporation may redeem all or part of its outstanding debentures at any time prior to maturity at a price equal to the greater of the Canada Yield Price (determined in accordance with the terms of the debentures) and par, plus accrued and unpaid interest up to and excluding the date fixed for redemption. Also, the Corporation may, at any time and from time to time, purchase debentures for cancellation, in the open market, by tender or by private contract, at any price. The debentures contain certain covenants which, subject to certain exceptions, restrict the ability of the Corporation and LDC to create security interests, incur additional indebtedness or dispose of all or substantially all of their assets. The Corporation's unsecured debentures limit consolidated funded indebtedness to a maximum of 75% of total consolidated capitalization. As at December 31, 2014, the Corporation was in compliance with all covenants included in its trust indenture and supplemental trust indentures.

As at December 31, 2014, the Corporation had long-term debentures outstanding in the principal amount of $1.65 billion. These debentures mature between 2017 and 2063.

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

Credit Ratings
As at December 31, 2014

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

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

Consolidated Statements of Cash Flows
(in millions of Canadian dollars)

	Three months Ended December 31		Year Ended December 31	
	2014 $	2013 $	2014 $	2013 $
Cash and cash equivalents, beginning of period	-	-	-	76.6
Net cash provided by operating activities	55.7	79.7	254.9	236.3
Net cash used in investing activities	(147.7)	(126.9)	(533.9)	(411.7)
Net cash provided by financing activities	92.0	47.2	279.0	98.8
Cash and cash equivalents, end of period	-	-	-	-

Net Cash Provided by Operating Activities

Net cash provided by operating activities for the three months and year ended December 31, 2014 was $55.7 million and $254.9 million compared to $79.7 million and $236.3 million for the comparable periods in 2013.

The decrease in net cash provided by operating activities for the three months ended December 31, 2014 was primarily due to lower net income after adjustments for non-cash items.

The increase in net cash provided by operating activities for the year ended December 31, 2014 was primarily due to the movement in non-cash working capital balances (see note 19 to the Consolidated Financial Statements), partially offset by net changes in regulatory assets and liabilities and lower net income after adjustments for non-cash items.

Net Cash Used in Investing Activities

Net cash used in investing activities for the three months and year ended December 31, 2014 was $147.7 million and $533.9 million compared to $126.9 million and $411.7 million for the comparable periods in 2013.

The increase in net cash used in investing activities for the three months and year ended December 31, 2014 was primarily due to higher capital expenditures in 2014.

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

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

Capital Expenditures
(in millions of Canadian dollars, unaudited)

	Three months Ended December 31		Year Ended December 31	
	2014 **$**	**2013** **$**	**2014** **$**	**2013** **$**
Regulated LDC				
Distribution system				
Planned	97.3	108.4	357.6	330.7
Reactive	10.6	15.2	39.0	36.1
Copeland Station	26.1	9.5	82.1	45.3
Facilities consolidation	12.7	4.9	70.8	8.6
Technology assets	7.5	6.8	18.6	17.1
Other [1]	13.0	5.8	17.4	7.9
	167.2	150.6	585.5	445.7
Other [2]	0.8	1.3	2.9	4.7
Total Capital Expenditures	168.0	151.9	588.4	450.4

1 Includes fleet capital and buildings.

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

The total regulated capital expenditures were $167.2 million and $585.5 million for the three months and year ended December 31, 2014 compared to $150.6 million and $445.7 million for the comparable periods in 2013. For the year ended December 31, 2014, the increase in regulated capital expenditures was primarily related to spending on underground infrastructure ($64.5 million), the facilities consolidation program ($62.2 million), Copeland Station ($36.8 million), and overhead infrastructure ($35.4 million). These variances were partially offset by a decrease in Hydro One capital contributions included in planned expenditures ($14.5 million), network infrastructure and equipment spending ($13.4 million), customer connections ($12.0 million), externally-initiated plant relocations and expansions ($7.9 million), and feeder automation ($6.4 million).

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

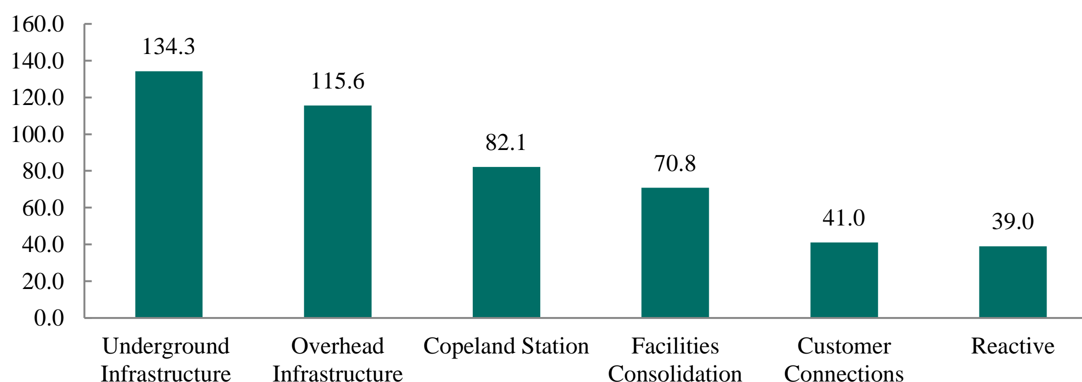
The replacement of underground infrastructure includes replacing direct buried cables, transformer switches, handwells, and other aging underground infrastructure. The replacement of overhead infrastructure includes replacing poles, overhead transformers, conductors, overhead switches and other aging overhead infrastructure and equipment. Both initiatives will allow LDC to continue to provide ongoing safe and reliable service to its customers. For the year ended December 31, 2014, capital expenditures for the underground infrastructure and the overhead initiatives were $134.3 million and $115.6 million, respectively.

On May 22, 2013, the Corporation celebrated the official ground-breaking at Copeland Station. During the second quarter of 2014, the gas-insulated transformers and the high and medium voltage switchgear were manufactured and delivered. During the third quarter of 2014, the tunnel boring was completed as required to connect the new infrastructure to the transmission grid. During the fourth quarter of 2014, the transformer floor in the new building was completed. As at December 31, 2014, the cumulative capital expenditures on the Copeland Station project amounted to $142.6 million, of which $82.1 million was recorded in 2014. The $142.6 million in costs incurred relates to land and building ($47.8 million), capital contributions to Hydro One ($41.1 million), tunnel and other ($27.3 million), and equipment ($26.4 million). All capital expenditures related to Copeland Station are recorded to PP&E. Copeland Station is one of the most complex projects ever undertaken by the Corporation and unforeseen delays have extended the expected completion date from 2015 to 2016. The delays are attributable to a variety of factors, including the effect of unusually adverse weather events, challenging site conditions and contractor performance. Other causes of delay include unforeseen obstructions found on site, and delays in securing appropriate permits for certain on-site

activities. Despite the delays, the total capital expenditures required to complete Copeland Station are expected to remain at approximately $195.0 million, plus AFUDC as applicable.

