SECOND QUARTER REPORT
JUNE 30, 2014

TORONTO HYDRO CORPORATION

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GLOSSARY

AFUDC – Allowance for funds used during construction

CDM – Conservation and demand management

City – City of Toronto

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

Corporation – Toronto Hydro Corporation

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

ERM – Enterprise risk management

GWh – Gigawatt hour

IAS – International Accounting Standards

IASB – International Accounting Standards Board

ICM – Incremental Capital Module

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

IESO – Independent Electricity System Operator

IFRIC – International Financial Reporting Interpretations Committee

IFRS – International Financial Reporting Standards

IRM – Incentive Regulation Mechanism

KPIs – Key performance indicators

kW – Kilowatt

kWh – Kilowatt hour

LDC – Toronto Hydro-Electric System Limited

MD&A – Management's Discussion and Analysis

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

OCI – Other comprehensive income

OEB – Ontario Energy Board

OMERS – Ontario Municipal Employees Retirement System

OSC – Ontario Securities Commission

PILs – Payments in lieu of corporate taxes

PP&E – Property, plant and equipment

RARA – Regulatory assets recovery account

RRA – Rate-regulated accounting

TH Energy – Toronto Hydro Energy Services Inc.

US GAAP – United States Generally Accepted Accounting Principles

WMS – Wholesale Market Service

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

Executive Summary

- Net income for the three months and six months ended June 30, 2014 was $31.2 million and $53.7 million, compared to net income of $37.6 million and $56.1 million for the comparable periods in 2013;
- capital expenditures were primarily related to the renewal of the electricity infrastructure of LDC and were $151.7 million and $242.3 million for the three months and six months ended June 30, 2014, compared to $105.9 million and $188.4 million for the comparable periods in 2013;
- on January 16, 2014, the OEB approved LDC's requested disposition of the smart meter deferral account balances, permitting the recovery of $23.9 million and $9.6 million through two separate rate riders effective May 1, 2014;
- on February 1, 2014, the tunnel boring machine arrived on-site at Copeland Station and it is currently in the process of tunnelling to connect the new infrastructure to the grid. In addition, the gas-insulated transformers and the high and medium voltage switchgear have been manufactured and delivered;
- on June 13, 2014, the borrowing capacity under the Revolving Credit Facility was increased from $600.0 million to $700.0 million, and the amount the Corporation may issue under its Commercial Paper Program was increased from $400.0 million to $500.0 million; and
- on July 31, 2014, LDC filed a rate application with the OEB under the custom incentive rate-setting mechanism, seeking approval of separate and successive revenue requirements and corresponding electricity distribution rates for the five rate years commencing on May 1, 2015.

Introduction

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

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

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

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

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

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

Business of Toronto Hydro Corporation

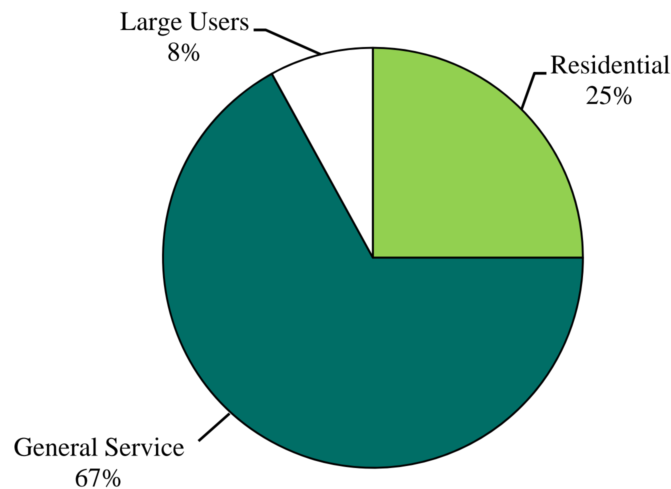
The Corporation is a holding company which wholly owns two subsidiaries:

- 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 734,000 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 six months ended June 30, 2014, LDC earned energy sales and distribution revenues of $1,605.5 million. As illustrated in the accompanying chart, 67% of the energy sales and distribution revenues were earned from general service users[1], 25% from residential service users[2], and 8% from large users[3].

LDC Energy Sales and Distribution Revenues by Class %

Six months ended June 30, 2014



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

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

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

Corporate Strategy

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

The Corporation is focused on the following four strategic pillars:

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

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

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

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

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

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

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

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

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

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

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

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

TORONTO HYDRO Corporation

Performance Measurement

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

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

Capability to Deliver Results

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

Selected Consolidated Financial Data

Interim Consolidated Statements of Net Income and Comprehensive Income
Three months ended June 30
(in millions of Canadian dollars, except for per share amounts, unaudited)

	2014 **$**	**2013** **$**	**Change** **$**
Energy sales	620.6	645.9	(25.3)
Distribution revenue	135.0	132.0	3.0
Other revenue	13.9	15.0	(1.1)
	769.5	792.9	(23.4)
Energy purchases	620.6	645.9	(25.3)
Operating expenses	62.2	62.7	(0.5)
Depreciation and amortization	38.9	35.3	3.6
Operating income	47.8	49.0	(1.2)
Net financing charges	(15.4)	(17.3)	1.9
Income before income taxes	32.4	31.7	0.7
Income tax expense (recovery)	1.2	(5.9)	7.1
Net income and comprehensive income	31.2	37.6	(6.4)

Interim Consolidated Statements of Net Income and Comprehensive Income
Six months ended June 30
(in millions of Canadian dollars, except for per share amounts, unaudited)

	2014 $	2013 $	Change $
Energy sales	1,329.2	1,258.2	71.0
Distribution revenue	276.3	263.5	12.8
Other revenue	27.4	28.1	(0.7)
	1,632.9	1,549.8	83.1
Energy purchases	1,329.2	1,258.2	71.0
Operating expenses	136.5	132.9	3.6
Depreciation and amortization	77.7	70.0	7.7
Operating income	89.5	88.7	0.8
Net financing charges	(31.0)	(35.9)	4.9
Income before income taxes	58.5	52.8	5.7
Income tax expense (recovery)	4.8	(3.3)	8.1
Net income and comprehensive income	53.7	56.1	(2.4)

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

	As at June 30 2014 $	As at December 31 2013 $
Current assets	524.3	555.3
Non-current assets	3,416.5	3,242.2
Total assets	3,940.8	3,797.5
Current liabilities	855.7	696.4
Non-current liabilities	1,861.0	1,882.6
Total liabilities	2,716.7	2,579.0
Shareholder’s equity	1,224.1	1,218.5
Total liabilities and shareholder’s equity	3,940.8	3,797.5

Results of Operations

Net Income

Net income for the three months and six months ended June 30, 2014 was $31.2 million and $53.7 million compared to $37.6 million and $56.1 million for the comparable periods in 2013.

The decrease in net income for the three months ended June 30, 2014 was primarily due to higher income tax expense ($7.1 million), higher depreciation and amortization expense ($3.6 million), and lower other revenue ($1.1 million). These variances were offset by higher distribution revenue ($3.0 million), lower net financing charges ($1.9 million), and lower operating expenses ($0.5 million).

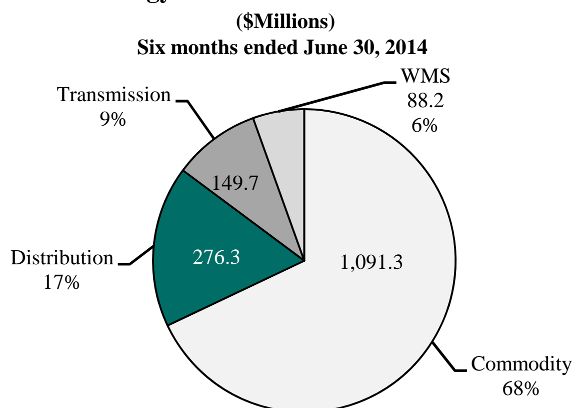
The decrease in net income for the six months ended June 30, 2014 was primarily due to higher income tax expense ($8.1 million), higher depreciation and amortization expense ($7.7 million), higher operating expenses ($3.6 million), and lower other revenue ($0.7 million). These variances were offset by higher distribution revenue ($12.8 million) and lower net financing charges ($4.9 million).

