FINANCIAL REPORT
DECEMBER 31, 2020

TORONTO HYDRO CORPORATION

TABLE OF CONTENTS

Glossary	3
Management's Discussion and Analysis	4
Executive Summary	5
Introduction	5
Business of Toronto Hydro Corporation	6
Electricity Distribution – Industry Overview	7
Results of Operations	8
Summary of Quarterly Results of Operations	15
Financial Position	16
Liquidity and Capital Resources	17
Corporate Developments	22
Legal Proceedings	24
Share Capital	25
Transactions with Related Parties	25
Controls and Procedures	26
Risk Management and Risk Factors	26
Critical Accounting Estimates	35
Significant Accounting Policies	36
Changes in Accounting Standards	36
Future Accounting Pronouncements	36
Forward-Looking Information	37
Selected Annual Information	40
Additional Information	40
Consolidated Finanical Statements	41
Notes to the Consolidated Financial Statements	51

TORONTO HYDRO Corporation

GLOSSARY

CDM – Conservation and Demand Management

CEAP – COVID-19 Emergency Assistance Program

CEAP-SB – CEAP for Small Business

CEO – Chief Executive Officer

CFO – Chief Financial Officer

CGU – Cash generating unit

CIR – Custom Incentive Rate-setting

City – City of Toronto

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

Corporation – Toronto Hydro Corporation

COVID-19 – Coronavirus disease 2019

ECA – Energy Conservation Agreement

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

GAAP – Generally Accepted Accounting Principles

HONI – Hydro One Networks Inc.

IAS – International Accounting Standard

IASB – International Accounting Standards Board

IESO – Independent Electricity System Operator

IFRS – International Financial Reporting Standards

IRM – Incentive Regulation Mechanism

ITA – Income Tax Act (Canada), as amended

kW – Kilowatt

kWh – Kilowatt hour

LDC – Toronto Hydro-Electric System Limited

LRAM – Lost revenue adjustment mechanism

MD&A – Management's Discussion and Analysis

MEU – Municipal electricity utility

OCI – Other comprehensive income

OEB – Ontario Energy Board

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

OMERS – Ontario Municipal Employees Retirement System

OPEB – Other post-employment benefits

PILs – Payments in lieu of corporate taxes

PP&E – Property, plant and equipment

RPP – Regulated Price Plan

TA – *Taxation Act, 2007* (Ontario), as amended

TH Energy – Toronto Hydro Energy Services Inc.

Toronto Hydro – Toronto Hydro Corporation and its subsidiaries

TOU – Time-of-use

US GAAP – United States Generally Accepted Accounting Principles

WMS – Wholesale Market Service

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

TORONTO HYDRO Corporation

Executive Summary

- During the COVID-19 pandemic, the Corporation has maintained the full range of its services while focusing on the health and safety of its employees and the community. The Corporation has continued with critical work in its grid investment plan to maintain safety and reliability, support a growing city, and meet customer service needs;
- Net income (loss) after net movements in regulatory balances for the three months and year ended December 31, 2020 was $(2.0) million and $117.1 million, respectively, compared to $15.5 million and $154.4 million, for the comparable periods in 2019 primarily due to the financial impacts of the COVID-19 pandemic;
- Capital expenditures were primarily related to the renewal of the electricity infrastructure of LDC and were $146.0 million and $617.2 million for the three months and year ended December 31, 2020, compared to $199.4 million and $587.1 million for the comparable periods in 2019;
- On December 19, 2019, the OEB issued its 2020-2024 CIR Decision and on February 20, 2020, the OEB issued its CIR Final Rate Order, both in relation to the rate application filed by LDC on August 15, 2018 ("2020-2024 CIR decision and rate order"). The 2020-2024 CIR decision and rate order approved a rate base of $4,514.8 million and revenue requirement of $750.2 million for 2020. The rates for 2020 were implemented on March 1, 2020, with an effective date of January 1, 2020;
- On May 25, 2020, the amount the Corporation may issue under its Commercial Paper Program was increased by $150.0 million from $600.0 million to $750.0 million;
- On August 24, 2020, LDC filed its 2021 rate application seeking the OEB's approval to finalize distribution rates and other charges for the period commencing on January 1, 2021 and ending on December 31, 2021. On December 10, 2020, the OEB issued a decision and rate order approving LDC's 2021 rates and providing for other deferral and variance account dispositions;
- On October 15, 2020, the Corporation issued $200.0 million of 1.50% senior unsecured debentures due October 15, 2030 ("Series 16"). The Series 16 debentures bear interest payable semi-annually in arrears; and
- On March 3, 2021, the Board of Directors of the Corporation declared a quarterly dividend in the amount of $17.6 million with respect to the first quarter of 2021, payable to the City by March 31, 2021.

Introduction

This MD&A should be read in conjunction with the Corporation's audited consolidated financial statements and accompanying notes as at and for the years ended December 31, 2020 and 2019, which were prepared in accordance with IFRS (the "Consolidated Financial Statements").

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

Business of Toronto Hydro Corporation

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

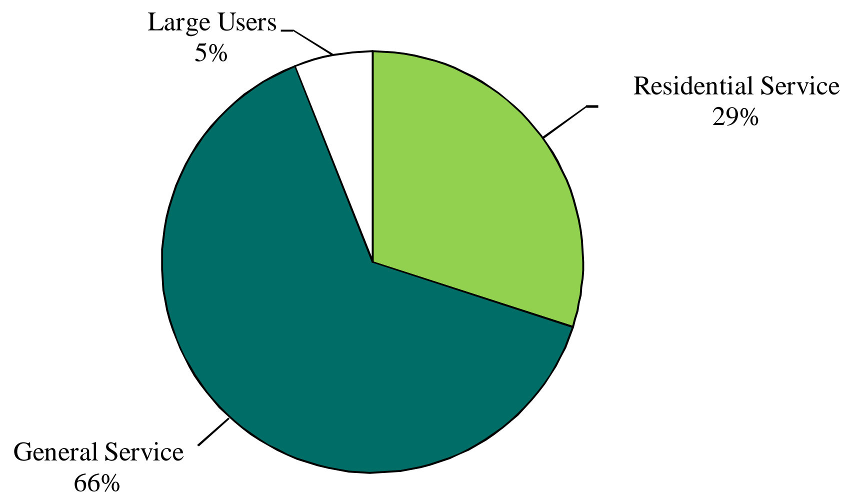
- LDC - distributes electricity; and
- TH Energy - provides street lighting and expressway lighting services in the city of Toronto.

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

The principal business of the Corporation and its subsidiaries is the distribution of electricity by LDC. LDC owns and operates an electricity distribution system, delivering electricity to approximately 781,000 customers located in the city of Toronto. LDC serves the largest city in Canada and distributes approximately 18% of the electricity consumed in Ontario. The business of LDC is regulated by the OEB, which has broad powers relating to licensing, standards of conduct and service, and the regulation of electricity distribution rates charged by electricity distributors in Ontario. For the year ended December 31, 2020, LDC recognized energy sales and distribution revenue of $3,836.9 million from general service users[1], residential service users[2] and large users[3].

LDC Energy Sales and Distribution Revenue by Class

Year ended December 31, 2020



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

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

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

Electricity Distribution – Industry Overview

Under government regulations, LDC and other electricity distributors purchase electricity from the wholesale market administered by the IESO and recover the costs of electricity and certain other costs from customers in accordance with rate-setting procedures mandated by the OEB.

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

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

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

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

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

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

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

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

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

The Electricity Act provides that an MEU that is exempt from tax under the ITA and the TA is required to make, for each taxation year, a PILs payment to the Ontario Electricity Financial Corporation in an amount equal to the tax that it would be liable to pay under the ITA and the TA if it were not exempt from tax. The Corporation and each of its subsidiaries are MEUs for purposes of the PILs regime contained in the Electricity Act, and therefore, the Corporation is required to make PILs to the Ontario Electricity Financial Corporation.