The facilities consolidation program relates to the consolidation of operating centres to lower operating centre costs and simplify long-term planning. The facilities consolidation program will decrease the total number of operating centres by two upon completion. In 2014, the Corporation began relocating staff, equipment and operations as well as performing the required capital investment on specific properties as part of this program and incurred $57.0 million in costs. Expected net proceeds on the sale of two surplus properties have been included in the rate application to mitigate electricity distribution rate increases. In the second quarter of 2014, the Corporation also purchased a property in the west end of the City for $13.1 million, which will become an operating centre. On March 3, 2015, the Corporation sold one of the surplus properties owned by LDC for $10.5 million. The expected gain of $5.9 million, subject to finalization of the costs related to the sale, will be paid to customers in the future as part of the benefits of the facilities consolidation program (see note 11 to the Consolidated Financial Statements).

The delivery of customer connections includes spending related to new services and upgrades to existing services for specific commercial customers. For the year ended December 31, 2014, capital expenditures for the delivery of customer connections were $41.0 million, net of related capital contributions received of $28.7 million.



Net Cash Provided by Financing Activities

Net cash provided by financing activities for the three months and year ended December 31, 2014 was $92.0 million and $279.0 million compared to $47.2 million and $98.8 million for the comparable periods in 2013.

The increase in net cash provided by financing activities for the three months ended December 31, 2014 was primarily due to increased short-term borrowings for general corporate purposes.

The increase in net cash provided by financing activities for the year ended December 31, 2014 was primarily due to increased borrowings required to fund the Corporation's larger capital program compared to the prior year. In the third quarter of 2014, net proceeds from the issuance of $200.0 million of senior unsecured debentures due on September 16, 2044 were utilized to reduce the balance of outstanding commercial paper and for general corporate purposes.

The shareholder direction adopted by the City with respect to the Corporation provides that the Board of Directors of the Corporation will use its best efforts to ensure that the Corporation meets certain financial performance standards, including those relating to credit rating and dividends.

Subject to applicable law, the shareholder direction provides that the Corporation will pay dividends to the City each year amounting to the greater of $25.0 million or 50% of the Corporation's consolidated net income for the prior fiscal year. The dividends are not cumulative and are payable as follows:

- $6.3 million on the last day of each fiscal quarter of the year; and
- the amount, if any, by which 50% of the Corporation's annual consolidated net income for the year exceeds $25.0 million, within ten days after the approval of the Corporation's audited consolidated financial statements for the year by the Board of Directors of the Corporation.

For the year ended December 31, 2014, the Board of Directors of the Corporation declared and paid dividends totalling $60.6 million to the City.

On March 5, 2015, the Board of Directors of the Corporation declared dividends in the amount of $37.5 million. The dividends consisted of $31.2 million with respect to net income for the year ended December 31, 2014, payable to the City on March 13, 2015, and $6.3 million with respect to the first quarter of 2015, payable to the City on March 31, 2015.

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 December 31, 2014
(in millions of Canadian dollars, unaudited)

	Total $	2015 $	2016/2017 $	2018/2019 $	After 2019 $
Working capital facility	6.1	6.1	-	-	-
Commercial paper [1]	308.0	308.0	-	-	-
Debentures – principal repayment	1,650.0	-	250.0	250.0	1,150.0
Debentures – interest payments	1,142.4	69.2	138.4	112.4	822.4
Operating leases	13.8	6.1	7.7	-	-
Capital projects [2] and other	50.1	37.7	12.4	-	-
Capital leases	10.2	3.0	5.8	1.4	-
Total contractual obligations and other commitments	3,180.6	430.1	414.3	363.8	1,972.4

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

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

Corporate Developments

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

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

Effective December 3, 2014, the City, as the sole shareholder of the Corporation, appointed councillor Stephen Holyday, councillor Denzil Minnan-Wong and councillor Vincent Crisanti to the Board of Directors to replace councillor Shelley Carroll, councillor Josh Colle and councillor Gloria Lindsay Luby. Effective December 15, 2014, councillor Vincent Crisanti resigned from the Board of Directors. Effective February 10, 2015, the City appointed councillor Paul Ainslie to the Board of Directors. The appointments of councillors Holyday, Minnan-Wong and Ainslie are effective for a term ending December 31, 2016, or until their successors are appointed.

Distribution Rates for LDC

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

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

On January 16, 2014, the OEB approved LDC's request for disposition of the smart meter deferral account balances related to smart meter installations in 2008, 2009 and 2010 through two separate rate riders effective May 1, 2014 (see note 9(d) to the Consolidated Financial Statements). The first rate rider relates to the recovery of $23.9 million, representing the cumulative revenue requirement net of recoveries from an existing smart meter rate rider. This existing smart meter rate rider was discontinued when the new rate riders became effective. The second rate rider relates to the recovery of $9.6 million, representing the forecasted 2014 incremental revenue requirement.

On July 31, 2014, LDC filed a rate application with the OEB under the Custom Incentive Rate-setting mechanism, seeking approval of LDC’s 2015 test year revenue requirement and corresponding electricity distribution rates effective May 1, 2015, and subsequent annual rate adjustments based on a custom index for the period commencing on January 1, 2016 and ending on December 31, 2019. The rate application includes requests for approval of capital expenditures of approximately $2.5 billion over the 2015-2019 period. The rate application also seeks approval to include in LDC’s rate base capital amounts that were prudently incurred prior to 2015 which are subject to review by the OEB. In addition, LDC seeks approval to recover the net book value of stranded meters (see note 9(d) to the Consolidated Financial Statements). LDC’s revenues over the period will be based on the existing rate base, capital expenditures and operating expenses ultimately approved by the OEB in the rate application plus cost of capital allowed by the OEB.

On August 3, 2011, the OEB issued its final decision allowing the transfer of a portion of the street lighting assets to the new wholly-owned legal entity (1798594 Ontario Inc.), and for LDC to amalgamate with the new legal entity. The OEB decided that the rate base, revenue requirement and rate consequences of the transfer would be decided at LDC’s next cost of service or rebasing rate application. On January 1, 2012, the Corporation completed the asset transfer and amalgamation. The purchase price for such assets, including a post-closing adjustment, was $42.5 million, subject to transaction costs. On July 31, 2014, LDC filed the above noted rate application with the OEB seeking a final determination of the rate base, revenue requirement and rate consequences of the street lighting transfer.

CDM Activities

On March 31, 2010, the Minister of Energy and Infrastructure of Ontario, under the guidance of sections 27.1 and 27.2 of the OEB Act, directed the OEB to establish CDM targets to be met by electricity distributors. Accordingly, on November 12, 2010, the OEB amended LDC’s distribution licence to require LDC, as a condition of its licence, to achieve 1,304 GWh of energy savings and 286 MW of summer peak demand savings over the period beginning January 1, 2011 through December 31, 2014.