Revenues

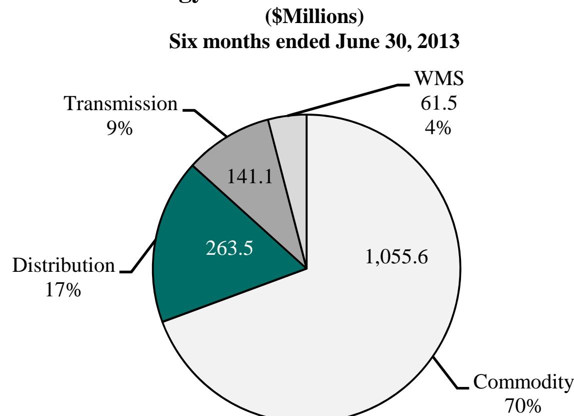
Energy Sales

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

LDC Energy Sales and Distribution Revenue
($Millions)
Six months ended June 30, 2014



LDC Energy Sales and Distribution Revenue
($Millions)
Six months ended June 30, 2013



The energy sales for the six months ended June 30, 2014 were $1,329.2 million compared to $1,258.2 million for the comparable period in 2013. The increase in energy sales for the six months ended June 30, 2014 was primarily due to an increase in the commodity charges by the IESO and higher WMS charges in 2014.

Distribution Revenue and Other Revenue

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

Distribution revenue for the three months and six months ended June 30, 2014 was $135.0 million and $276.3 million compared to $132.0 million and $263.5 million for the comparable periods in 2013.

The increase in distribution revenue for the three months ended June 30, 2014 was primarily due to higher revenue recognition related to the eligible in-service capital expenditures under ICM including the IRM annual adjustment ($4.5 million), and revenue recognition related to the implementation of the 2014 smart meter incremental revenue requirement ($2.4 million). These variances were partially offset by lower electricity consumption in the second quarter of 2014 (1,672.8 GWh compared to 1,677.0 GWh) ($1.9 million).

The increase in distribution revenue for the six months ended June 30, 2014 was primarily due to higher revenue recognition related to the eligible in-service capital expenditures under ICM including the IRM annual adjustment ($8.9 million), revenue recognition related to the implementation of the 2014 smart meter incremental revenue requirement ($4.8 million), and higher electricity consumption in 2014 (3,724.7 GWh compared to 3,573.9 GWh) ($2.4 million).

Other revenue for the three months and six months ended June 30, 2014 was $13.9 million and $27.4 million compared to $15.0 million and $28.1 million for the comparable periods in 2013.

Expenses

Operating expenses for the three months and six months ended June 30, 2014 were $62.2 million and $136.5 million compared to $62.7 million and $132.9 million for the comparable periods in 2013.

The decrease in operating expenses for the three months ended June 30, 2014 was primarily due to greater capitalization of compensation costs mainly related to a higher capital work program in the second quarter of 2014 ($1.5 million), offset by higher system maintenance costs ($1.0 million).

The increase in operating expenses for the six months ended June 30, 2014 was primarily due to the cost of repairs to the electricity distribution infrastructure incurred in 2014 related to the Ice Storm that adversely affected the City at the end of December 2013 ($3.4 million).

Depreciation and amortization expense for the three months and six months ended June 30, 2014 was $38.9 million and $77.7 million compared to $35.3 million and $70.0 million for the comparable periods in 2013. The increase in depreciation and amortization expense for the three months and the six months ended June 30, 2014 was primarily due to new in-service asset additions stemming from the increase in capital expenditures.

Net Financing Charges

Net financing charges for the three months and six months ended June 30, 2014 were $15.4 million and $31.0 million compared to $17.3 million and $35.9 million for the comparable periods in 2013.

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

Income Tax Expense (Recovery)

Income tax expense for the three months and six months ended June 30, 2014 was $1.2 million and $4.8 million compared to an income tax recovery of $5.9 million and $3.3 million for the comparable periods in 2013.

The unfavourable variance in income tax expense for the three months ended June 30, 2014 was primarily due to the favourable resolution of certain tax positions identified in prior periods and related reassessments by the Ministry of Finance of Ontario in 2013 ($4.9 million) and lower deductions for permanent and temporary differences between accounting and tax treatments ($2.2 million).

The unfavourable variance in income tax expense for the six months ended June 30, 2014 was primarily due to the favourable resolution of certain tax positions identified in prior periods and related reassessments by the Ministry of Finance of Ontario in 2013 ($4.9 million), lower deductions for permanent and temporary differences between accounting and tax treatments ($1.7 million), and higher earnings before taxes ($1.5 million).

During the second half of 2013, substantially all of the benefit of the above noted favourable reassessments was recognized as a regulatory liability payable to customers in the future (see note 13 for the Corporation's effective tax rate).

Quarterly Results of Operations

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

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

	June 30 2014 $	March 31 2014 $	December 31 2013 $	September 30 2013 $
Revenues	769.5	863.4	819.7	833.3
Net income	31.2	22.5	29.2	35.9
	June 30 2013 $	**March 2013 $**	**December 31 2012 $**	**September 30 2012 $**
Revenues	792.9	756.9	691.9	751.2
Net income	37.6	18.5	22.9	34.4

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

Financial Position

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

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

Balance Sheet Account	Increase (Decrease) $	Explanation of Significant Change
Assets		
Accounts receivable (net of allowance for doubtful accounts) and unbilled revenue	(37.3)	The decrease was primarily due to lower consumption and the timing of billing and collection activities from electricity customers.
PP&E and intangible assets, net	130.5	The increase was primarily due to capital expenditures, partially offset by depreciation during the period and net eligible in-service capital expenditures under ICM reclassified to regulatory assets per the direction from the OEB.

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

Balance Sheet Account	Increase (Decrease) $	Explanation of Significant Change
Regulatory assets	63.2	The increase was primarily due to the retail settlement variance between IESO charges and approved customer charges, and the reclassification of ICM-related net eligible in-service capital expenditures (see note 7).
Deferred income tax assets	(15.1)	The decrease was due to lower net deductible temporary differences between tax and accounting values of PP&E.
Liabilities and Shareholder's Equity		
Short-term borrowings	150.4	The increase was primarily due to higher drawings under the Corporation's Commercial Paper Program launched in December 2013 (see "Liquidity and Capital Resources" below).
Accounts payable and accrued liabilities	9.9	The increase was primarily due to higher electricity commodity costs payable to the IESO, partially offset by timing differences in payment.
Regulatory liabilities	(15.3)	The decrease was primarily due to a reduction of deferred income tax assets, the benefit of which will be payable to customers and lower retail settlement variance balances payable to customers.

Liquidity and Capital Resources

Sources of Liquidity and Capital Resources

The Corporation's current assets and current liabilities amounted to $524.3 million and $855.7 million, respectively, as at June 30, 2014, resulting in a working capital deficit of $331.4 million. The deficit is due to the Corporation's approach to utilize its Commercial Paper Program and Revolving Credit Facility in lieu of issuing additional debentures to fulfill the Corporation's liquidity requirements, including funding significant capital spending in the current year.

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

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

The Corporation is a party to a revolving credit facility expiring on October 10, 2019 ("Revolving Credit Facility"), pursuant to which it may borrow up to $700.0 million, of which up to $210.0 million is available in the form of

letters of credit. On June 13, 2014, the borrowing capacity under the Revolving Credit Facility was increased from $600.0 million to $700.0 million and the expiry date extended from October 10, 2018 to October 10, 2019.

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

Additionally, the Corporation is a party to:

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

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

	Facility Limit **$**	**Facility Borrowings** **$**	**Commercial Paper** **$**	**Facility Availability** **$**
June 30, 2014	700.0	—	316.0	384.0
December 31, 2013	600.0	—	150.0	450.0

As at June 30, 2014, $3.5 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 six months ended June 30, 2014, the average outstanding borrowings on the Corporation's credit facilities and commercial paper, excluding the Prudential Facility, were $236.4 million and $203.9 million with weighted average interest rates of 1.18% and 1.18%.