TORONTO HYDRO Corporation

Results of Operations

Net Income after Net Movements in Regulatory Balances

Consolidated Statements of Income
Three months ended December 31
(in millions of Canadian dollars)

	2020 $	2019 $	Change $
Revenues			
Energy sales	783.1	776.2	6.9
Distribution revenue	169.4	200.5	(31.1)
Other	24.3	25.1	(0.8)
	976.8	1,001.8	(25.0)
Expenses			
Energy purchases	771.9	737.8	34.1
Operating expenses	88.1	88.8	(0.7)
Depreciation and amortization	78.1	74.0	4.1
	938.1	900.6	37.5
Finance costs	(19.5)	(19.7)	0.2
Income before income taxes	19.2	81.5	(62.3)
Income tax expense	(8.3)	(10.8)	2.5
Net income	10.9	70.7	(59.8)
Net movements in regulatory balances	(16.5)	(59.9)	43.4
Net movements in regulatory balances arising from deferred taxes	3.6	4.7	(1.1)
Net income (loss) after net movements in regulatory balances	(2.0)	15.5	(17.5)

The decrease in net income after net movements in regulatory balances for the three months ended December 31, 2020 was primarily due to the reversal of the bad debt expense regulatory deferral ($17.7 million) (see below). The Corporation was also impacted by lower distribution revenue mainly driven by lower commercial electricity consumption as a result of the COVID-19 pandemic and by lower 2020 distribution rates ($11.6 million) and lower LRAM recovery as a result of the provincial government's changes to CDM programs ($4.7 million), partially offset by lower amounts deferred into regulatory accounts ($21.8 million).

On December 16, 2020, OEB staff issued a proposal, which provided an update on the OEB's most recent consultation. Based on this information, management believes there is high uncertainty in regards to the recoverability of incremental COVID-19 related costs including bad debt expense, and therefore a low probability of recovery. Consequently, the bad debt expense regulatory deferral of $17.7 million that was previously recorded in the COVID-19 Emergency Deferral Account was reversed in the fourth quarter resulting in an impact of $17.7 million which is reflected in net income after net movements in regulatory balances for the three months ended December 31, 2020 (see "Pandemic Considerations" under the "Corporate Developments" section below).

Net Income after Net Movements in Regulatory Balances

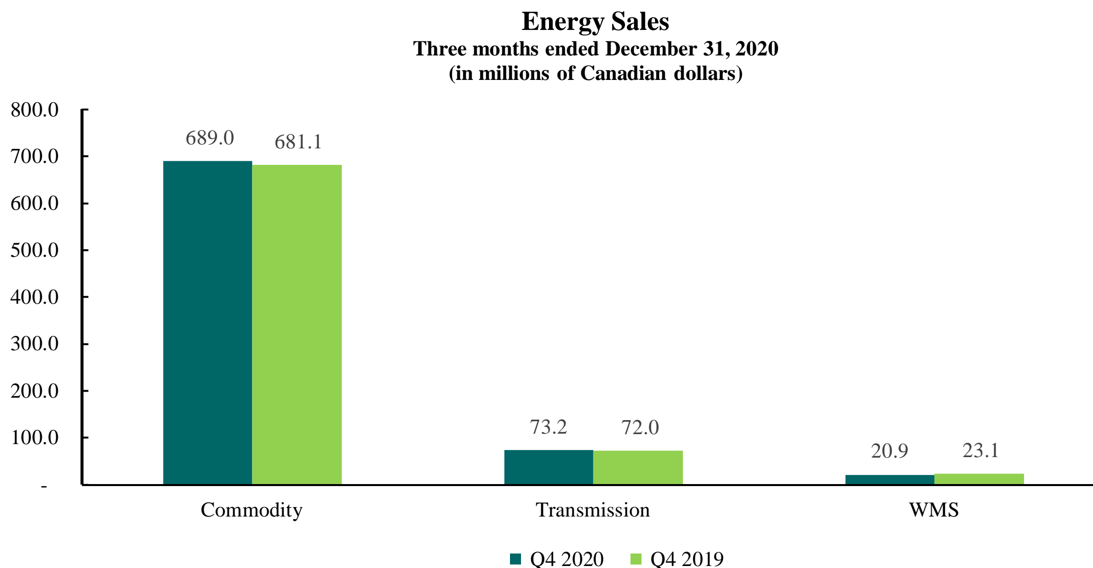
Consolidated Statements of Income
Year ended December 31
(in millions of Canadian dollars)

	2020 $	2019 $	Change $
Revenues			
Energy sales	3,142.5	2,779.7	362.8
Distribution revenue	694.4	799.2	(104.8)
Other	92.7	94.4	(1.7)
	3,929.6	3,673.3	256.3
Expenses			
Energy purchases	3,150.5	2,779.6	370.9
Operating expenses	326.0	308.9	17.1
Depreciation and amortization	274.3	255.6	18.7
	3,750.8	3,344.1	406.7
Finance costs	(77.1)	(80.1)	3.0
Gain on disposals of PP&E	-	2.2	(2.2)
Income before income taxes	101.7	251.3	(149.6)
Income tax expense	(28.6)	(67.9)	39.3
Net income	73.1	183.4	(110.3)
Net movements in regulatory balances	18.8	(62.4)	81.2
Net movements in regulatory balances arising from deferred taxes	25.2	33.4	(8.2)
Net income after net movements in regulatory balances	117.1	154.4	(37.3)

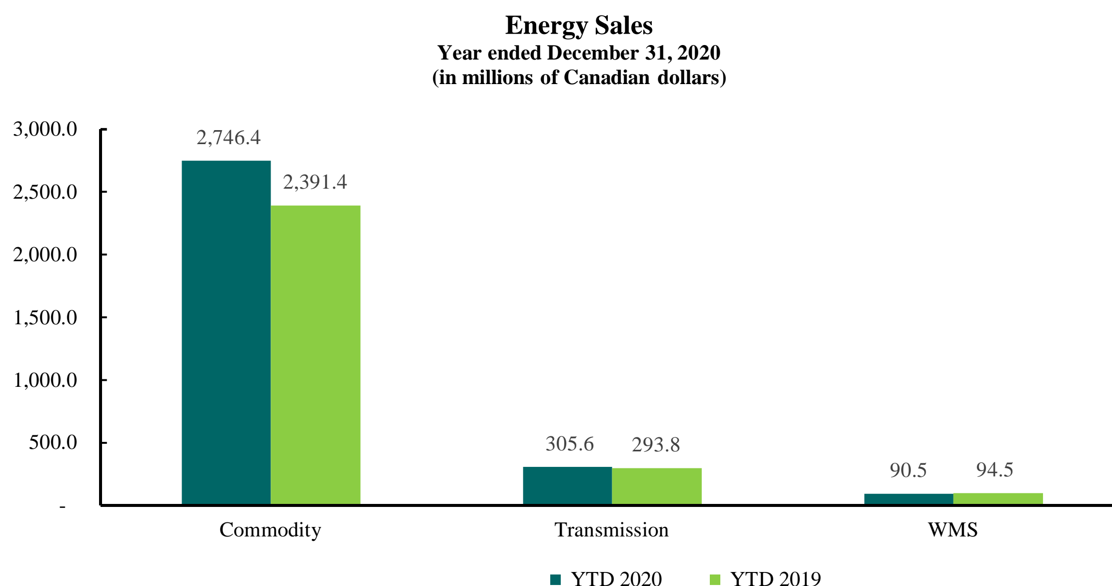
The decrease in net income after net movements in regulatory balances for the year ended December 31, 2020 was $37.3 million. The decrease was driven by higher operating expenses related to bad debt expenses resulting from the COVID-19 pandemic ($17.1 million), and lower distribution revenue ($37.5 million), driven by lower commercial electricity consumption due to the COVID-19 pandemic and lower 2020 distribution rates (see "Pandemic Considerations" in "Corporate Development" section below). The Corporation was also impacted by lower LRAM recovery as a result of the provincial government's changes to CDM programs ($20.6 million) and higher depreciation related to new in-service asset additions ($18.7 million). These variances were partially offset by lower income taxes including regulatory balances arising from deferred taxes ($31.1 million) and amounts deferred into regulatory accounts ($36.9 million).