Effective January 1, 2011, LDC entered into an agreement with the OPA in the amount of approximately $50.0 million to deliver CDM programs extending from January 1, 2011 to December 31, 2014 to support achievement of the mandatory CDM targets described above. LDC applied to the OPA in March 2014 to revise the program administration budget to $45.8 million for the delivery of CDM programs from 2011 to 2014. All programs to be delivered are fully funded and paid in advance by the OPA. Amounts received but not yet spent are presented under current liabilities as deferred conservation credit and deferred revenue. Upon the expiration of the agreement, LDC is required to repay to the OPA any excess funding received for program administration less any cost efficiency incentives. As at December 31, 2014, LDC has estimated that approximately $5.7 million qualified as cost efficiency incentives, and approximately $4.9 million is repayable to the OPA for the remaining program administration budget and included within accounts payable and accrued liabilities.

On December 21, 2012, the Minister of Energy of Ontario issued a direction to the OPA under subsection 25.32(4.1) of the Electricity Act to extend the funding time period for OPA-contracted province-wide CDM initiatives under the Green Energy Act framework to December 31, 2015. Funding and respective targets for CDM programs approved pursuant to the 2011-2014 OPA agreement that have in-service dates in 2015 will be allocated toward the 2011-2014 program. LDC has requested separate funding from the OPA relating to these transitional CDM programs for 2015.

TORONTO HYDRO Corporation

On March 26, 2014, the Minister of Energy of Ontario, under the guidance of sections 27.1 and 27.2 of the OEB Act, directed the OEB to amend the licence of each licensed electricity distributor to require the electricity distributor, as a condition of its licence, to make CDM programs available to customers in its licensed service area and to do so in relation to each customer segment in its service area, over the period beginning January 1, 2015 through December 31, 2020. On March 31, 2014, the Minister of Energy of Ontario issued a direction to require the OPA to coordinate, support and fund the delivery of CDM programs through electricity distributors. The OPA's objective is to reduce electricity consumption by a total of 7 terawatt hours between January 1, 2015 and December 31, 2020, of which LDC's share is approximately 1,576 GWh of energy savings.

On November 13, 2014, LDC entered into an energy conservation agreement with the OPA for the delivery of these CDM programs over the 2015-2020 period with funding of approximately $400.0 million, which includes participant incentives and LDC program administration costs. LDC is required to provide to the IESO its plan for achieving its CDM target by May 1, 2015. LDC also has the option to submit a joint CDM plan with one or more distribution companies. LDC can choose between full cost recovery funding, pay-for-performance funding, or a combination of both, for each CDM program. Under the full cost recovery funding method, the IESO reimburses LDC for all adequately documented costs incurred with an option to receive a portion of its funding in advance. Cost efficiency incentives may be awarded if LDC's electricity savings meet or exceed certain CDM plan targets for programs under the full cost recovery funding method, with a mid-term review to be performed by the IESO for the 2015-2017 periods. Under the pay-for-performance funding method, LDC receives payment in arrears based on verified electricity savings achieved with various options for frequency of payment.

Legal Proceedings

In the ordinary course of business, the Corporation is subject to various legal actions and claims with customers, suppliers, former employees and other parties. On an ongoing basis, the Corporation assesses the likelihood of any adverse judgments or outcomes as well as potential ranges of probable costs and losses. A determination of the provision required, if any, for these contingencies is made after an analysis of each individual issue. The provision may change in the future due to new developments in each matter or changes in approach, such as a change in settlement strategy. If damages were awarded under these actions, the Corporation and its subsidiaries would make a claim under any applicable liability insurance policies which the Corporation believes would cover any damages which may become payable by the Corporation and its subsidiaries in connection with these actions, subject to such claim not being disputed by the insurer. See note 22 to the Consolidated Financial Statements for a discussion of material legal proceedings.

Share Capital

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

Transactions with Related Parties

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

Summary of Transactions with Related Parties
(in millions of Canadian dollars)

	Year Ended December 31	
	2014 **$**	**2013** **$**
Revenues	238.6	246.9
Operating expenses and capital expenditures	20.8	31.9
Dividends	60.6	43.0

Summary of Amounts Due to/from Related Parties
(in millions of Canadian dollars)

	As at December 31	
	2014 $	2013 $
Accounts receivable	9.4	5.6
Unbilled revenue	22.3	19.4
Accounts payable and accrued liabilities	43.2	45.5
Advance deposits	8.2	8.8

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

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

Controls and Procedures

For purposes of certain Canadian securities regulations, the Corporation is a “Venture Issuer”. As such, it is exempt from certain of the requirements of National Instrument 52-109 Certification of Disclosure in Issuers’ Annual and Interim Filings. Accordingly, the Chief Executive Officer and Chief Financial Officer have reviewed the Consolidated Financial Statements and the MD&A for the year ended December 31, 2014. Based on their knowledge and exercise of reasonable diligence, they have concluded that these documents fairly present in all material respects the financial condition, financial performance and cash flows of the Corporation as at the date of and for the period presented.

Risk Management and Risk Factors

The Corporation faces various risks that could impact the achievement of its strategic objectives. It adopts an enterprise wide approach to risk management, achieved through a process of consolidating and aligning the various views of risk across the enterprise via a risk governance structure. The Corporation executes its ERM activities via an ERM framework that is aligned to industry best practices and international guidelines. The Corporation views ERM as a management activity undertaken to add value and improve overall operations. It helps the Corporation by enabling the attainment of its strategic goals and objectives through a systematic, disciplined approach towards identifying, evaluating, treating, monitoring and reporting of risks. Accordingly, ERM is an integral part of the strategic management of the Corporation and is routinely considered in forecasting, planning and executing all aspects of the business.

The ERM framework is operationalized by a consistent, disciplined methodology that clearly defines the risk management process which incorporates subjective elements, risk quantification and risk interdependencies.

While the Corporation’s philosophy is that ERM is the responsibility of all business units, at all levels, in matters strategic and operational, the ERM governance structure is comprised of three key levels.

At the top level is the Board of Directors, who works to maintain a general understanding of the risk categories, the types of risks to which the Corporation may be exposed and the practices used to identify, assess, measure and manage those risks. Quarterly, the Board of Directors reviews the Corporation’s risk profile, a list of key risks together with treatment activities that represents the greatest threats to meeting the Corporation’s strategic objectives.

The second level is the ROC, a lead body to ensure systems are in place to identify, manage and monitor risks. Through its review of reports from the business and other areas, the ROC assesses the appropriateness and consistent application

of systems to manage risks within the Corporation. The ROC also ensures that key risks are brought forward to the attention of the Board and for action by executive management.

Finally, the third level is the Risk Forum. The Risk Forum supports the ROC and is a collection of subject matter experts from across the Corporation who actively engage in the day to day management of risks. Working with the ROC, the Risk Forum oversees the Corporation's risk profile, its performance against the defined risk appetite and determines appropriate risk responses. They also work to ensure effective, efficient, complete and transparent risk reporting to the ROC.