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

As at June 30, 2014, the Corporation had long-term debentures outstanding in the principal amount of $1,450.0 million. These debentures mature between 2017 and 2063. The Corporation may issue up to $1,050.0 million of additional debentures under the existing base shelf prospectus.

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

Credit Ratings
As at June 30, 2014

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

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

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

	Three months Ended June 30		Six months Ended June 30	
	2014 $	**2013 $**	**2014 $**	**2013 $**
Cash and cash equivalents, beginning of period	-	44.1	-	76.6
Net cash provided by operating activities	30.6	18.7	139.3	104.9
Net cash used in investing activities	(135.5)	(98.5)	(238.3)	(191.0)
Net cash provided by financing activities	104.9	69.2	99.0	43.0
Cash and cash equivalents, end of period	-	33.5	-	33.5

Net Cash Provided by Operating Activities

Net cash provided by operating activities for the three months and six months ended June 30, 2014 was $30.6 million and $139.3 million compared to $18.7 million and $104.9 million for the comparable periods in 2013.

The increase in net cash provided by operating activities for the three months and six months ended June 30, 2014 was primarily due to the movement in non-cash working capital balances (see note 14), partially offset by net changes in regulatory assets and liabilities and a decrease in net income.

Net Cash Used in Investing Activities

Net cash used in investing activities for the three months and six months ended June 30, 2014 was $135.5 million and $238.3 million compared to $98.5 million and $191.0 million for the comparable periods in 2013.

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

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

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

Capital Expenditures
(in millions of Canadian dollars, unaudited)

	Three months Ended June 30		Six months Ended June 30	
	2014 $	**2013 $**	**2014 $**	**2013 $**
Regulated LDC				
Distribution system				
Planned	87.2	70.0	145.4	140.7
Reactive	8.2	7.7	17.3	13.2
Copeland Station	22.0	23.4	29.4	24.3
Facilities consolidation	28.0	0.6	40.4	0.6
Technology assets	4.1	3.3	6.4	6.0
Other [1]	1.0	0.8	1.8	1.4
	150.5	105.8	240.7	186.2
Other [2]	1.2	0.1	1.6	2.2
Total Capital Expenditures	151.7	105.9	242.3	188.4

1 Includes fleet capital.

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

The total regulated capital expenditures were $150.5 million and $240.7 million for the three months and six months ended June 30, 2014 compared to $105.8 million and $186.2 million for the comparable periods in 2013. For the six months ended June 30, 2014, the increase in regulated capital expenditures was primarily related to spending on the facilities consolidation program ($39.8 million), underground infrastructure ($29.1 million), overhead infrastructure ($25.1 million), and Copeland Station ($5.1 million). These variances were partially offset by a decrease in Hydro One capital contributions included in planned expenditures ($16.5 million), feeder automation ($5.5 million), and network infrastructure and equipment spending ($5.0 million).

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

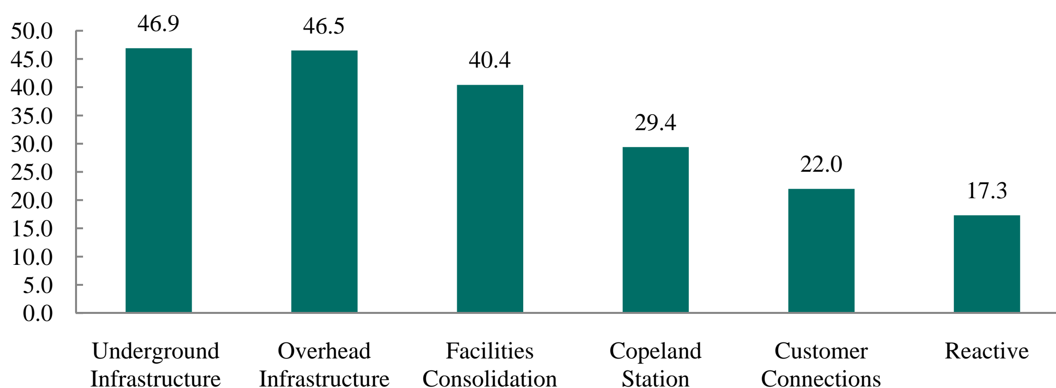
The replacement of underground infrastructure includes replacing direct buried cables, transformer switches, handwells, and other aging underground infrastructure. The replacement of overhead infrastructure includes replacing poles, overhead transformers, conductors, overhead switches and other aging overhead infrastructure and equipment. Both initiatives will allow LDC to continue to provide ongoing safe and reliable service to its customers. For the six months ended June 30, 2014, capital expenditures for the underground infrastructure and the overhead initiatives were $46.9 million and $46.5 million, respectively.

The facilities consolidation program relates to the consolidation of operating centres to lower operating centre costs and simplify long-term planning. The Corporation has included the facilities consolidation program as part of its 2015 – 2019 rate application. 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 $27.3 million in costs. In the current quarter, the Corporation also purchased a property in the west end of the City for $13.1 million, which will become an operating centre.

On May 22, 2013, the Corporation celebrated the official groundbreaking at Copeland Station. On February 1, 2014, the tunnel boring machine arrived on-site and began tunnelling to connect the new infrastructure to the grid. In addition, the gas-insulated transformers and the high and medium voltage switchgear have been manufactured and delivered. As at June 30, 2014, the cumulative capital expenditures on the Copeland Station project amounted to $89.9 million, of which $29.4 million was recorded in 2014. The $89.9 million in costs incurred relates to land and building ($30.1 million), capital contributions to Hydro One ($27.9 million), tunnel and other ($19.1 million), and equipment ($12.9 million). The total capital expenditures required to complete Copeland Station are expected to be approximately $195.0 million. All capital expenditures related to Copeland Station are recorded to PP&E.

The delivery of customer connections includes spending related to new services and upgrades to existing services for specific commercial customers. For the six months ended June 30, 2014, capital expenditures for the delivery of customer connections were $22.0 million, net of related capital contributions received of $7.4 million.

Most Significant Regulated Capital Initiatives
($ Millions)
Six months ended June 30, 2014



Net Cash Provided by Financing Activities

Net cash provided by financing activities for the three months and six months ended June 30, 2014 was $104.9 million and $99.0 million compared to $69.2 million and $43.0 million for the comparable periods in 2013.

The increase in net cash provided by financing activities for the three months ended June 30, 2014 was primarily due to the net effect of the payment in connection with the retirement of $470.1 million of senior unsecured debentures and the issuance of $450.0 million of senior unsecured debentures in the second quarter of 2013, and an increase in funds drawn under the Corporation's short-term borrowings.

The increase in net cash provided by financing activities for the six months ended June 30, 2014 was primarily due to an increase in funds drawn under the Corporation's short-term borrowings, and the net effect of the payment in connection with the retirement of $470.1 million of senior unsecured debentures and the issuance of $450.0 million of senior unsecured debentures in the second quarter of 2013. These variances were partially offset by higher dividends paid in 2014 compared to 2013.

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

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

On August 14, 2014, the Board of Directors of the Corporation declared a dividend in the amount of $6.3 million with respect to the third quarter of 2014. The dividend is payable on September 30, 2014.

Summary of Contractual Obligations and Other Commitments

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

Summary of Contractual Obligations and Other Commitments
As at June 30, 2014
(in millions of Canadian dollars, unaudited)

	Total $	2014 [1] $	2015/2016 $	2017/2018 $	After 2018 $
Working Capital Facility	3.5	3.5	-	-	-
Commercial paper [2]	316.0	316.0	-	-	-
Debentures – principal repayment	1,450.0	-	-	250.0	1,200.0
Debentures – interest payments	928.1	30.5	122.0	109.1	666.5
Operating leases	17.0	3.1	11.8	2.1	-
Capital project and other [3]	89.0	75.0	14.0	-	-
Capital leases	10.2	1.3	5.0	3.9	-
Total contractual obligations and other commitments	2,813.8	429.4	152.8	365.1	1,866.5

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

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

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

Corporate Developments

Distribution Rates for LDC

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

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

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

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

Legal Proceedings

In the ordinary course of business, the Corporation is subject to various legal actions and claims with customers, suppliers, former employees and other parties. On an ongoing basis, the Corporation assesses the likelihood of any adverse judgments or outcomes as well as potential ranges of probable costs and losses. A determination of the provision required, if any, for these contingencies is made after an analysis of each individual issue. The provision may change in the future due to new developments in each matter or changes in approach, such as a change in settlement strategy. If damages were awarded under these actions, the Corporation and its subsidiaries would make a claim under any applicable liability insurance policies which the Corporation believes would cover any damages which may become payable by the Corporation and its subsidiaries in connection with these actions. See note 17 to the Interim Consolidated Financial Statements for a discussion of material legal proceedings.