Energy Sales

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



Energy sales for the three months ended December 31, 2020 were $783.1 million compared to $776.2 million for the comparable period in 2019. The increase was primarily due to higher commodity charges ($7.9 million).



Energy sales for the year ended December 31, 2020 were $3,142.5 million compared to $2,779.7 million for the comparable period in 2019. The increase was primarily due to higher commodity charges ($355.0 million).

Distribution Revenue

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

Distribution revenue for the three months and year ended December 31 2020 was $169.4 million and $694.4 million, respectively, compared to $200.5 million and $799.2 million for the comparable periods in 2019.

The decrease in distribution revenue for the three months and year ended December 31, 2020 was primarily due to lower revenue collected through OEB-approved rate riders ($19.1 million and $66.2 million, respectively) and lower electricity consumption combined with lower 2020 distribution rates ($11.6 million and $37.5 million, respectively). The lower electricity consumption was driven by lower commercial usage as a result of the COVID-19 pandemic.

The Corporation continues to track lost revenues related to lower commercial electricity consumption as a result of the COVID-19 pandemic and the late payment charge reductions, related to the Corporation's decision to provide direct relief to customers impacted by COVID-19. These amounts have not been recorded in the COVID-19 Emergency Deferral Account as at December 31, 2020.

Other Revenue

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

Other revenue for the three months and year ended December 31, 2020 was $24.3 million and $92.7 million, respectively, compared to $25.1 million and $94.4 million for the comparable periods in 2019.

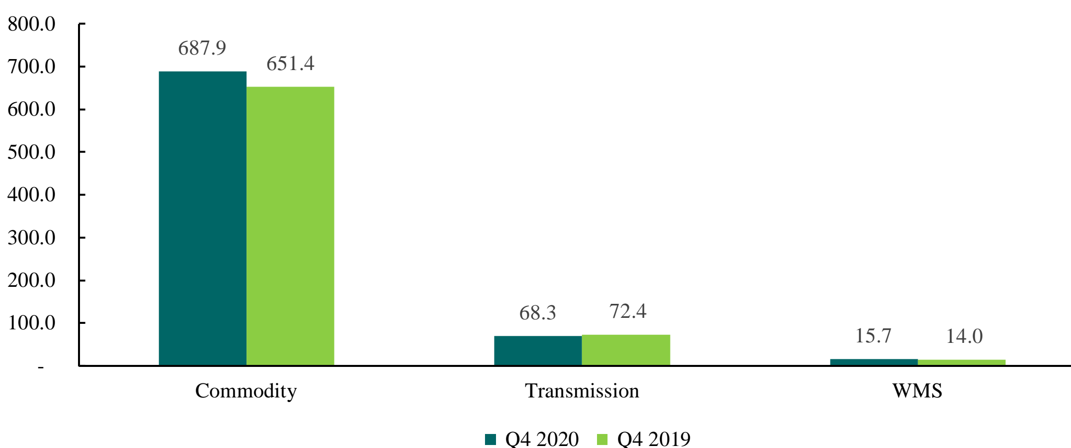
Other revenue for the three months ended December 31, 2020 was in line with the comparable period in 2019.

The decrease in other revenue for the year ended December 31, 2020 was primarily due to lower other regulatory services charges as result of the extension of the disconnection ban and COVID-19 payment relief measures implemented to assist customers.

Energy Purchases

LDC's energy purchases consist of actual charges for electricity generated by third parties, which are passed through to customers over time in the form of energy sales. Energy purchases are billed monthly by the IESO and include commodity charges, retail transmission charges and WMS charges.

LDC Energy Purchases
Three months ended December 31, 2020
(in millions of Canadian dollars)



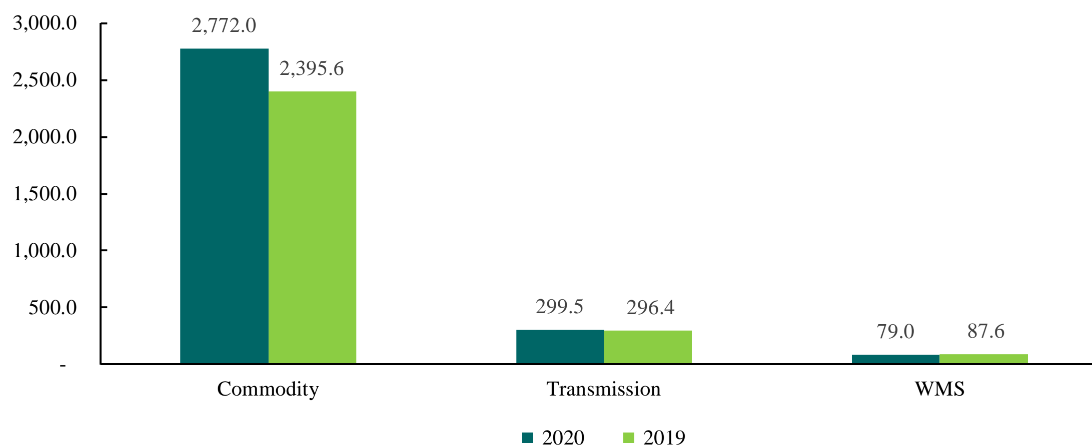
Energy purchases for the three months ended December 31, 2020 were $771.9 million compared to $737.8 million for the comparable period in 2019. The increase was primarily due to higher commodity charges ($36.5 million).

Energy Purchases, Energy Sales, and Settlement Variances
Three months ended December 31, 2020
(in millions of Canadian dollars)

	Energy Purchases $	Energy Sales $	Settlement Variances $
Commodity charges	687.9	689.0	(1.1)
Retail transmission charges	68.3	73.2	(4.9)
WMS charges	15.7	20.9	(5.2)
Total	771.9	783.1	(11.2)

For the three months ended December 31, 2020, LDC recognized $783.1 million in energy sales to customers and was billed $771.9 million for energy purchases from the IESO. The difference between energy sales and energy purchases represents a $11.2 million settlement variance for the period. The settlement variance was recorded as a decrease to the regulatory debit balance ($11.1 million including carrying charges on the accumulated settlement variance balance) on the Consolidated Balance Sheets, and presented within net movements in regulatory balances on the Consolidated Statements of Income.

LDC Energy Purchases
Year ended December 31, 2020
(in millions of Canadian dollars)



Energy purchases for the year ended December 31, 2020 were $3,150.5 million compared to $2,779.6 million for the comparable period in 2019. The increase was primarily due to higher commodity charges ($376.4 million).