The Corporation is subject to a variety of risks including those described below:

Condition of Distribution Assets

LDC estimates that approximately one-third of its electricity distribution assets have already exceeded or will reach their expected useful lives within the next 5-year period. LDC's ability to continue to provide a safe work environment for its employees and a reliable and safe distribution service to its customers and the general public will depend on, among other things, the OEB allowing recovery of costs in respect of LDC's maintenance program and capital expenditure requirements for distribution plant refurbishment and replacement.

LDC is focused on overcoming the above challenges and executing its capital and maintenance programs. However, if LDC is unable to carry out these plans in a timely and optimal manner, equipment performance will degrade which may compromise the reliability of distribution assets, the ability to deliver sufficient electricity and/or customer supply security and increase the costs of operating and maintaining these assets.

Regulatory Developments

Ontario's electricity industry regulatory developments and policy changes may affect the electricity distribution rates charged by LDC and the costs LDC is permitted to recover. This may in turn have a material adverse effect on the financial performance of the Corporation and/or its ability to provide reliable service to its customers. Among other things, there can be no assurance that:

- the OEB will approve LDC's electricity distribution rates, at levels that will permit LDC to carry out its planned capital work programs required to maintain safe and reliable service to its customers and earn the allowed rate of return on the investment in the business;
- the regulatory instruments that are made available to LDC will be sufficient to address LDC's operations, needs and circumstances in respect of future applications for electricity distribution rates;
- the OEB will not set a lower recovery for LDC's cost of capital;
- the full cost of providing service to distribution customers will be permitted to be recovered through LDC's electricity distribution rates;
- the OEB will not permit competitors to provide distribution services in LDC's licensed area, or permit loads within LDC's service area to become electrically served by a means other than through LDC's electricity distribution system;
- the OEB will allow recovery for revenue lost as a consequence of unanticipated effects of CDM;
- parts of LDC's services will not be separated from LDC and opened to competition; or
- regulatory or other changes will not be made to the PILs regime.

Changes to any of the laws, rules, regulations and policies applicable to the businesses carried on by the Corporation could also have a significant impact on the Corporation. There can be no assurance that the Corporation will be able to comply with applicable future laws, rules, regulations and policies. Failure by the Corporation to comply with applicable laws, rules, regulations and policies may subject the Corporation to civil or regulatory proceedings that may have a material adverse effect on the Corporation.

Any future regulatory decision to disallow or limit the recovery of costs could lead to potential asset impairment and charges to results from operations, which could have a material adverse effect.

Information Technology Infrastructure

The Corporation's ability to operate effectively is in part dependent on the development, maintenance and management of complex information technology systems. Computer systems are employed to operate LDC's electricity distribution system, and the Corporation's financial, billing and business systems to capture data and to produce timely and accurate information. Failures of any one of the financial, business and operating systems could have a material adverse effect on the Corporation's business, operating results, financial condition and prospects. The Corporation mitigates this risk through various methods including the implementation of high availability and redundancy in its core infrastructure and application components. Electricity distribution systems are isolated from business systems and operate independently.

LDC's electricity distribution infrastructure and technology systems are also potentially vulnerable to damage or interruption from cyber-attacks, which could have an adverse impact on its operations, financial conditions, brand and reputation. LDC has implemented security controls aligned with industry best practices and standards including the National Institute of Standards and Technology Cybersecurity Framework. Preventative controls are employed to protect information and technology assets against cyber-attacks and mitigate their effects. Detective controls are employed to continuously monitor information systems so that LDC can respond appropriately to minimize the damage in the event of a cyber-attack. Even with these measures in place, there can be no assurance that such measures will be effective in protecting LDC's electricity distribution infrastructure or assets from a cyber-attack or the effects thereof.

Natural and Other Unexpected Occurrences

LDC's operations are exposed to the effects of natural and other unexpected occurrences, such as severe or unexpected weather conditions, terrorism and pandemics. Although LDC's facilities and operations are constructed, operated and maintained to withstand such occurrences, there can be no assurance that they will successfully do so in all circumstances. Any major damage to LDC's facilities or interruption of LDC's operations arising from these occurrences could result in lost revenues and repair costs that can be substantial. Although the Corporation has insurance, if it sustained a large uninsured loss caused by natural or other unexpected occurrences, LDC would apply to the OEB for the recovery of the loss related to the electricity distribution system. There can be no assurance that the OEB would approve, in whole or in part, such an application.

Electricity Consumption

LDC's electricity distribution rates are comprised of a fixed charge and a usage-based (consumption) charge. The volume of electricity consumed by LDC's customers during any period is governed by events largely outside LDC's control (e.g., principally sustained periods of hot or cold weather could increase the consumption of electricity, sustained periods of mild weather could decrease the consumption of electricity and general economic conditions could affect overall electricity consumption). Additionally, consumption may be decreased in the future due to the impact of CDM programs, distributed generation, renewable energy, and advances in technology. The current pace of technological advancement in distributed generation, renewable energy, and energy efficiency in both appliances and equipment could reduce consumption as costs for new technology decrease and usage becomes widespread. Accordingly, there can be no assurance that LDC will earn the revenue requirement approved by the OEB.

Economic conditions could also lead to lower overall electricity consumption, particularly in the commercial customer segment, which is estimated to be the most sensitive to economic changes. Lower electricity consumption from customers could negatively impact LDC's revenue. On an annual basis, the Corporation estimates that a decrease of 1% in electricity consumption would reduce net revenue by approximately $3.5 million.

Market and Credit Risk

LDC is subject to credit risk with respect to customer non-payment of electricity bills. LDC is permitted to mitigate the risk of customer non-payment using any means permitted by law, 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. While LDC would be liable for the full amount of the default, there can be no assurance that the OEB would allow recovery of the bad debt expense. Established

practice in such cases is that the OEB would examine any electricity distributor's application for recovery of extraordinary bad debt expenses on a case-by-case basis.

The Corporation is exposed to fluctuations in interest rates for the valuation of its post-retirement benefit obligations. The Corporation estimates that a 1% (100 basis point) increase in the discount rate used to value these obligations would decrease the accrued benefit obligation, as at December 31, 2014, by $45.7 million, and a 1% (100 basis point) decrease in the discount rate would increase the accrued benefit obligation, as at December 31, 2014, by $59.4 million.

As at December 31, 2014, aside from the valuation of its post-retirement benefit obligations, the Corporation was exposed to short-term interest rate risk on the short-term borrowings under its Commercial Paper Program and Working Capital Facility, and customers' advance deposits, while most of its remaining obligations were either non-interest bearing or bear fixed interest rates, and its financial assets were predominately short-term in nature and mostly non-interest bearing. The Corporation manages interest rate risk by monitoring its mix of fixed and floating rate instruments, and taking action as necessary to maintain an appropriate balance. The Corporation estimates that a 100 basis point increase (decrease) in short-term interest rates, with all other variables held constant, would result in an increase (decrease) of approximately $3.6 million to annual net financing charges.