Share Capital

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

Transactions with Related Parties

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

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

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

Controls and Procedures

For purposes of certain Canadian securities regulations, the Corporation is a "Venture Issuer". As such, it is exempt from certain of the requirements of National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings. Accordingly, the Chief Executive Officer and Chief Financial Officer have reviewed the Interim Consolidated Financial Statements and the MD&A for the six months ended June 30, 2014. Based on their knowledge and exercise of reasonable diligence, they have concluded that these documents fairly present in all material respects the financial condition, financial performance and cash flows of the Corporation as at the date of and for the period presented.

Significant Accounting Policies

The Interim Consolidated Financial Statements of the Corporation have been prepared in accordance with US GAAP with respect to the preparation of interim financial information. These Interim Consolidated Financial Statements are presented in Canadian dollars, which is the Corporation's functional currency. In preparing the Interim Consolidated Financial Statements, management makes estimates and assumptions which affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the Interim Consolidated Financial Statements, and the reported amounts of revenues and expenses for the period. Actual results could differ from those estimates, including changes as a result of future decisions made by the OEB, the Ministry of Energy of Ontario, or the Ministry of Finance of Ontario. The significant accounting policies of the Corporation are summarized in notes 2 and 4 to the Interim Consolidated Financial Statements.

Future Accounting Pronouncements

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 previously been required to adopt IFRS on January 1, 2012. On March 19, 2014, the Board of Directors of the Corporation approved the adoption of IFRS for the year beginning on January 1, 2015 due to the pending expiration of the exemption. Accordingly, the Corporation's consolidated financial statements for 2015 are expected to be prepared in accordance with IFRS and applied retrospectively to the Corporation's opening IFRS consolidated balance sheet as at January 1, 2014.

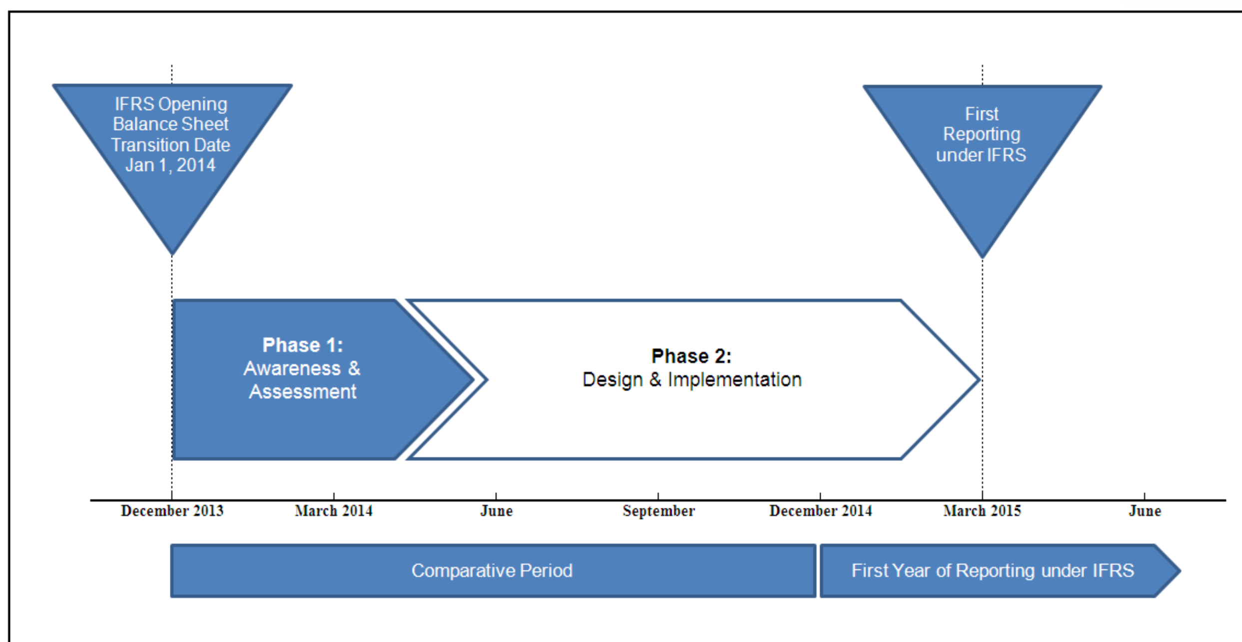
The Corporation has an internal initiative to govern the conversion process and is currently in the process of evaluating the potential impact of the conversion to IFRS on its consolidated financial statements. The Corporation believes that the impact on its financial statements could be material.

IFRS Conversion Project

The Corporation has re-initiated its IFRS conversion project, which was previously suspended as a result of the Corporation's decision to adopt US GAAP. The Corporation established a formal project governance structure. This structure includes a steering committee consisting of senior levels of management from finance, information technology and operations, among others. Regular progress reports are provided to senior executive management.

The Corporation's project consists of two phases:

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



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

The Corporation has started the design and implementation phase of the project. The design phase involves establishing issue-specific working groups in each of the identified areas. The working groups establish key milestones, which include developing recommendations, analyzing financial system and internal control impact, developing significant accounting policies, and carrying out ongoing discussions with external auditors, in each area. The Corporation is in the process of determining the projected impact of adopting IFRS on its opening IFRS consolidated balance sheet as at January 1, 2014, after considering the options available under IFRS 1.

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

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

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

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 considered IFRS 1 and an assessment has been made as to which exemptions would be elected upon transition. At this time, the determination of the impact on the Corporation's opening IFRS consolidated balance sheet is in progress. In addition, during 2014, changes to IFRS may impact exemptions available to first-time adopters, and in turn, may change the Corporation's original assessments and policy selections.

The Corporation has completed a detailed assessment of the accounting and disclosure differences between US GAAP and IFRS and identified the following areas as having the potential to materially impact the consolidated financial statements on the date of transition to IFRS and post-IFRS implementation.

Identified Areas	Key Differences IFRS vs. US GAAP	Potential Key Impact
IAS 12 - Income Taxes	IAS 12 requires a deferred tax asset to be recognized to the extent it is probable that it will be realized - i.e. a net approach, whereas US GAAP requires all deferred tax assets to be initially recognized - i.e. a gross approach. Under US GAAP, a valuation allowance is separately recognized to reduce the deferred tax asset to the extent that it is more likely than not that the deferred tax asset will not be realized.	Currently, a valuation allowance has been established for certain capital loss carry forward balances and allowed tax depreciation under US GAAP. All other deferred tax assets are considered more likely than not to be realized. The impact of adopting IAS 12 is one of disclosure only, as the net deferred tax asset recorded would be similar under both standards.
IAS 16 - PP&E	IAS 16 requires that the estimates of useful life and residual value, and the method of depreciation, are reviewed at a minimum at each annual reporting period. Any changes are accounted for prospectively as a change in estimate. The carrying amount of an item of PP&E shall be derecognized upon disposal or when no future economic benefits are expected. The gain or loss arising from the derecognition of an item of PP&E shall be included in profit or loss (unless IAS 17 requires otherwise on a sale and leaseback). Gains shall not be classified as revenue.	As a result of adoption of IAS 16, useful lives and residual value will need to be reviewed annually. The Corporation will be derecognizing all items of PP&E as soon as they are taken out of service. PP&E will decrease with a corresponding increase to depreciation expense.
IAS 19 - Employee Benefits	IAS 19 does not specify whether an entity should distinguish current and non-current portions related to post-employment benefits. Under US GAAP, the amount of the actuarial present value of benefits included in the benefit obligation which is expected to be paid in the next 12 months is classified as current. Actuarial gains or losses of defined benefit plans are recognized immediately in OCI and cannot be recycled into profit or loss. The corridor method, which is permitted under US GAAP has been eliminated under IFRS. For other long-term benefits other than post-employment benefits, IAS 19 requires benefits that are expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service to be classified as current. Under IFRS, short-term benefits that accumulate are recognized even when the benefit is non-vested, as opposed to US GAAP, in which recognition of such benefits is permitted but not mandatory.	The Corporation will elect to account for all post-employment benefits as non-current obligations under IFRS. All actuarial gains or losses related to post-employment benefits will be recognized immediately into OCI under IFRS and will not be recycled to profit or loss. The Corporation's long-term benefits are not expected to be wholly settled within 12 months and therefore will remain as non-current under IFRS. As a result of adoption of IAS 19, the Corporation will need to accrue for the required short-term employee benefits liability.