Energy Purchases, Energy Sales, and Settlement Variances
Year ended December 31, 2020
(in millions of Canadian dollars)

	Energy Purchases $	Energy Sales $	Settlement Variances $
Commodity charges	2,772.0	2,746.4	25.6
Retail transmission charges	299.5	305.6	(6.1)
WMS charges	79.0	90.5	(11.5)
Total	3,150.5	3,142.5	8.0

For the year ended December 31, 2020, LDC recognized $3,142.5 million in energy sales to customers and was billed $3,150.5 million for energy purchases from the IESO. The difference between energy sales and energy purchases represents an $8.0 million settlement variance for the period. The settlement variance was recorded as a decrease to the regulatory credit balance ($8.2 million including carrying charges on the accumulated settlement variance balance; see the regulatory credit balance table in note 8 to the Consolidated Financial Statements) on the Consolidated Balance Sheets, and presented within net movements in regulatory balances on the Consolidated Statements of Income.

Operating Expenses

Operating expenses for the three months and year ended December 31, 2020 were $88.1 million and $326.0 million, respectively, compared to $88.8 million and $308.9 million for the comparable periods in 2019.

Operating expenses for the three months ended December 31, 2020 were in line with the comparable period in 2019.

The increase in operating expenses for the year ended December 31, 2020 was primarily due to an incremental $17.2 million of bad debt expense as a result of the COVID-19 pandemic.

The incremental bad debt expense represents management's best estimate of the impact of the COVID-19 pandemic on the expected credit losses. The Corporation adjusted the expected credit loss provision based on the Corporation's current estimates and assumptions including but not limited to recent trend for customer collections and current and forecasted economic conditions, to account for the higher level of expected customer defaults due to COVID-19 pandemic. The Corporation continues to actively monitor its exposure to credit risk as a result of the COVID-19 pandemic (see note 15(b) to the Consolidated Financial Statements).

For three months and year ended December 31, 2020 the Corporation incurred $0.8 million and $3.9 million respectively, in operating expenses for COVID-19 testing kits, cleaning supplies, protective equipment and other support costs directly related to the implementation of safety measures as a result of the COVID-19 pandemic.

As at December 31, 2020 the incremental bad debt and incremental operating expenses related to the COVID-19 pandemic have not been recorded in the COVID-19 Emergency Deferral Account.

Depreciation and Amortization

Depreciation and amortization expense, which includes derecognition of assets removed from service, for the three months and year ended December 31, 2020 was $78.1 million and $274.3 million, respectively, compared to $74.0 million and $255.6 million for the comparable periods in 2019.

The increase in depreciation and amortization for the three months and year ended December 31, 2020 was primarily due to new in-service asset additions, partially offset by certain assets being fully depreciated and a decrease in derecognition of assets removed from service.

Finance Costs

Finance costs for the three months and year ended December 31, 2020 were $19.5 million and $77.1 million, respectively, compared to $19.7 million and $80.1 million for the comparable periods in 2019. The decrease was primarily related to a lower rate of funding for commercial paper, partially offset by a decrease in investment income due to lower short-term interest rates.

Gain on Disposals of PP&E

Gain on disposals of PP&E for the three months and year ended December 31, 2020 were $nil compared to $nil and $2.2 million for the comparable periods in 2019. The decrease in gain on disposals of PP&E for the year ended December 31, 2020 was primarily due to higher gain realized in connection with the disposal of a property in the second quarter of 2019.

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

Income tax expense and income tax recorded in net movements in regulatory balances for the three months and year ended December 31, 2020 was $4.7 million and $3.4 million respectively, compared to $6.1 million and $34.5 million for the comparable periods in 2019.

The favourable variance for the three months ended December 31, 2020 was primarily due to lower income before taxes, partially offset by lower net deductions in permanent and temporary differences between accounting and tax treatments.

The favourable variance for the year ended December 31, 2020 was primarily due to lower income before taxes and higher net deductions in permanent and temporary differences between accounting and tax treatments.

Net Movements in Regulatory Balances

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

The increase in the regulatory debit ($5.4 million) and decrease in the regulatory credit ($34.8 million) balances for the year ended December 31, 2020 equals the sum ($40.2 million) of net movements in regulatory balances, net movements in regulatory balances arising from deferred taxes and net movement in regulatory balances related to OCI, shown for the period (see "Financial Position" below). Energy purchases record the actual cost of power purchased which varies from month to month. Since the selling price of power within energy sales is fixed for set periods of time, a gain or loss usually results, and is part of the calculation of net income. However, per OEB regulations, such gains or losses on energy sales are deferred within regulatory variance accounts for later disposition to or from rate payers via rate riders after approval by the OEB. Deferrals of gains or losses on energy sales (see discussion on settlement variance under "Results of Operations" above), or disposition of past deferrals in electricity rates will usually represent the largest single element of the net movements in regulatory balances for a given period.

Net movements in regulatory balances for the three months and year ended December 31, 2020 were a charge of $16.5 million and a recovery of $18.8 million, respectively, compared to a charge of $59.9 million and $62.4 million for the comparable periods in 2019. The charge of $16.5 million for the three months ended December 31, 2020 was primarily due to the reversal of the incremental bad debt expense recorded to the COVID-19 Emergency Deferral Account (see note 8(q) to the Consolidated Financial Statements) and the settlement variance between the electricity costs billed monthly by the IESO and LDC's billing to customers, partially offset by capital related regulatory accounts and amounts being disposed through OEB-approved rate riders. The charge of $59.9 million for the three months ended December 31, 2019 was primarily due to the settlement variance between the electricity costs billed monthly by the IESO and LDC's billing to customers, amounts being deferred into regulatory accounts for future refunds to customers and amounts disposed through OEB-approved rate riders.

The recovery of $18.8 million for the year ended December 31, 2020 was primarily due to amounts disposed through OEB-approved rate riders and the settlement variance between the electricity costs billed monthly by the IESO and LDC's billing to customers, partially offset by foregone revenue and amounts being deferred into capital-related regulatory accounts. The charge of $62.4 million for the year ended December 31, 2019 was primarily due to amounts disposed through OEB-approved rate riders, amounts being deferred into regulatory accounts for future refunds to customers, partially offset by LRAM.

Summary of Quarterly Results of Operations

The table below presents a summary of the Corporation's results of operations for eight quarters including and immediately preceding December 31, 2020.

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

	December 31, 2020 $	September 30, 2020 $	June 30, 2020 $	March 31, 2020 $
Energy sales	783.1	888.5	670.8	800.1
Distribution revenue	169.4	179.2	158.8	187.0
Other	24.3	24.9	22.7	20.8
Revenues	976.8	1,092.6	852.3	1,007.9
Net income (loss) after net movements in regulatory balances	(2.0)	47.7	36.0	35.4
	December 31, 2019 $	**September 30, 2019 $**	**June 30, 2019 $**	**March 31, 2019 $**
Energy sales	776.2	737.2	602.6	663.7
Distribution revenue	200.5	207.5	198.3	192.9
Other	25.1	25.6	23.3	20.4
Revenues	1,001.8	970.3	824.2	877.0
Net income after net movements in regulatory balances	15.5	50.2	46.1	42.6

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

TORONTO HYDRO Corporation

Financial Position

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

Consolidated Balance Sheet Data
(in millions of Canadian dollars)

Balance Sheet Account	Increase (Decrease) $	Explanation of Significant Change
Assets		
Accounts receivable and unbilled revenue	(72.1)	The decrease was primarily due to lower electricity consumption, timing of billing and collection activities and higher allowance for doubtful accounts as a result of the COVID-19 pandemic, partially offset by higher pass-through electricity costs.
Income tax receivable	11.9	The increase was primarily due to instalment payments in excess of the income tax provision.
PP&E and intangible assets	341.7	The increase was primarily due to capital expenditures (see "Investing Activities" below), partially offset by depreciation including derecognition.
Liabilities and Equity		
Commercial paper	24.0	The increase was primarily due to the issuances of commercial paper required for general corporate purposes (see "Liquidity and Capital Resources" below).
Accounts payable and accrued liabilities	(99.0)	The decrease was primarily due to higher capital activity during the fourth quarter of 2019 and timing differences in payments.
Debentures	199.2	The increase was primarily due to the issuance of Series 16 debentures ($200.0 million) (see "Liquidity and capital resources below").
Deferred revenue	144.4	The increase was primarily due to capital contributions received.
Deferred tax liabilities	24.0	The increase was primarily due to lower tax values as compared to accounting values of PP&E and intangible assets.
Retained earnings	24.5	The increase was due to net income after net movements in regulatory balances ($117.1 million), offset by dividends paid ($92.6 million).