Additional Debt Financing and Credit Rating

Cash generated from operations, after the payment of dividends, is not expected to be sufficient to repay existing indebtedness, fund capital expenditures and meet other liquidity requirements over the next 12 months. The Corporation relies on debt financing through its medium-term note program, Commercial Paper Program or existing credit facilities to finance the Corporation's daily operations, repay existing indebtedness, and fund capital expenditures. The Corporation's ability to arrange sufficient and cost-effective debt financing could be adversely affected by a number of factors, including financial market conditions, the regulatory environment in Ontario, the Corporation's results of operations and financial condition, the ratings assigned to the debentures issued under the Corporation's medium-term note program by credit rating agencies, the ratings assigned to short-term borrowings under the Corporation's Commercial Paper Program, and the availability of the commercial paper market. See notes 12 and 13 to the Consolidated Financial Statements.

Should the Corporation's credit rating from both credit rating agencies fall below "A (minus)" with stable outlook (S&P) and "A (low)" with stable trend (DBRS), the Corporation and its subsidiaries may be required to post additional collateral with the IESO.

Insurance

Although the Corporation maintains insurance, there can be no assurance that the Corporation will be able to obtain or maintain adequate insurance in the future at rates it considers reasonable or that insurance will continue to be available. In addition, there can be no assurance that available insurance will cover all losses or liabilities that might arise in the conduct of the Corporation's business. The Corporation self-insures against risks (e.g., business interruption, physical damage to certain automobiles, and deductibles). The occurrence of a significant uninsured claim or a claim in excess of the insurance coverage limits maintained by the Corporation could have a material adverse effect on the Corporation's results of operations and financial position.

Real Property Rights

Certain terminal stations and municipal sub-stations of LDC are located on lands owned by the Province, the City and others. In some cases, LDC does not have and may not be able to obtain formal access agreements with respect to such facilities. Failure to obtain or maintain access agreements could adversely affect LDC's operations.

Conflicts of Interest

The City owns all of the outstanding shares of the Corporation and has the power through the Shareholder Direction to determine the composition of the Board of Directors of the Corporation and influence the Corporation's major business and corporate decisions, including its financing programs and dividend payments. A conflict may arise

between the City's role as the sole shareholder of the Corporation and its role as the administrator of the City's budget and other matters for the residents of the City.

Change of Ownership

The City may decide to sell all or part of the Corporation. In the case of such event, depending on the nature of the transaction, the Corporation's credit ratings could be negatively affected.

Work Force Renewal

Over the next decade, a significant portion of LDC's employees will become eligible for retirement, including potential retirements occurring in supervisory, trades and technical positions. Accordingly, LDC will be required to attract, train and retain skilled employees. There can be no assurance that LDC will be able to attract and retain the required workforce.

Labour Relations

The Corporation's ability to operate successfully in the electricity industry in Ontario will continue to depend in part on its ability to make changes to existing work processes and conditions to adapt to changing circumstances. The Corporation's ability to make such changes, in turn, will continue to depend in part on its relationship with its labour unions and its ability to develop plans and approaches that are acceptable to its labour unions. There can be no assurance that the Corporation will be able to secure the support of its labour unions.

LDC Competition

In the past, there had been one electricity distributor in each region of Ontario. Under the current regulatory regime, a person must obtain a licence from the OEB in order to own and operate an electricity distribution system. LDC has the right to distribute electricity in the City. Although the distribution licence specifies the area in which the distributor is authorized to distribute electricity, unless otherwise provided, the licence does not provide exclusive distribution rights for such area.

The Corporation believes that the complexities and potential inefficiencies that would be created by having multiple regulated electricity distributors authorized to serve a single area are likely to result in the continuation of the practice of having a single regulated electricity distributor authorized to serve a single area. In addition, the Corporation believes that there are significant barriers to entry with respect to the business of electricity distribution in Ontario, including the cost of maintaining an electricity distribution system, OEB regulation of electricity distribution rates and the level of regulatory compliance required to operate an electricity distribution system. However, the Corporation recognizes that more than one distribution licence could be issued for the same area and there is a possibility that in the future some business functions or activities could be separated from LDC and made open to competition from non-regulated business entities, or that defined geographical areas within LDC's service area may be electrically supplied by a means other than through LDC's electricity distribution system.

Critical Accounting Estimates

The preparation of the Corporation's Consolidated Financial Statements in accordance with US GAAP requires management to make estimates and assumptions which affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses for the year. 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 may differ from these estimates and judgments under different assumptions or conditions.

The following critical accounting estimates involve significant estimates and judgments used in the preparation of the Consolidated Financial Statements:

Revenue Recognition

Revenues from energy sales and distribution are recorded on the basis of cyclical billings and include an estimated amount for electricity delivered and not yet billed, which is impacted by energy demand, customer class usage patterns

and composition, and weather conditions. Revenue related to eligible capital expenditures under the ICM framework, included as part of distribution revenue, is recognized on the basis of in-service assets. Other revenue, which includes revenue from services ancillary to the distribution of electricity, revenue from the delivery of street lighting services and revenue from demand billable activities, is recognized as the services are rendered. Revenue not yet recognized from demand billable activities is included within deferred conservation credit and deferred revenue.

Revenues and costs associated with CDM programs are presented using the net basis of accounting. Cost efficiency incentives related to the CDM programs, included as part of other revenue, are recognized when they are considered earned and the amount realizable can be reasonably estimated.

In December 2014, the Corporation revised its estimate of unbilled revenue based on new technology implemented to enhance the revenue estimation process. This change has been accounted for on a prospective basis in the Consolidated Financial Statements as at December 31, 2014. For the three months and year ended December 31, 2014, the change in estimate reduced unbilled revenue by $7.7 million, settlement variances by $3.0 million, and distribution revenue by $10.7 million.

Regulatory Assets and Liabilities

As at December 31, 2014, regulatory assets amounted to $576.2 million and were primarily related to the reclassification of ICM-related net eligible in-service capital expenditures and timing differences in the recognition of actuarial losses of post-retirement benefits. As at December 31, 2014, regulatory liabilities amounted to $157.8 million and were primarily related to deferred income tax assets payable to customers. These assets and liabilities can be recognized for rate-setting and financial reporting purposes only if the OEB directs the relevant regulatory treatment or if future OEB direction is judged to be probable. In the event that the disposition of these balances was assessed to no longer be probable, the balances would be recorded in the Corporation's consolidated statements of net income and comprehensive income in the period that the assessment is made. The measurement of regulatory assets and liabilities is subject to certain estimates and assumptions, including assumptions made in the interpretation of the OEB's regulations and decisions.

Employee Future Benefits

Employee future benefits other than pension provided by the Corporation include medical, dental and life insurance benefits, and accumulated sick leave credits. These plans provide benefits to employees when they are no longer providing active service. The accrued benefit obligation and net periodic benefit cost are calculated by independent actuaries using the projected unit credit method and based on assumptions that reflect management's best estimate. The assumptions were determined by management recognizing the recommendations of the Corporation's actuaries. There can be no assurance that actual employee future benefits cost will not differ significantly from the estimates calculated using management's assumptions.