Identified Areas	Key Differences IFRS vs. US GAAP	Potential Key Impact
IAS 23- Borrowing Costs	The core principle of IAS 23 is that borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset form part of the cost of that asset. Other borrowing costs are recognized as an expense in the period in which they are incurred. Borrowing costs under IFRS are calculated using the weighted average interest rate of the Corporation's general borrowings, including borrowing costs previously capitalized, as opposed to the OEB prescribed rate on a simple interest basis permitted under US GAAP. Borrowing costs should also be capitalized as soon as the asset meets the conditions of commencement date as opposed to the current practice, in which costs can be capitalized after the 6 month mark.	Additional borrowing costs would be capitalized as a result of the adoption of IAS 23.
IAS 37 - Provisions, Contingent Assets and Liabilities	IAS 37 requires a discount rate that reflects current market assessments of the time value of money and risks specific to the liability, whereas US GAAP requires the use of a credit-adjusted risk-free rate.	The impact on the date of transition when using the IFRS 1 optional exemption is an increase to decommissioning provisions, a decrease to PP&E, and a decrease to opening retained earnings.
IFRIC 18 - Transfer Assets from Customers (Capital Contributions)	IFRIC 18 does not allow for the netting of capital contributions received against items of PP&E.	There will be a reclassification between PP&E and unearned revenue liability. The capital contribution will be amortized, and recognized into revenue, as opposed to against depreciation under US GAAP. Presentation differences will have no impact on the net income reported.
IFRS 14 – Regulatory Deferral Accounts	IFRS 14 introduces significant presentation and disclosure differences from US GAAP. Regulatory assets and liabilities will be referred to as regulatory deferral accounts debit and credit balances. Regulatory deferral accounts that do not meet the definition of an asset or a liability under another existing standard should be segregated from the rest of the statement of financial position and statement of profit or loss and comprehensive income. First-time adopters are permitted to elect an IFRS 1 deemed cost exemption to isolate the regulatory deferral account amounts from PP&E on a prospective basis. Other presentation differences include the elimination of the current and non-current split for regulatory deferral accounts and the netting of debits and credits is not permitted.	The adoption of IFRS 14 will result in a significant presentation change on the Corporation's financial statements. The net change of regulatory deferral accounts will be presented separately within the financial statements. Certain regulatory deferral accounts currently recognized under US GAAP, such as the ICM assets, will be recognized as PP&E as they meet the definition of an asset under IAS 16. The note disclosures will also be expanded to be in accordance with IFRS 14 and will include a new reconciliation of the carrying amounts at the beginning and end of each period presented.

Forward-Looking Information

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

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

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

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

Selected Financial Highlights

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

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

	Three months Ended June 30		Six months Ended June 30	
	2014 $	**2013 $**	**2014 $**	**2013 $**
Distribution revenue and other revenue [1]	148.9	147.0	303.7	291.6
Operating expenses [1]	62.2	62.7	136.5	132.9
Net income [1]	31.2	37.6	53.7	56.1
Capital expenditures [2]	151.7	105.9	242.3	188.4
Total debt to capitalization ratio [3]			59.1%	57.1%
Return on equity [4]			9.9%	10.0%

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

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

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

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

Additional Information

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

Toronto, Canada

August 14, 2014

UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2014

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

INTERIM CONSOLIDATED BALANCE SHEETS

[in millions of Canadian dollars, unaudited]

	As at June 30, 2014 $	As at December 31, 2013 $
ASSETS		
Current		
Accounts receivable, net of allowance for doubtful accounts *[note 10[b]]*	**188.1**	202.6
Unbilled revenue *[note 10[b]]*	**304.1**	326.9
Income tax receivable	**2.2**	0.5
Inventories	**8.5**	8.6
Regulatory assets *[note 7]*	**11.3**	7.1
Other assets	**10.1**	9.6
Total current assets	**524.3**	555.3
Property, plant and equipment, net *[note 5]*	**2,789.2**	2,664.4
Intangible assets, net *[note 6]*	**177.2**	171.5
Regulatory assets *[note 7]*	**293.4**	234.4
Other assets	**14.2**	14.3
Deferred income tax assets	**142.5**	157.6
Total assets	**3,940.8**	3,797.5
LIABILITIES AND SHAREHOLDER'S EQUITY		
Current		
Working capital facility *[note 8]*	**3.5**	19.1
Commercial paper *[note 8]*	**316.0**	150.0
Accounts payable and accrued liabilities *[note 10[b]]*	**466.6**	456.7
Customers' advance deposits	**37.8**	37.3
Deferred conservation credit	**21.5**	20.7
Post-retirement benefits *[note 9]*	**8.1**	8.0
Other liabilities	**2.2**	2.1
Regulatory liabilities *[note 7]*	**-**	2.5
Total current liabilities	**855.7**	696.4
Customers' advance deposits	**4.7**	7.4
Debentures	**1,449.4**	1,449.3
Post-retirement benefits *[note 9]*	**232.0**	230.8
Other liabilities	**7.1**	14.5
Regulatory liabilities *[note 7]*	**167.8**	180.6
Total liabilities	**2,716.7**	2,579.0
Commitments, contingencies and subsequent events *[notes 2, 16 and 17]*		
Shareholder's equity		
Share capital *[note 11]*	**567.8**	567.8
Retained earnings	**656.3**	650.7
Total shareholder's equity	**1,224.1**	1,218.5
Total liabilities and shareholder's equity	**3,940.8**	3,797.5

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

INTERIM CONSOLIDATED STATEMENTS OF NET INCOME AND COMPREHENSIVE INCOME

[in millions of Canadian dollars, unaudited]

	Three months ended June 30,		Six months ended June 30,	
	2014 $	**2013 $**	**2014 $**	**2013 $**
Energy sales	**620.6**	645.9	**1,329.2**	1,258.2
Distribution revenue	**135.0**	132.0	**276.3**	263.5
Other revenue	**13.9**	15.0	**27.4**	28.1
	769.5	792.9	**1,632.9**	1,549.8
Energy purchases	**620.6**	645.9	**1,329.2**	1,258.2
Operating expenses	**62.2**	62.7	**136.5**	132.9
Depreciation and amortization *[notes 5, 6 and 7]*	**38.9**	35.3	**77.7**	70.0
Operating income	**47.8**	49.0	**89.5**	88.7
Net financing charges *[note 12]*	**(15.4)**	(17.3)	**(31.0)**	(35.9)
Income before income taxes	**32.4**	31.7	**58.5**	52.8
Income tax expense (recovery) *[note 13]*	**1.2**	(5.9)	**4.8**	(3.3)
Net income and comprehensive income for the period	**31.2**	37.6	**53.7**	56.1

INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY

[in millions of Canadian dollars, unaudited]

	Three months ended June 30,		Six months ended June 30,	
	2014 $	**2013 $**	**2014 $**	**2013 $**
Share capital *[note 11]*	**567.8**	567.8	**567.8**	567.8
Retained earnings, beginning of period	**631.3**	567.0	**650.7**	572.5
Net income for the period	**31.2**	37.6	**53.7**	56.1
Dividends *[notes 11 and 15]*	**(6.2)**	(6.5)	**(48.1)**	(30.5)
Retained earnings, end of period	**656.3**	598.1	**656.3**	598.1
Total shareholder's equity	**1,224.1**	1,165.9	**1,224.1**	1,165.9

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

TORONTO HYDRO Corporation

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

[in millions of Canadian dollars, unaudited]