Consolidated Balance Sheet Data
(in millions of Canadian dollars)

Balance Sheet Account	Increase (Decrease) $	Explanation of Significant Change
Regulatory Balances		
Regulatory credit balances	(34.8)	The decrease was primarily due to amounts disposed through OEB-approved rate riders.

Liquidity and Capital Resources

The Corporation's current assets and current liabilities amounted to $508.1 million and $951.1 million, respectively, as at December 31, 2020, resulting in a working capital deficit of $443.0 million. The deficit is primarily attributable to the Series 7 debentures repayment becoming due on November 18, 2021 for $300.0 million and the Corporation's preference for utilizing its Commercial Paper Program (defined in "Financing Activities" below) and Working Capital Facility (defined below) before issuing additional debentures to fulfill the Corporation's ongoing liquidity requirements, including funding of significant capital spending. The Corporation seeks to maintain an optimal mix of short-term and long-term debt in order to lower overall financing costs and to enhance borrowing flexibility.

The Corporation's primary sources of liquidity and capital resources are cash provided by operating activities, issuance of commercial paper, amounts available to be drawn against its credit facilities, and borrowings from debt capital markets. On October 15, 2020, the Corporation issued $200.0 million of 1.50% senior unsecured debentures due October 15, 2030 (see "Financing Activities below"). The Corporation's liquidity and capital resource requirements are mainly for capital expenditures to maintain and improve the electricity distribution system of LDC, for energy purchases and to meet financing obligations.

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

(in millions of Canadian dollars)	Revolving Credit Facility Limit $	Revolving Credit Facility Borrowings $	Commercial Paper Outstanding $	Revolving Credit Facility Availability $
December 31, 2020	800.0	-	160.0	640.0
December 31, 2019	800.0	-	136.0	664.0

The Corporation is a party to a $20.0 million demand facility with a Canadian chartered bank for the purpose of working capital management ("Working Capital Facility"). As at December 31, 2020, $6.2 million had been drawn under the Working Capital Facility, compared to $1.0 million as at December 31, 2019.

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

	Three months ended December 31,		Year ended December 31,	
	2020 $	2019 $	2020 $	2019 $
Working capital facility, beginning of period	(1.1)	(8.2)	(1.0)	(12.6)
Net cash provided by operating activities	197.3	236.9	626.9	596.6
Net cash used in investing activities	(152.0)	(150.6)	(679.8)	(569.0)
Net cash provided by (used in) financing activities	(50.4)	(79.1)	47.7	(16.0)
Working capital facility, end of period	(6.2)	(1.0)	(6.2)	(1.0)

Operating Activities

Net cash provided by operating activities for the three months and year ended December 31 2020 was $197.3 million and $626.9 million, respectively, compared to $236.9 million and $596.6 million for the comparable periods in 2019.

The decrease in net cash provided by operating activities for the three months ended December 31, 2020 was primarily due to lower net income before net movements in regulatory balances, partially offset by timing differences in the settlement of receivables.

The increase in net cash provided by operating activities for the year ended December 31, 2020 was primarily due to timing differences in the settlement of receivables, higher capital contributions received and lower income taxes paid, partially offset by lower net income before net movements in regulatory balances.

Investing Activities

Net cash used in investing activities for the three months and year ended December 31, 2020 was $152.0 million and $679.8 million, respectively, compared to $150.6 million and $569.0 million for the comparable periods in 2019.

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

TORONTO HYDRO Corporation

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

Capital Expenditures
(in millions of Canadian dollars)

	Three months ended December 31,		Year ended December 31,	
	2020 $	2019 $	2020 $	2019 $
Regulated LDC				
Distribution system				
Planned [1]	120.4	163.2	465.3	482.2
Reactive	10.9	12.3	52.0	47.4
Copeland Station	-	-	-	1.5
Technology assets	7.2	14.1	37.0	37.2
Other [2]	6.1	7.8	16.9	10.8
Regulated capital expenditures	144.6	197.4	571.2	579.1
Unregulated capital expenditures [3]	1.4	2.0	46.0	8.0
Total capital expenditures	146.0	199.4	617.2	587.1

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

The total regulated capital expenditures for the three months and year ended December 31, 2020 were $144.6 million and $571.2 million, respectively, compared to $197.4 million and $579.1 million for the comparable periods in 2019.

For the three months ended December 31, 2020, the decrease in regulated capital expenditures was primarily due to lower spending on station programs related to the renewal and enhancements of station infrastructure ($15.7 million), technology assets ($6.9 million), underground infrastructure ($5.0 million), network infrastructure ($4.8 million) and overhead infrastructure ($4.2 million).

For the year ended December 31, 2020, the decrease in regulated capital expenditures was primarily due to behind-the-meter battery storage projects ($22.7 million) being transferred from regulated to unregulated expenditures as a result of the 2020-2024 CIR decision and rate order and lower spending on metering ($7.7 million), offset by higher spending on critical capital equipment to ensure sufficient stock levels are maintained during the COVID-19 pandemic ($15.1 million) and customer connections ($8.6 million).

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

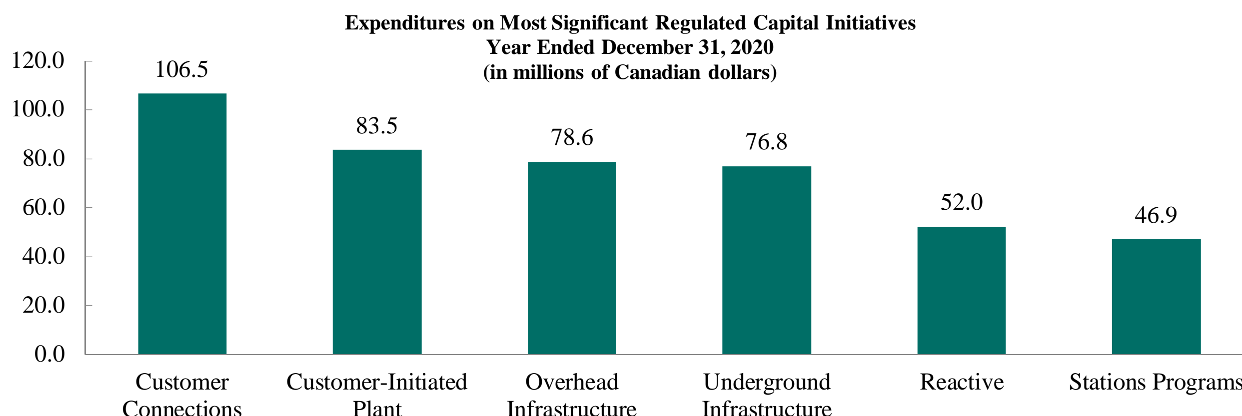
The delivery of customer connections includes spending related to new service and upgrades to existing service for specific commercial customers. For the year ended December 31, 2020, capital expenditures for the delivery of customer connections were $106.5 million.

Customer-initiated plant relocations and expansions include relocating infrastructure to accommodate construction by third parties. For the year ended December 31, 2020, capital expenditures for customer-initiated plant relocations and expansions was $83.5 million.