Significant Accounting Policies

The Corporation's Consolidated Financial Statements have been prepared in accordance with US GAAP with respect to the preparation of financial information. These Consolidated Financial Statements are presented in Canadian dollars, which is the Corporation's functional currency. In preparing the Consolidated Financial Statements, management makes estimates and assumptions which affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the Consolidated Financial Statements, and the reported amounts of revenues and expenses for the year. 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 significant accounting policies of the Corporation are summarized in notes 2 and 4 to the Consolidated Financial Statements.

Future Accounting Pronouncements and IFRS Conversion Project

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

1, 2014. The Corporation will apply the provisions of IFRS 14 – "Regulatory Deferral Accounts" ("IFRS 14") in its first annual IFRS financial statements.

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

Rate-Regulated Accounting

On September 17, 2014, the IASB issued a Discussion Paper – Reporting the Financial Effects of Rate Regulation ("DP") as part of its active research programme to assess whether to develop proposals for a permanent standard for reporting specified financial effects of rate-regulation. This project is separate from the issuance of IFRS 14 which allowed first-time adopters to continue to apply their previous GAAP recognition and measurement policies for RDAs until the IASB concludes on the outcome of the DP. The comment period on the DP ended on January 15, 2015. The Corporation issued a separate and a joint letter with the Canadian Electricity Association in support of the DP.

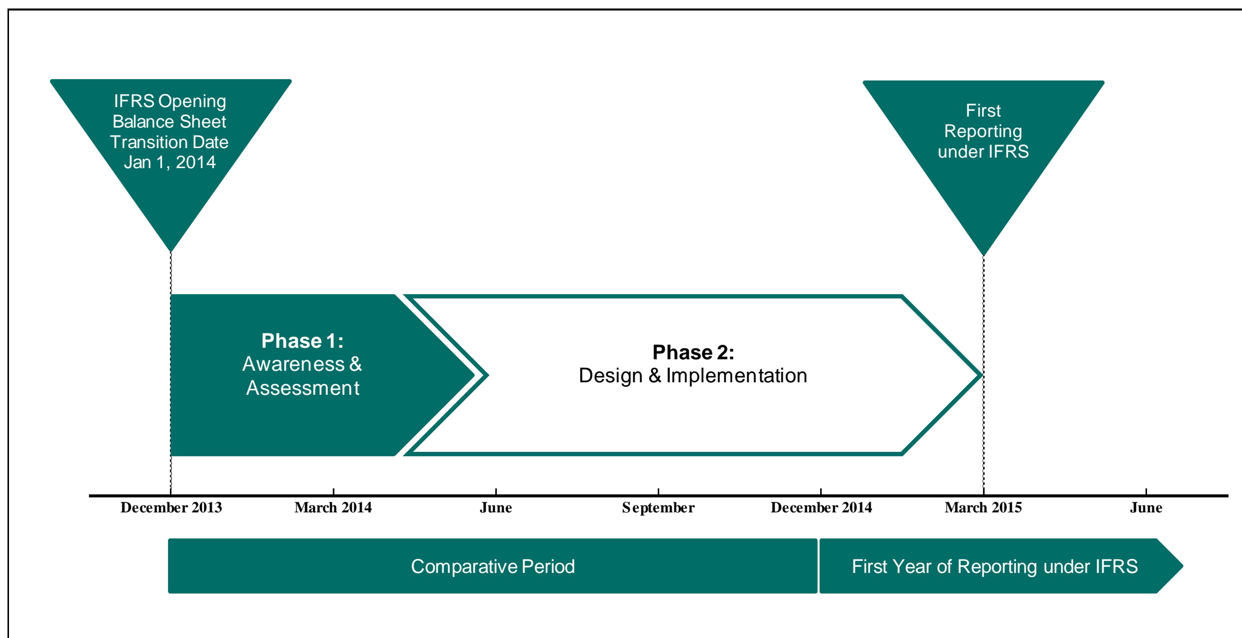
IFRS Conversion Project

The information below is provided for a better understanding of the Corporation's IFRS changeover plan and the resulting possible impacts. The differences identified to date should not be regarded as an exhaustive list and other changes may result from the conversion to IFRS. Furthermore, the disclosed impacts of the conversion reflect the Corporation's most recent assumptions, estimates and expectations. Circumstance may arise, such as changes in IFRS, regulations or economic conditions, which combined with the inherent uncertainty from the use of assumptions, could change the actual impacts of the conversion from those presented below.

The Corporation established a formal project governance structure. This structure includes a steering committee consisting of senior levels of management from finance, information technology and operations, among others. Regular progress reports are provided to senior executive management.

The Corporation's project consists of two phases:

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



The Corporation has completed the awareness and assessment phase, which involved determining the areas with the highest potential impact to the Corporation's accounting and disclosures, assessing the impact of the IFRS conversion on the Corporation's systems, processes and controls, as well as regulatory, tax and other business processes, and establishing a communication plan and staff-training plan.

The Corporation has completed the design phase of the project, which involved establishing issue-specific working groups in each of the identified areas. The working groups established key milestones, which included developing recommendations, analyzing financial system and internal control impact, developing significant accounting policies, and carrying out ongoing discussions with external auditors, in each area.

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

The following section provides certain key activities of the changeover plan and an assessment of the Corporation's progress at this time.

Key Activities	**Status**
Accounting policies & procedures:	
• High level review of major differences between US GAAP and IFRS • Establish issue-specific working groups in the identified areas • Detailed assessment of accounting and disclosure differences, accounting policy choices and IFRS 1 – "First-time Adoption of IFRS" ("IFRS 1") elections available • Develop recommendations and accounting policies through ongoing discussions with external auditors • Finalize new accounting policies and accounting manuals	• All accounting policy positions have been developed and approved by senior management, the Audit Committee, and the Board of Directors • Continue to monitor ongoing IASB projects and assess potential impact • Accounting policies and procedure manuals continue to be updated based on the IASB project developments
Financial statement preparation:	
• Identify US GAAP to IFRS financial statement presentation differences and design interim and annual financial statement formats and related notes disclosures • Simulate the financial reporting process under IFRS • Prepare the opening balance sheet on the date of transition and IFRS 1 related reconciliations and disclosures • Assess ongoing impact on the IFRS financial statements and related disclosures	• Developed draft financial statement formats • Completed testing of system related modifications to IFRS generated financial statements • Preparation of the opening balance sheet on transition date has been completed and the audit is currently in progress • Calculation of quarterly comparative IFRS amounts for 2014 continues to be in progress
Training & communication:	
• Provide training to affected finance and operational teams, management and the Audit Committee of the Board of Directors • Develop and execute staff training plan, and roll out communication initiatives • Continue to update the Audit Committee and senior management on a quarterly basis for key developments in IFRS and the potential impact to the Corporation's financial statements	• Completed detailed training for resources directly engaged in the changeover and general awareness training to broader group of finance employees. Specific IFRS training for the Audit Committee has been completed • Continue to provide topic-specific and relevant training to finance and operational teams on all finalized positions. Key areas include RDAs, PP&E, employee future benefits, capital contributions, and financial statement presentation. • Continue ongoing, periodic internal and external communications on the Corporation's progress on the IFRS project and direction
Business impact:	
• Evaluate impact and implement necessary changes to debt covenants, internal performance measures, contracts and processes	• Impact to debt covenants, regulatory and other business processes has been assessed and modifications to processes is in progress • Determined that the transition to IFRS will have no significant impact to the Corporation's debt covenants and the Corporation should remain in compliance with its financial covenants using IFRS financial information