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	**2014**	2013
	$	$	**$**	$
OPERATING ACTIVITIES				
Net income for the period	**31.2**	37.6	**53.7**	56.1
Adjustments for non-cash items				
Depreciation and amortization *[notes 5, 6 and 7]*	**38.9**	35.3	**77.7**	70.0
Post-retirement benefits	**1.9**	2.1	**1.7**	4.0
Deferred income taxes	**0.3**	(0.8)	**0.6**	(0.7)
Other	**(0.1)**	-	**(0.5)**	0.2
Net change in regulatory assets and liabilities *[note 7]*	**(68.1)**	(13.7)	**(34.4)**	(19.8)
Net change in other non-current assets and liabilities	**(0.4)**	0.5	**(6.4)**	0.6
Changes in non-cash working capital balances *[note 14]*	**26.9**	(42.3)	**46.9**	(5.5)
Net cash provided by operating activities	**30.6**	18.7	**139.3**	104.9
INVESTING ACTIVITIES				
Purchase of property, plant and equipment *[note 14]*	**(127.7)**	(71.3)	**(223.7)**	(151.3)
Purchase of intangible assets *[note 14]*	**(8.1)**	(27.7)	**(15.4)**	(40.4)
Proceeds on disposals of property, plant and equipment	**0.3**	0.5	**0.8**	0.7
Net cash used in investing activities	**(135.5)**	(98.5)	**(238.3)**	(191.0)
FINANCING ACTIVITIES				
Decrease in working capital facility *[note 8]*	**(6.1)**	-	**(15.6)**	-
Increase in commercial paper *[note 8]*	**119.0**	-	**166.0**	-
Increase in revolving credit facility *[note 8]*	**-**	100.0	**-**	100.0
Dividends paid *[notes 11 and 15]*	**(6.2)**	(6.5)	**(48.1)**	(30.5)
Decrease in customers' advance deposits	**(1.2)**	(0.6)	**(2.2)**	(2.4)
Proceeds from debentures	**-**	449.7	**-**	449.7
Debt issuance costs paid	**-**	(2.7)	**-**	(2.7)
Repayment of debentures	**-**	(470.1)	**-**	(470.1)
Repayment of capital lease liability	**(0.6)**	(0.6)	**(1.1)**	(1.0)
Net cash provided by financing activities	**104.9**	69.2	**99.0**	43.0
Net decrease in cash and cash equivalents during the period	**-**	(10.6)	**-**	(43.1)
Cash and cash equivalents, beginning of period	**-**	44.1	**-**	76.6
Cash and cash equivalents, end of period	**-**	33.5	**-**	33.5
Supplementary disclosure of operating cash flows				
Total interest paid	**31.4**	37.6	**32.1**	37.9
Total income taxes paid (recovered)	**0.1**	-	**4.6**	(3.1)

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

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2014
[all tabular amounts in millions of Canadian dollars, unaudited]

1. INCORPORATION

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

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

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

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

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

2. BASIS OF PRESENTATION

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

The Corporation has evaluated the events and transactions occurring after the interim consolidated balance sheet date through August 14, 2014 when the Corporation's interim consolidated financial statements were available to be issued after the approval by the Corporation's Board of Directors, and identified the events and transactions which required recognition in the interim consolidated financial statements and/or disclosure in the notes to the interim consolidated financial statements *[notes 3, 7 and 11]*.

3. REGULATION

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

Electricity Distribution Rates

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

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Revenue recognition

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

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

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

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

b) Use of estimates

The preparation of the Corporation’s unaudited interim consolidated financial statements in accordance with US GAAP requires management to make estimates and assumptions which affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the interim consolidated financial statements, and the reported amounts of revenues and expenses for the period. The estimates are based on historical experience, current conditions and various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and

liabilities as well as for identifying and assessing the accounting treatment with respect to commitments and contingencies. Significant areas requiring the use of management estimates relate to unbilled revenue, regulatory assets and liabilities, post-retirement benefits, income taxes (including deferred income taxes), and revenue recognition. Actual results could differ from those estimates, including changes as a result of future decisions made by the OEB, the Ministry of Energy of Ontario, or the Ministry of Finance of Ontario.

c) Future Accounting Pronouncements

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 previously been required to adopt IFRS on January 1, 2012. On March 19, 2014, the Board of Directors of the Corporation approved the adoption of IFRS for the year beginning on January 1, 2015 due to the pending expiration of the exemption. Accordingly, the Corporation's consolidated financial statements for 2015 are expected to be prepared in accordance with IFRS and applied retrospectively to the Corporation's opening IFRS consolidated balance sheet as at January 1, 2014.

The Corporation has an internal initiative to govern the conversion process and is currently in the process of evaluating the potential impact of the conversion to IFRS on its consolidated financial statements. The Corporation believes that the impact on its financial statements could be material.

5. PROPERTY, PLANT AND EQUIPMENT

PP&E consist of the following:

	June 30 2014			December 31 2013		
	Cost $	Accumulated depreciation $	Net book value $	Cost $	Accumulated depreciation $	Net book value $
Distribution assets	**4,324.1**	**2,179.3**	**2,144.8**	4,257.5	2,130.6	2,126.9
Land and buildings	**197.2**	**80.3**	**116.9**	189.1	76.8	112.3
Equipment and other	**356.0**	**256.3**	**99.7**	349.7	245.2	104.5
Construction in progress	**427.8**	**—**	**427.8**	320.7	—	320.7
	5,305.1	**2,515.9**	**2,789.2**	5,117.0	2,452.6	2,664.4

As at June 30, 2014, Equipment and other included assets under capital lease with cost of $13.7 million [December 31, 2013 - $13.7 million] and accumulated depreciation of $5.8 million [December 31, 2013 - $4.8 million].

For the three months and the six months ended June 30, 2014, AFUDC in the amount of $0.6 million and $1.0 million [three months and six months ended June 30, 2013 - $0.1 million and $0.3 million] was capitalized to PP&E and credited to net financing charges.

For the three months and the six months ended June 30, 2014, capital contributions in the amount of $5.7 million and $9.5 million [three months and six months ended June 30, 2013 - $6.3 million and $11.4 million] were credited to PP&E.

For the three months and the six months ended June 30, 2014, the Corporation recorded depreciation expense on PP&E of $31.7 million and $63.9 million [three months and six months ended June 30, 2013 - $30.5 million and

$60.7 million], of which $0.5 million and $1.0 million [three months and six months ended June 30, 2013 - $0.5 million and $1.0 million] related to assets under capital lease.

6. INTANGIBLE ASSETS

Intangible assets consist of the following:

	June 30 2014			December 31 2013		
	Cost $	Accumulated amortization $	Net book value $	Cost $	Accumulated amortization $	Net book value $
Computer software	**270.8**	**208.1**	**62.7**	268.4	198.8	69.6
Contributions	**22.1**	**3.5**	**18.6**	22.1	3.1	19.0
Software in development	**14.9**	**—**	**14.9**	11.7	—	11.7
Contributions for work in progress	**81.0**	**—**	**81.0**	71.2	—	71.2
	388.8	**211.6**	**177.2**	373.4	201.9	171.5

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

For the three months and the six months ended June 30, 2014, AFUDC in the amount of $0.6 million and $1.3 million [three months and six months ended June 30, 2013 - $0.4 million and $0.7 million] was capitalized to intangible assets and credited to net financing charges.

For the three months and the six months ended June 30, 2014, the Corporation recorded amortization expense on intangible assets of $4.8 million and $9.7 million [three months and six months ended June 30, 2013 - $4.6 million and $9.1 million].