The replacement of overhead infrastructure includes replacing poles, overhead transformers, conductors, overhead switches and other aging overhead infrastructure and equipment. The replacement of underground infrastructure includes replacing direct buried cables, transformers, switches and other aging underground infrastructure. Both initiatives will allow LDC to continue to provide ongoing safe and reliable service to its customers. For the year ended December 31, 2020, capital expenditures for overhead and underground infrastructures were $78.6 million and $76.8 million, respectively.

Copeland Station is the first transformer station built in downtown Toronto since the 1960s and is the second underground transformer station in Canada. It provides electricity to buildings and neighbourhoods in the central-

southwest area of downtown Toronto. The Copeland Station construction project was completed in the second quarter of 2019 for a total cumulative capital expenditure of $204.0 million, plus capitalized borrowing costs. Certain previously disclosed disputes between LDC and Carillion Construction Inc. in respect of the Copeland Station construction project have been resolved and such resolution is reflected in an order of the Ontario Superior Court of Justice dated January 13, 2020. LDC's total cumulative capital expenditures for the Copeland Station project did not change as a result of this resolution.



Financing Activities

Net cash provided by (used in) financing activities for the three months and year ended December 31, 2020 was $(50.4) million and $47.7 million, respectively, compared to $(79.1) million and $(16.0) million for the comparable periods in 2019.

The decrease in cash used in financing activities for the three months ended December 31, 2020 was primarily due to higher net debt issuance, partially offset higher repayment of commercial paper, net of issuances in the fourth quarter of 2020.

The increase in cash provided by financing activities for the year ended December 31, 2020 was primarily due to higher net debt issuance in 2020.

The Corporation is a party to a credit agreement with a syndicate of Canadian chartered banks which established a revolving credit facility ("Revolving Credit Facility"), pursuant to which it may borrow up to $800.0 million, of which up to $210.0 million is available in the form of letters of credit. As at December 31, 2020, the Corporation was in compliance with all covenants included in its Revolving Credit Facility agreement.

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

For the three months and year ended December 31, 2020, the average aggregate outstanding borrowings under the Corporation's Revolving Credit Facility, Working Capital Facility and Commercial Paper Program were $247.1 million and $349.6 million, respectively, with a weighted average interest rate of 0.31% and 0.76% (compared to $326.9 million and $333.9 million, respectively, with a weighted average interest rate of 1.92% and 1.94% for the comparable periods in 2019).

Additionally, the Corporation is a party to a $75.0 million demand facility with a Canadian chartered bank for the purpose of issuing letters of credit mainly to support LDC's prudential requirements with the IESO ("Prudential Facility"). As at December 31, 2020, $32.9 million of letters of credit had been issued against the Prudential Facility.

On October 15, 2020, the Corporation issued $200.0 million of 1.50% senior unsecured debentures due on October 15, 2030 at a price of $998.43 per $1,000 principal amount ("Series 16"). The Series 16 debentures bear interest payable semi-annually in arrears. The net proceeds were used to reduce indebtedness of the Corporation including, but not limited to, indebtedness that the Corporation may have with bank affiliates of one or more dealers, to finance the Corporation's capital expenditure program and for general corporate purposes. Debt issuance costs of $1.4 million relating to the Series 16 debentures were recorded against the carrying amount of the debentures in the fourth quarter of 2020 and are amortized to finance costs using the effective interest method.

As at December 31, 2020, the Corporation had debentures outstanding in the principal amount of $2.4 billion. These debentures will mature between 2021 and 2063. As at December 31, 2020, the Corporation was in compliance with all covenants included in its trust indenture and supplemental trust indentures.

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

Credit Ratings
As at December 31, 2020

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

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

During the year ended December 31, 2020, the Board of Directors of the Corporation declared and paid dividends to the City totalling $92.6 million (2019 - $100.4 million).

On March 3, 2021, the Board of Directors of the Corporation declared a quarterly dividend in the amount of $17.6 million, payable to the City by March 31, 2021.

Summary of Contractual Obligations and Other Commitments

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

Summary of Contractual Obligations and Other Commitments
As at December 31, 2020
(in millions of Canadian dollars)

	Total $	**2021 $**	**2022/2023 $**	**2024/2025 $**	**After 2025 $**
Commercial paper [1]	160.0	160.0	-	-	-
Debentures – principal repayment	2,395.0	300.0	250.0	-	1,845.0
Debentures – interest payments	1,499.6	79.8	134.7	123.8	1,161.3
Capital projects [2] and other	75.4	36.3	37.5	1.6	-
Leases	0.3	-	0.1	0.2	-
Total contractual obligations and other commitments	4,130.3	576.1	422.3	125.6	3,006.3

[1] The notes under the Commercial Paper Program were issued at a discount and are repaid at their principal amount.
[2] Primarily commitments for construction services.

Corporate Developments

Changes to the Corporation's Board of Directors

Effective March 5, 2020, the following directors were re-appointed to the Board of Directors of the Corporation for a term of office ending March 5, 2022, each continuing to serve until a respective successor director is appointed: David McFadden (as Chair of the Board), Tamara Kronis, Juliana Lam, Michael Nobrega, Mary Ellen Richardson, Howard Wetston, and Heather Zordel. Effective November 27, 2020, Michael Eubanks was appointed to the Board of Directors of the Corporation for a term of office ending March 5, 2022, or until the effective date of the appointment of a successor director. Effective January 1, 2021, the current City Councillor Directors, Deputy Mayor Stephen Holyday, Deputy Mayor Denzil Minnan-Wong and Councillor Paul Ainslie, were each re-appointed for a term expiring on November 14, 2022 or until the appointment of their respective successors.

COVID-19 Pandemic Considerations

On March 11, 2020, the World Health Organization declared that the COVID-19 outbreak was a global pandemic. On March 17, 2020, the Ontario Government declared a State of Emergency pursuant to the *Emergency Management and Civil Protection Act*. The Ontario Government renewed the declaration, as required by the legislation, until July 24, 2020. During the State of Emergency, the Ontario Government issued emergency orders under the legislation and extended them as required by the legislation. On July 24, 2020, the *Reopening Ontario (A Flexible Response to COVID-19) Act, 2020* came into effect, bringing the declared State of Emergency to an end. The *Reopening Ontario Act* also enabled the Ontario Government to extend, amend, and revoke the remaining emergency orders in order to facilitate a flexible response to the ongoing COVID-19 risks.

On March 19, 2020, the OEB extended the ban on disconnecting residential customers to July 31, 2020, in light of the COVID-19 pandemic. For the same reason, at the same time, the OEB also banned the disconnection of other low volume customers (as defined in the OEB Act) prior to July 31, 2020. In addition, the Corporation extended its ban on disconnecting residential and low volume customers until the transition back into the OEB's annual recurring winter disconnection ban on November 15, 2020 (see note 15 (b) to the Consolidated Financial Statements).

On March 24, 2020, the Ontario Government issued an emergency order setting TOU rates for on-peak, mid-peak, and off-peak at 10.1 cents per kWh, which prior to the emergency order was the TOU off-peak rate. That emergency order was effective through May 7, 2020. On May 6, 2020, the Ontario Government issued an emergency order extending those TOU rates through May 31, 2020. On May 30, 2020, the Ontario Government announced the COVID-19 Recovery Rate, setting a fixed TOU electricity price at 12.8 cents per kWh, 24 hours a day, seven days a week, effective June 1, 2020 until October 31, 2020. On October 13, 2020, the OEB announced new TOU rates for on-peak, mid-peak, and off-peak, that once again vary according to when electricity is used, effective November 1, 2020. There was no impact to net income to the Corporation.