Key Activities	Status
Information technology systems:	
• Analysis of financial system to identify required modifications • Test the effectiveness of the changes made to systems • Ensure solution captures financial information under US GAAP and IFRS during the year of transition for comparative reporting purposes	• Completed system changes for reporting purposes including subledger configurations for derecognition and depreciation at a component level. System changes to reflect new financial statement presentation required under the RDA standard have also been completed • Completed modifications to the system to accommodate the January 1, 2014 transition date and continue to accumulate IFRS data for reporting comparative information • Continue to implement remaining required modifications to financial systems
Control environment:	
• Detailed assessment of the impact of IFRS conversion on people, systems, processes and internal controls • Analyze and update internal control processes and documentation • Implement related controls and procedures to ensure the integrity and effectiveness of internal controls over financial reporting ("ICFR") and disclosure controls and procedures ("DC&P")	• Based on the accounting policies and procedures developed, the Corporation continues to evaluate and document the impact on new and existing controls to ensure the integrity and effectiveness of ICFR and DC&P • Additional controls have been implemented to address first-time IFRS adoption and new processes implemented to support ongoing IFRS reporting requirements, including key areas such as derecognition, PP&E and RDAs. These controls have been implemented and tested on a timely basis for reporting under IFRS in 2015

IFRS 1 Exemptions

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

IFRS Optional Exemption	Description	Policy Selection
Rate-regulated deemed cost	An entity that is subject to rate regulation may elect to use the previous GAAP carrying amount of PP&E or intangible assets at the date of transition to IFRS as deemed cost.	The Corporation will elect this exemption except for construction in progress items for which capital contributions have been received. This will result in a decrease of $2,625.8 million to both cost and accumulated depreciation of PP&E and intangible assets as at January 1, 2014.
Borrowing Costs	IAS 23 – "Borrowing Costs" ("IAS 23") requires the capitalization of borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. IFRS 1 provides an optional exemption that permits application of the requirements of IAS 23 prospectively from the date of transition.	The Corporation will elect this exemption and consequently, will not have an adjustment to its opening balance sheet as at January 1, 2014.
Decommissioning liabilities included in the cost of PP&E	IFRS 1 provides an optional exemption that permits a first-time adopter to use a simplified method to recalculate its decommissioning provisions in accordance with IFRS at the transition date.	The Corporation will elect this exemption, which will result in an increase to the RDAs and a decrease to PP&E of $0.9 million as at January 1, 2014.
Leases	IFRIC 4 – "Determining whether an Arrangement contains a Lease" ("IFRIC 4") requires the assessment of whether an arrangement contains a lease to be based on the facts and circumstances existing at the date of the inception of the arrangement. IFRS 1 provides an optional exemption that permits an entity that made the same determination of whether an arrangement contains a lease under its previous GAAP as that required by IFRIC 4, but at a date other than that required by IFRIC 4, not to reassess that determination when it adopts IFRS.	The Corporation will elect this exemption and thus will not be required to make any additional assessments at the date of transition.

IFRS Optional Exemption	Description	Policy Selection
Business Combinations	IFRS 1 provides an optional exemption for a first-time adopter not to apply IFRS 3 – “Business Combinations” retrospectively to past business combinations occurred prior to the date of transition.	The Corporation will elect this exemption and thus will not restate any such business combinations.
Transfer of Assets from Customers (Capital Contributions)	IFRS 1 provides an optional exemption for a first-time adopter to apply IFRIC 18 – “Transfer from Customers” (“IFRIC 18”) prospectively to transfers of assets from customers received on or after the date of transition.	The Corporation will not elect this exemption and will instead apply IFRIC 18 retrospectively to all customer contributions received prior to the date of transition. However, the use of the rate-regulated deemed cost exemption noted above means that no adjustment will be made to the contributions included in the PP&E deemed cost.

IFRS 14 – RDAs

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

IFRS Accounting Impacts and Financial Statement Adjustment at Transition Date

The Corporation completed a detailed assessment of the accounting and disclosure differences between US GAAP and IFRS. The following reconciliation presents the differences between US GAAP and IFRS for the Corporation’s unaudited opening consolidated balance sheet as at January 1, 2014. The notes below the table explain the significant differences and financial statement adjustments that will be recorded at the date of transition. The retrospective adjustment to the January 1, 2014 shareholder’s equity balance is $0.9 million.

Consolidated Balance Sheet
(in millions of Canadian dollars)

As at January 1, 2014	Notes	US GAAP $	Transitional Adjustments $	IFRS $
ASSETS				
Current				
Accounts receivable, net of impairment		202.6	—	**202.6**
Unbilled revenue		326.9	—	**326.9**
Income tax receivable		0.5	—	**0.5**
Inventories		8.6	—	**8.6**
Regulatory assets	A	7.1	(7.1)	**—**
Other assets	B, C	9.6	(0.7)	**8.9**
Total current assets		555.3	(7.8)	**547.5**
Property, plant and equipment, net	A, C, E	2,664.4	180.7	**2,845.1**
Intangible assets, net		171.5	—	**171.5**
Regulatory assets	A	234.4	(234.4)	**—**
Other assets	B, C	14.3	(13.4)	**0.9**
Deferred income tax assets	A	157.6	(23.8)	**133.8**
Total assets		3,797.5	(98.7)	**3,698.8**
Regulatory deferral account debit balances and related tax asset	A, D	—	113.5	**113.5**
Total assets and regulatory deferral account debit balances		3,797.5	14.8	**3,812.3**
LIABILITIES AND EQUITY				
Current				
Working capital facility		19.1	—	**19.1**
Commercial paper		150.0	—	**150.0**
Accounts payable and accrued liabilities	E	456.7	(29.2)	**427.5**
Customers' advance deposits		37.3	—	**37.3**
Deferred conservation credit and deferred revenue		20.7	—	**20.7**
Post-employment benefits	D	8.0	(8.0)	**—**
Other liabilities		2.1	—	**2.1**
Regulatory liabilities	A	2.5	(2.5)	**—**
Total current liabilities		696.4	(39.7)	**656.7**
Customers' advance deposits		7.4	—	**7.4**
Debentures	B	1,449.3	(6.9)	**1,442.4**
Deferred revenues	E	—	45.7	**45.7**
Post-employment benefits	D	230.8	5.2	**236.0**
Other liabilities		14.5	—	**14.5**
Regulatory liabilities	A	180.6	(180.6)	**—**
Total liabilities		2,579.0	(176.3)	**2,402.7**
Equity				
Share capital		567.8	—	**567.8**
Retained earnings	D	650.7	0.9	**651.6**
Total equity		1,218.5	0.9	**1,219.4**
Total liabilities and equity		3,797.5	(175.4)	**3,622.1**
Regulatory deferral account credit balances	A	—	190.2	**190.2**
Total liabilities, equity and regulatory deferral account credit balances		3,797.5	14.8	**3,812.3**

Notes to the table:

A. Regulatory deferral accounts

IFRS 14 requires that all RDA balances and related deferred tax amounts be reclassified to a new and separate section of the consolidated balance sheet. As well, the profit or loss effect of all changes in RDAs must be segregated in a new separate section of the consolidated statement of profit or loss. Amounts that are permitted or required to be

recognized under another IFRS standard are excluded from the RDAs. The effect of the reclassifications will be to enhance comparability of IFRS 14 compliant financial statements with those of entities not applying IFRS 14. IFRS 14 also requires disclosure regarding the movements in the period, risks, and expected period of recovery/amortization of individual RDAs.