7. REGULATORY ASSETS AND LIABILITIES

Regulatory assets consist of the following:

	June 30 2014 $	December 31 2013 $
ICM	**181.3**	151.9
Settlement variances	**43.1**	8.2
Post-retirement benefits	**38.4**	38.8
Smart meters	**24.9**	25.2
Stranded meters	**15.7**	16.9
Other	**1.3**	0.5
Total regulatory assets	**304.7**	241.5
Less: Current portion of regulatory assets	**11.3**	7.1
Long-term portion of regulatory assets	**293.4**	234.4

Regulatory liabilities consist of the following:

	June 30 2014 $	December 31 2013 $
Deferred income taxes	**141.4**	155.9
Revision of prior year tax position	**20.9**	19.4
Income and other taxes variance account	**2.4**	2.4
RARA	**1.9**	4.3
Other	**1.2**	1.1
Total regulatory liabilities	**167.8**	183.1
Less: Current portion of regulatory liabilities	**—**	2.5
Long-term portion of regulatory liabilities	**167.8**	180.6

For the three months and the six months ended June 30, 2014, LDC disposed of approved regulatory liabilities amounting to $0.5 million and $2.4 million through permitted distribution rate adjustments [three months and six months ended June 30, 2013 - approved regulatory assets of $2.5 million and $3.6 million].

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

a) Incremental Capital Module

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

For the three months and the six months ended June 30, 2014, eligible in-service capital expenditures of $24.1 million and $34.1 million [three months and six months ended June 30, 2013 - $37.7 million] were reclassified from PP&E to regulatory assets. As a non-cash transaction, this reclassification has been excluded from the consolidated statements of cash flows. As at June 30, 2014, eligible in-service capital expenditures, net of accumulated depreciation, totalling $189.1 million, were recorded in regulatory assets [December 31, 2013 - $157.9 million]. In the absence of rate regulation, PP&E would have been $189.1 million higher as at June 30, 2014 [December 31, 2013 - $157.9 million higher].

For the three months and the six months ended June 30, 2014, LDC recorded depreciation expense of $1.8 million and $2.9 million [three months and six months ended June 30, 2013 - $0.2 million] related to the eligible in-service capital expenditures.

For the three months and the six months ended June 30, 2014, the revenues related to the eligible in-service capital expenditures were $5.2 million and $9.0 million [three months and six months ended June 30, 2013 - $1.8 million]. In the absence of rate regulation, for the three months and the six months ended June 30, 2014, revenues would have been $nil and $1.8 million higher [three months and six months ended June 30, 2013 - $nil impact].

b) Settlement Variances

This account is comprised of the variances between amounts charged by LDC to customers, based on regulated rates, and the corresponding cost of non-competitive electricity service incurred by LDC. The settlement variances

relate primarily to service charges, non-competitive electricity charges and the global adjustment. Accordingly, LDC has deferred the variances between the costs incurred and the related recoveries in accordance with the criteria set out in the accounting principles prescribed by the OEB. The balance for settlement variances continues to be calculated and attracts carrying charges in accordance with the OEB's direction.

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

c) Post-Retirement Benefits

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

d) Smart Meters and Stranded Meters

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

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

In addition, the net book value of stranded meters related to the deployment of smart meters was reclassified from PP&E to regulatory assets as at December 31, 2013. Depreciation expense continues to be recorded on the stranded meters in regulatory assets in 2014. For the three months and the six months ended June 30, 2014, LDC recorded depreciation expense of $0.6 million and $1.2 million [three months and six months ended June 30, 2013 - $0.6 million and $1.2 million] related to the stranded meters. Included in the 2015-2019 rate application is recovery of the forecasted net book value of the stranded meters as at December 31, 2014 *[note 3]*.

For the three months and the six months ended June 30, 2014, LDC recognized $2.4 million and $4.6 million of the forecasted 2014 smart meter incremental revenue requirement [three months and six months ended June 30, 2013 - $nil]. In the absence of rate regulation, for the three months and the six months ended June 30, 2014, revenues relating to smart meters would have been $1.0 million and $0.3 million higher [three months and six months ended June 30, 2013 - $1.5 million and $3.0 million higher], and depreciation and amortization expenses relating to smart meters and stranded meters would have been $0.6 million and $1.2 million lower [three months and six months ended June 30, 2013 - $1.0 million and $1.9 million higher].

e) Deferred Income Taxes

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

As at June 30, 2014, LDC had a deferred income tax asset and a corresponding regulatory liability of $141.4 million [December 31, 2013 - $155.9 million] with respect to its rate-regulated activities that will be included in the rate-setting process.

f) Revision of Prior Year Tax Position

The revision of prior year tax position regulatory liability account relates to a favourable change to certain prior year tax positions based on reassessments received and in process, not reflected in electricity distribution rates charged to customers. As at June 30, 2014, the balance in this account consisted of an over-recovery of PILs from customers of $20.9 million [December 31, 2013 - $19.4 million].

g) Income and Other Taxes Variance Account

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

h) Regulatory Assets Recovery Account

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

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

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

8. SHORT-TERM BORROWINGS

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

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

Facility; hence, available borrowing under the Revolving Credit Facility is reduced by the amount of commercial paper outstanding at any point in time.

Additionally, the Corporation is a party to:

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

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

	Facility Limit $	Facility Borrowings $	Commercial Paper $	Facility Availability $
June 30, 2014	700.0	—	316.0	384.0
December 31, 2013	600.0	—	150.0	450.0

As at June 30, 2014, $3.5 million had been drawn under the Working Capital Facility [December 31, 2013 - $19.1 million] and $29.7 million of letters of credit had been issued against the Prudential Facility [December 31, 2013 - $50.1 million].

For the three months and the six months ended June 30, 2014, the average outstanding borrowings on the Corporation's credit facilities and commercial paper, excluding the Prudential Facility, were $236.4 million and $203.9 million [three months and six months ended June 30, 2013 - $33.8 million and $20.8 million] with weighted average interest rates of 1.18% and 1.18% [three months and six months ended June 30, 2013 – 2.54% and 2.63%].

9. EMPLOYEE FUTURE BENEFITS

a) Pension

The Corporation's full-time employees participate in a pension plan through OMERS. For the three months and the six months ended June 30, 2014, the Corporation's contributions to the plan were $3.8 million and $9.4 million [three months and six months ended June 30, 2013 - $4.2 million and $9.9 million].

b) *Post-retirement benefits other than pension*

The components of net periodic benefit cost are:

	Three months ended June 30		Six months ended June 30	
	2014 $	**2013 $**	**2014 $**	**2013 $**
Service cost	**1.1**	1.5	**2.3**	2.7
Interest cost	**2.9**	2.7	**5.7**	5.4
Amortization of net actuarial loss	**0.2**	0.5	**0.4**	1.0
Net periodic benefit cost	**4.2**	4.7	**8.4**	9.1
Capitalized as part of PP&E	**1.7**	1.7	**3.1**	3.1
Charged to operations	**2.5**	3.0	**5.3**	6.0

10. FINANCIAL INSTRUMENTS

a) *Recognition and measurement*

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

The fair values of the debentures are calculated by discounting the related cash flows at the estimated yield to maturity of similar debt instruments, and are included in Level 2 of the fair value hierarchy. As at June 30, 2014, the total fair value of the Corporation's debentures (including the current portion) was determined to be approximately $1,548.1 million [December 31, 2013 - $1,480.8 million], with a total carrying value of $1,449.4 million [December 31, 2013 - $1,449.3 million].

b) *Financial Risks*

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

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

Credit risk

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

The Corporation's credit risk associated with accounts receivable is primarily related to electricity bill payments from LDC customers. LDC has approximately 734,000 customers. LDC obtains security instruments from certain

customers in accordance with direction provided by the OEB. As at June 30, 2014, LDC held security deposits in the amount of $42.5 million [December 31, 2013 - $44.7 million], of which $20.7 million [December 31, 2013 - $22.2 million] were related to security deposits on Offers to Connect to guarantee the payment of additional costs relating to expansion projects. As at June 30, 2014, there were no significant concentrations of credit risk with respect to any customer.

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

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

	June 30 2014 $	December 31 2013 $
Unbilled revenue	**304.1**	326.9
Accounts receivable		
Outstanding for not more than 30 days	**162.2**	176.9
Outstanding for more than 30 days and not more than 120 days	**23.8**	24.4
Outstanding for more than 120 days	**13.3**	12.2
Less: Allowance for doubtful accounts	**(11.2)**	(10.9)
Total accounts receivable, net	**188.1**	202.6
Total accounts receivable and unbilled revenue	**492.2**	529.5

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

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

Interest rate risk

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

As at June 30, 2014, the Corporation was exposed to interest rate risk predominately from short-term borrowings under its Commercial Paper Program, while most of its remaining obligations were either non-interest bearing or bear fixed interest rates, and its financial assets were predominately short-term in nature and mostly non-interest bearing. The Corporation estimates that a 100 basis point increase (decrease) in short-term interest rates, with all other variables held constant, would result in an increase (decrease) of approximately $3.6 million to annual net financing charges.