On March 25, 2020, the Ontario Government announced a $9 million CEAP, to provide financial support for residential customers during the COVID-19 pandemic. It became effective as of July 13, 2020. On June 1, 2020, the Ontario Government announced an additional $8 million for CEAP-SB, which extended financial support for certain commercial customers and became effective as of August 31, 2020. On June 16, 2020, the OEB determined that LDC's portion for CEAP is $0.7 million. On August 7, 2020, the OEB determined that LDC's portion for CEAP-SB is an additional $0.7 million. The Corporation does not expect any impact to net income arising from the additional funding.

On March 25, 2020, the OEB established a deferral account for regulatory balances to record the costs of changes to billing systems resulting from the Ontario Government's TOU emergency order, other incremental costs and lost revenues associated with the COVID-19 pandemic. On May 14, 2020, the OEB launched a consultation process to inform its decision-making with respect to how the account will operate, including eligibility requirements, and the process and timing for the disposition. On December 16, 2020, OEB staff issued a proposal which provided an update on the OEB's most recent orientation in the policy consultation. Based on this information, management believes there is high uncertainty in regards to the recoverability of costs and lost revenues related to government and OEB customer relief actions and therefore a low probability of recovery. Consequently, the balance of $17.7 million that was previously recorded in the COVID-19 Emergency Deferral Account for incremental bad debt expense was reversed resulting in a net income impact of $17.7 million as at December 31, 2020. The Corporation continues to track lost revenues related to lower commercial electricity consumption, direct relief provided to customers through reduction of late payment charges, incremental bad debt expense and costs directly related to the implementation of

safety measures as a result of the COVID-19 pandemic but no amounts have been recorded in the COVID-19 Emergency Deferral Account as at December 31, 2020.

On May 1, 2020, the Ontario Government announced an emergency order to provide relief to large customers in relation to the global adjustment. Through the emergency order, the global adjustment charges from April 1, 2020 through June 30, 2020 were capped. The Ontario Government indicated that the global adjustment charges above the cap would be temporarily funded by the Province, and ultimately recovered from all Class A and Class B customers in 2021. The IESO invoiced LDC for the global adjustment according to the capped rate for the applicable three months in 2020, and will invoice LDC for the cost recovery rate in 2021. LDC has flowed through the capped rate charges and cost recovery rate charges to its Class A and Class B customers. The Corporation does not expect any impacts to net income from these changes.

On August 20, 2020, the Ontario Government amended O. Reg. 95/05 *Classes of Consumers and Determination of Rates*. Accordingly, customers on the RPP have the choice to pay TOU rates or tiered rates, effective November 1, 2020. By default, RPP customers will pay TOU rates. RPP customers who choose to pay tiered rates will pay a lower rate for consumption below a monthly threshold, and a higher rate for consumption above that threshold. The tiered rates and the threshold are set by the OEB twice per year, at the same time as the OEB sets TOU rates. There was no impact to net income to the Corporation.

On November 5, 2020, the Ontario Government introduced Bill 229, the Provincial Budget. The budget proposed a new subsidy from Provincial general revenues to certain electricity customers. Effective January 1, 2021, the subsidy will reduce the global adjustment. Through amendments to regulations, the Ontario Government will target the subsidy to benefit Class A and Class B customers. LDC will charge those customers at the reduced global adjustment rates, and the IESO charges to LDC for global adjustment will reflect those same reduced global adjustment rates. The Corporation does not expect any impacts to net income from these changes.

On December 15, 2020, the OEB announced new RPP TOU and tiered rates to reflect a decrease in supply cost resulting from the Ontario Government's decision to remove certain renewable generation costs from the global adjustment and funding them directly through the tax base. The reduction was accompanied by a corresponding reduction to the Ontario Electricity Rebate. The Corporation does not expect any impacts to net income from these changes.

On December 22, 2020, the Ontario Government amended O. Reg. 95/05 *Classes of Consumers and Determination of Rates*, setting both the TOU rates for on-peak, mid-peak, and off-peak and tiered rates at the TOU off-peak rate of 8.5 cents per kWh. That regulatory amendment was effective through January 28, 2021 and most recently extended until February 22, 2021. On February 23, 2021, residential and small business customers resumed paying TOU and tiered pricing under the RPP at prices that were set by the OEB on December 15, 2020. The Corporation does not expect any impacts to net income from these changes.

Electricity Distribution Rates

The OEB's regulatory framework for electricity distributors is designed to support the cost-effective planning and operation of the electricity distribution network and to provide an appropriate alignment between a sustainable, financially viable electricity sector and the expectations of customers for reliable service at a reasonable price.

The OEB typically regulates the electricity rates for distributors using a combination of detailed cost of service reviews and custom index adjustments similar to IRM. A cost of service review uses a future test-year to establish rates, and provides for revenues required to recover the forecasted costs of providing the regulated service, and a fair and reasonable return on rate base. Custom index adjustments are typically used for one or more years following a cost of service review and provide for adjustments to rates based on an inflationary factor net of a productivity factor and an efficiency factor as determined relative to other electricity distributors.

On July 31, 2014, LDC filed its first CIR application. The CIR mechanism is an OEB ratemaking methodology that utilizes a cost of service approach in the first year and a custom index approach in the subsequent years, for a given period. On December 29, 2015, the OEB issued a Decision approving the CIR application, and on March 1, 2016 issued a Final Rate Order which began the process of LDC receiving revenue to fund its 2015-2019 investment plan and operations. Pursuant to the Decision, for each subsequent year during that period, LDC was required to file rate applications to finalize annual distribution rates on a custom index basis.

On August 31, 2018, LDC filed its 2019 rate application seeking OEB's approval to finalize distribution rates and other charges for the period commencing on January 1, 2019 and ending on December 31, 2019. On December 13, 2018, the OEB issued a Decision and Rate Order approving LDC's 2019 rates and providing for other deferral and variance account dispositions. This was the final annual rate application to finalize distribution rates in the 2015-2019 period.

On December 19, 2019, the OEB issued its 2020-2024 CIR decision and on February 20, 2020, the OEB issued its CIR rate order, both in relation to the rate application filed on August 15, 2018. The 2020-2024 CIR decision and rate order approved a revenue requirement of $750.2 million for 2020, and rates calculated on that basis. The rates for 2020 were implemented on March 1, 2020, with an effective date of January 1, 2020. The 2020-2024 CIR decision and rate order approved funding for capital and operating expenditures of approximately $3.8 billion for the 2020-2024 period. The financial considerations of the OEB's 2020-2024 CIR decision and rate order are reflected in the Consolidated Financial Statements including disclosure of approved disposition for a number of requested rate riders (see note 8 to the Consolidated Financial Statements). In addition, the 2020-2024 CIR decision and rate order approved subsequent annual rate adjustments based on a custom index for the period commencing on January 1, 2021 and ending on December 31, 2024.

On August 24, 2020, LDC filed its 2021 rate application seeking the OEB's approval to finalize distribution rates and other charges for the period commencing on January 1, 2021 and ending on December 31, 2021. On December 10, 2020, the OEB issued a decision and rate order approving LDC's 2021 rates and providing for other deferral and variance account dispositions.

CDM Activities

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

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

Legal Proceedings

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

TORONTO HYDRO Corporation

Share Capital

Share capital consists of the following:

(in millions of Canadian dollars)	2020 $	2019 $
Authorized The authorized share capital of the Corporation consists of an unlimited number of common shares without par value.		
Issued and outstanding 1,200 common shares, of which all were fully paid.	817.8	817.8

Transactions with Related Parties

As the City is the sole shareholder of the Corporation, the Corporation and the City are considered related parties. The Corporation provides electricity, street lighting and ancillary services to the City. All transactions with the City are conducted on terms similar to those offered to unrelated parties.