For the Corporation, the impact of IFRS 14 as at January 1, 2014 will be to reduce current regulatory assets by $7.1 million, long-term regulatory assets by $234.4 million, deferred income tax assets by $23.8 million, current regulatory liabilities by $2.5 million and long-term regulatory liabilities by $180.6 million, and increase PP&E by $157.0 million, regulatory deferral account debit balances and related tax asset by $115.4 million, and regulatory deferral account credit balances by $190.2 million.

B. Debt issuance costs

Under US GAAP, debt issuance costs are recognized as deferred charges in other non-current assets. Under IFRS, debt issuance costs will be netted against the principal balance of the related debenture. As at January 1, 2014, this presentation difference will result in a decrease in other current assets by $0.6 million and other non-current assets by $6.3 million and a corresponding decrease to debentures of $6.9 million.

C. Prepaid lease

Under US GAAP, a prepaid land lease is included in other assets. Under IFRS, the prepaid land lease will be included in PP&E as a finance lease as substantially all of the risks and rewards incidental to ownership of the land are transferred to the Corporation. As at January 1, 2014, this presentation difference will decrease current other assets by $0.1 million, decrease other non-current assets by $7.1 million, and increase PP&E by $7.2 million.

D. Employee benefits

The attribution period and attribution methods are different between IFRS and US GAAP and result in a minor measurement difference of the post-employment liability. In addition, under IFRS, a liability is recognized for both non-vested and vested sick leave benefits, unlike US GAAP, which only requires a liability for the vested sick leave component. As at January 1, 2014, the impact of these recognition and measurement differences will be to reduce the balance of the post-employment benefits by $2.8 million, decrease regulatory deferral account debit balances by $1.9 million, and increase retained earnings by $0.9 million.

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

E. Capital contributions

Under US GAAP, capital contributions received and used to finance additions to PP&E are offset against the cost of the constructed asset and depreciated at an equivalent rate as the related PP&E, as a reduction in depreciation expense. Under IFRIC 18, contributions received in order to construct an item of PP&E are treated as deferred revenues and recognized as revenue over the useful lives of the related PP&E. The Corporation will apply IFRIC 18 to capital contributions received for projects not yet in service, excluding PP&E items to which the deemed cost election was applied. As at January 1, 2014, the impact of the conversion to IFRS will be to increase PP&E by $16.5 million, decrease accounts payable and accrued liabilities by $29.2 million, and increase deferred revenues by $45.7 million.

TORONTO HYDRO Corporation

Forward-Looking Information

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

The forward-looking information in the MD&A includes, but is not limited to, statements regarding the Corporation's achievement of its strategic pillars as described in the section entitled "Corporate Strategy", the effect of changes in energy consumption on future revenue as described in the sections entitled "Quarterly Results of Operations" and "Risk Management and Risk Factors", the Corporation's plans to finance the investment in LDC's infrastructure and the Corporation's available sources of liquidity and capital resources and the sufficiency thereof to satisfy working capital requirements for the next 12 months as described in the section entitled "Liquidity and Capital Resources", the anticipated capacity to be provided by Copeland Station, the expected capital expenditures required to complete Copeland Station, and the anticipated completion date for Copeland Station as described in the section entitled "Liquidity and Capital Resources", the planned and proposed capital initiatives and the expected results of such initiatives as described in the section entitled "Liquidity and Capital Resources", the expected net proceeds and gains on the sale of surplus properties 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 outcomes regarding the current rate application under the Custom Incentive Rate-setting mechanism, and plans to meet CDM targets as described in the section entitled "Corporate Developments", the ability to pay any damages in connection with legal actions and claims as described in the section entitled "Legal Proceedings", and the plans and expected effects in connection with the IFRS conversion project and the anticipated effects of the transition to IFRS as described in the section entitled "Future Accounting Pronouncements and IFRS Conversion Project". The statements that make up the forward-looking information are based on assumptions that include, but are not limited to, the future course of the economy and financial markets, the receipt of applicable regulatory approvals and requested rate orders, the receipt of favourable judgments, the level of interest rates and the Corporation's ability to borrow, and the effectiveness of the future transition to IFRS by the Corporation.

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

Additional factors which could cause actual results or outcomes to differ materially from the results expressed or implied by forward-looking information include, among other things, the risk factors listed under the section entitled "Risk Management and Risk Factors" in this MD&A. Please review the section "Risk Management and Risk Factors" in detail. The Corporation cautions that the above list of risk factors is not exhaustive.

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

Selected Annual Information

The following table sets forth selected annual financial information of the Corporation for the three years ended December 31, 2014, 2013 and 2012, which has been prepared in accordance with US GAAP. This information has been derived from the Consolidated Financial Statements.

Selected Annual Consolidated Financial Information
(in millions of Canadian dollars)

	2014 $	2013 $	2012 $
Year Ended December 31			
Distribution revenue and other revenue [1]	615.8	635.2	577.3
Operating expenses [1]	267.6	272.0	245.1
Net income [1]	112.5	121.2	86.0
Capital expenditures [2]	588.4	450.4	292.4
As at December 31			
Total assets [3]	4,276.3	3,797.5	3,539.4
Total debentures [3,4]	1,649.3	1,449.3	1,469.6
Other non-current financial liabilities [5]	12.2	15.5	16.2
Shareholder's equity [3]	1,270.4	1,218.5	1,140.3
Dividends [2]	60.6	43.0	48.0
Total debt to capitalization ratio [6]	60.7%	57.0%	56.3%
Return on equity [7]	9.0%	10.3%	7.7%

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

[2] See "Liquidity and Capital Resources" for further details on capital expenditures and dividends

[3] See "Financial Position" for further details of significant changes in assets, debentures and shareholder's equity.

[4] Total debentures include current and long-term debentures.

[5] Other non-current financial liabilities include primarily non-current obligations under capital lease and non-current customers' advance deposits. Under US GAAP, deposits that are due or will be due on demand within one year from the end of the reporting period have been reclassified to other current financial liabilities.

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

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

Additional Information

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

Toronto, Canada

March 5, 2015