Liquidity risk

The Corporation is exposed to liquidity risk related to its ability to fund its obligations as they become due. The Corporation monitors and manages its liquidity risk to ensure access to sufficient funds to meet operational and

financial requirements. The Corporation has access to credit facilities and debt capital markets and monitors cash balances daily. The Corporation's objective is to ensure that sufficient liquidity is on hand to meet obligations as they fall due while minimizing net financing charges.

Liquidity risks associated with financial commitments are as follows:

June 30, 2014						
	Due within 1 year $	**Due within 2 years $**	**Due within 3 years $**	**Due within 4 years $**	**Due within 5 years $**	**Due after 5 years $**
Working Capital Facility	**3.5**	—	—	—	—	—
Commercial paper [(1)]	**316.0**	—	—	—	—	—
Accounts payable and accrued liabilities [(2)]	**457.5**	—	—	—	—	—
Obligations under capital lease	**2.6**	**2.6**	**2.5**	**2.5**	—	—
Senior unsecured debentures						
Series 2 – 5.15% due November 14, 2017	—	—	—	**250.0**	—	—
Series 3 – 4.49% due November 12, 2019	—	—	—	—	—	**250.0**
Series 6 – 5.54% due May 21, 2040	—	—	—	—	—	**200.0**
Series 7 – 3.54% due November 18, 2021	—	—	—	—	—	**300.0**
Series 8 – 2.91% due April 10, 2023	—	—	—	—	—	**250.0**
Series 9 – 3.96% due April 9, 2063	—	—	—	—	—	**200.0**
Interest payments on debentures	**61.0**	**61.0**	**61.0**	**54.6**	**48.1**	**642.4**
	840.6	**63.6**	**63.5**	**307.1**	**48.1**	**1,842.4**

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

(2) Accounts payable and accrued liabilities exclude $9.1 million of accrued interest on debentures as at June 30, 2014 which is included within "Interest payments on debentures".

Foreign exchange risk

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

11. SHARE CAPITAL

Share capital consists of the following:

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

Dividends

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

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

On August 14, 2014, the Board of Directors of the Corporation declared a dividend in the amount of $6.3 million with respect to the third quarter of 2014. The dividend is payable on September 30, 2014.

12. NET FINANCING CHARGES

Net financing charges consist of the following:

	Three months ended June 30		Six months ended June 30	
	2014 $	2013 $	2014 $	2013 $
Interest income	**—**	1.0	**0.1**	1.4
Interest expense				
Long-term debt [(1)]	**(15.4)**	(17.9)	**(30.8)**	(36.8)
Other interest	**(1.2)**	(0.9)	**(2.6)**	(1.5)
AFUDC	**1.2**	0.5	**2.3**	1.0
	(15.4)	(17.3)	**(31.0)**	(35.9)

(1) Includes amortization of debt issuance costs, premiums and discounts.

13. INCOME TAXES

The Corporation's effective tax rate for the three months and the six months ended June 30, 2014 was 3.70% and 8.21% [three months and six months ended June 30, 2013 - (18.61%) and (6.25%)]. The effective tax rate for the three months and the six months ended June 30, 2014 was higher than the three months and the six months ended June 30, 2013, primarily due to favourable resolution of certain tax positions identified in prior periods and related reassessments by the Ministry of Finance of Ontario in 2013. During the second half of 2013, substantially all of the benefit of the favourable reassessments was recognized as a regulatory liability, payable to customers in the future, resulting in an overall effective tax rate for the year ended December 31, 2013 of 3.45%.

14. CONSOLIDATED STATEMENTS OF CASH FLOWS

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

	Three months ended June 30		Six months ended June 30	
	2014 $	2013 $	2014 $	2013 $
Accounts receivable	**56.5**	8.6	**14.5**	(10.1)
Unbilled revenue	**7.8**	(25.4)	**22.8**	(21.6)
Income tax receivable	**(0.3)**	(4.9)	**(1.7)**	(0.4)
Inventories	**0.5**	(0.5)	**0.1**	(0.7)
Other current assets	**(0.9)**	(1.0)	**(0.5)**	(2.3)
Accounts payable and accrued liabilities	**(33.0)**	(11.4)	**10.8**	35.5
Restructuring accrual	**—**	(3.3)	**—**	(7.0)
Deferred conservation credit	**(3.7)**	(4.5)	**0.8**	1.0
Other current liabilities	**—**	0.1	**0.1**	0.1
	26.9	(42.3)	**46.9**	(5.5)

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

	Three months ended June 30		Six months ended June 30	
	2014 $	2013 $	2014 $	2013 $
Purchase of PP&E, cash basis	**127.7**	71.3	**223.7**	151.3
Net change in accruals related to PP&E	**15.4**	6.2	**2.2**	(4.8)
Capital lease additions	**—**	—	**—**	0.3
Capitalized overhead costs	**0.5**	0.7	**1.0**	1.2
Total additions to PP&E	**143.6**	78.2	**226.9**	148.0
Purchase of intangible assets, cash basis	**8.1**	27.7	**15.4**	40.4
Total additions to PP&E and intangible assets	**151.7**	105.9	**242.3**	188.4

15. RELATED PARTY TRANSACTIONS

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

Revenues include amounts charged to the City primarily for electricity, street lighting and ancillary services. Operating expenses and capital expenditures include amounts charged by the City for purchased road cut repairs, property taxes and other services. Dividends are paid to the City *[note 11]*.

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

16. COMMITMENTS

Operating leases and capital projects

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

	Operating leases	**Capital projects [3] and other**
	$	**$**
2014 [1]	**3.1**	**75.0**
2015	**6.1**	**13.3**
2016	**5.7**	**0.7**
2017	**2.1**	—
2018	—	—
Thereafter	—	—
Total amount of future minimum payments [2]	**17.0**	**89.0**

(1) Represents the balance due over the period from July 1, 2014 to December 31, 2014.
(2) Refer to note 10 for repayments of future cash outflows excluded from the table above.
(3) Reflects capital project commitments for construction services and estimated capital contributions, with the majority related to Copeland Station.

Capital leases

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

	$
2014 [1]	**1.3**
2015	**2.5**
2016	**2.5**
2017	**2.5**
2018	**1.4**
Thereafter	**—**
Total amount of future minimum lease payments	**10.2**
Less: interest and executory costs	**0.9**
	9.3
Current portion included in Other liabilities	**2.2**
Long-term portion included in Other liabilities	**7.1**

[1] Represents the balance due over the period from July 1, 2014 to December 31, 2014.

17. CONTINGENCIES

Legal Proceedings

In the ordinary course of business, the Corporation is subject to various legal actions and claims with customers, suppliers, former employees and other parties. On an ongoing basis, the Corporation assesses the likelihood of any adverse judgments or outcomes as well as potential ranges of probable costs and losses. A determination of the provision required, if any, for these contingencies is made after an analysis of each individual issue. The provision may change in the future due to new developments in each matter or changes in approach, such as a change in settlement strategy. If damages were awarded under these actions, the Corporation and its subsidiaries would make a claim under any applicable liability insurance policies which the Corporation believes would cover any damages which may become payable by the Corporation and its subsidiaries in connection with these actions.

2 Secord Avenue

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

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

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

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

2369 Lakeshore Boulevard West

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

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

18. SEASONAL OPERATIONS

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

19. COMPARATIVE FIGURES

Certain comparative figures have been reclassified from financial statements previously presented to conform to the presentation of the June 30, 2014 interim consolidated financial statements. During the fourth quarter of 2013, the Corporation changed the presentation of the consolidated statements of cash flows for the net change in regulatory assets and liabilities from investing activities to operating activities. Prior year comparatives have been retrospectively reclassified with $13.2 million and $18.8 million previously presented as investing activities for the three months and six months ended June 30, 2013 reclassified to operating activities.