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

	Year ended December 31	
	2020 $	2019 $
Revenues	304.6	299.3
Operating expenses and capital expenditures	10.5	7.3
Dividends declared and paid	92.6	100.4

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

	As at December 31	
	2020 $	2019 $
Accounts receivable and unbilled revenue	41.6	44.4
Accounts payable and accrued liabilities	25.8	24.1
Customer deposits	12.6	14.1

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

Accounts receivable and unbilled revenue represent receivables from the City primarily for electricity, street lighting and ancillary services including amounts not yet billed. Accounts payable and accrued liabilities represent amounts payable to the City related to road cut repairs and other services. Customer deposits represent amounts received from the City for future expansion projects.

TORONTO HYDRO Corporation

Controls and Procedures

For purposes of certain Canadian securities regulations, the Corporation is a "Venture Issuer". As such, it is exempt from certain requirements of National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings. The CEO and CFO have reviewed the Consolidated Financial Statements and the MD&A for the three months and year ended December 31, 2020 and 2019. Based on their knowledge and exercise of reasonable diligence, they have concluded that these documents fairly present in all material respects the financial condition, financial performance and cash flows of the Corporation as at the date of and for the period presented.

Risk Management and Risk Factors

Toronto Hydro faces various risks that could impact the achievement of its strategic objectives. It adopts an enterprise-wide approach to risk management, based on an overall enterprise risk philosophy, and achieved through a process of consolidating and aligning the various views of risk across the enterprise via a risk governance structure.

Toronto Hydro's ERM framework utilizes industry best practices and international guidelines tailored to meet Toronto Hydro's circumstances, and focuses on identifying emerging trends in risks and related opportunities particular to Toronto Hydro through a comprehensive evaluation of Toronto Hydro's business and the industry generally. Toronto Hydro views ERM as a management activity undertaken to add value and improve overall operations and has made it an important part of its decision-making processes. The ERM framework helps Toronto Hydro by enabling the attainment of its strategic goals and objectives through a systematic, disciplined approach towards identifying, evaluating, treating, monitoring and reporting of risks. Accordingly, ERM is an integral part of the strategic management of Toronto Hydro and is routinely considered in forecasting, planning and executing key aspects of the business.

The ERM framework is operationalized by a consistent and disciplined methodology that clearly defines the risk management process and which incorporates judgment of subject matter experts within Toronto Hydro, risk quantification, risk trends and risk interdependencies. The risk criteria used to assess each enterprise risk relate to: reputational, financial, stakeholder management, distribution system, information system, compliance, occupational health and safety, and public safety impacts.

Toronto Hydro has assigned designated responsible persons for each enterprise risk to ensure that it is being monitored through qualitative and quantitative risk indicators and that short interval controls and long-term mitigation plans are in place. Each designated responsible person provides regular risk reporting and briefings to the executive team on their enterprise risk. Additionally, Toronto Hydro's risk governance structure includes internal coordination efforts to align outreach to key external stakeholders to help reduce risks and identify opportunities for engagement.

Internal ERM professionals meet regularly with the designated responsible persons to gather and review risk indicators and trends, and identify potential emerging facts that could impact Toronto Hydro and/or augment other risks. Such risk management processes and tools help Toronto Hydro prioritize its mitigation efforts, strengthen its planning efforts, and identify areas for improvement.

While Toronto Hydro's philosophy is that ERM is the responsibility of all business units at all levels, in strategic and functional matters, the ERM governance structure is comprised of three key levels.

At the first level is the Board, which maintains a general understanding of Toronto Hydro's risk profile and philosophy, the risk categories and the types of risks to which Toronto Hydro may be exposed, and the practices used to identify, assess, measure and manage those risks. The risk profile is a list of key areas that may impede Toronto Hydro from achieving certain or all of its strategic objectives, and which are most material to its operational success.

The second level is the executive team, which ensures systems are in place to identify, manage, and monitor risks and trends. Through input from the business and other considerations, the executive team assesses the appropriateness and consistent application of systems to manage risks within Toronto Hydro. The executive team also ensures that key risks are brought forward to the attention of the Board for discussion and action, as required.

Finally, the third level is the senior leadership team. The senior leadership team supports the executive team and is a collection of subject matter experts from across Toronto Hydro who actively engage in the day-to-day management of risks. Members of the senior leadership team have been assigned to be the designated responsible person for managing and reporting upon enterprise risks. Understanding the critical linkages between external stakeholder

management and the impact and likelihood of the emergence of enterprise risk, members of this group have also been assigned as stakeholder coordinators to ensure that Toronto Hydro is working effectively with external stakeholders to mitigate risks. Working with the executive team, the senior leadership team oversees Toronto Hydro's risk profile and its performance against the defined risk philosophy. This group understands changes in risk status and trends, identifies potential opportunities, and determines responses and action plans that are then implemented by the organization. They also work to ensure effective, efficient, complete and transparent risk reporting to the executive team.

Toronto Hydro reviews its risk philosophy and enterprise risks areas continuously for alignment with business and industry conditions and regularly updates and enhances its ERM program to ensure that Toronto Hydro is focused upon and responsive to risks of the greatest significance, likelihood and impact. Toronto Hydro's ERM program is focused on the key strategic and functional risk categories facing the organization. This allows Toronto Hydro's executive leadership and responsible business units to concentrate on these risks, focus on key data points and undertake deeper dives into root causes and risk trends in these areas on both a short-interval and long-term basis. By focusing in particular on the strategic risks to the organization, decision-making is strengthened and Toronto Hydro has a greater ability to realize opportunities central to its interests.

Toronto Hydro's business is subject to a variety of risks including those key risk areas described in the following sections. The strategic risk areas of Toronto Hydro are identified as the oversight, franchise and governance risks, while the key functional risks of the organization are the safety, cybersecurity, financial, human capital, operations and compliance risks. There can be no assurance that any steps Toronto Hydro may take to manage risks will avoid future loss resulting from the occurrence of such risks.

Oversight Risk

Risk that provincial government or regulator activity (laws, frameworks or policies) impedes Toronto Hydro's effective performance, and its ability to meet its objectives and serve its customers.

Toronto Hydro is subject to the risk that its business activities may be impeded through the actions of regulatory authorities or by changes in regulation. There is a risk that future changes to Ontario's electricity regulatory model, manner of regulation, and/or broader climate change and energy policy framework does not align with Toronto Hydro's business direction and could materially adversely affect Toronto Hydro's strategic goals and financial results.

Ontario's electricity industry regulatory and other energy policy developments may affect the electricity distribution rates charged by LDC, the costs LDC is permitted to recover and the activities LDC and others, including those parties offering alternative or additional services to the electricity distribution grid, may undertake and how such activities are supported. This may in turn have a material adverse effect on the financial performance of the Corporation and/or LDC's ability to deliver effective and efficient operations and reliable service to its customers, as well as creating barriers to LDC achieving its strategic objectives. Among other things, there can be no assurance that:

- the OEB will approve LDC's electricity distribution rates at levels that will permit LDC to maintain safe and reliable service to its customers and earn the allowed rate of return on the investment in the business;
- the OEB will approve and permit recovery through rates of past and future expenditures incurred by LDC in providing distribution services to customers, in a timely manner or at all;
- the OEB will adopt other rate-setting principles, formulae, inputs and cost recovery methodologies in a manner that result in rates that properly support LDC's activities;
- the regulatory instruments that are made available to LDC will be sufficient to address LDC's operations, needs and circumstances in respect of future applications for electricity distribution rates; and
- the OEB, IESO or other governmental authority will not permit, enable or facilitate other parties in providing distribution services in LDC's licensed area, or permit loads within LDC's service area to become served by a means other than through LDC's electricity distribution system.

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

LDC actively participates in industry engagement efforts in order to mitigate the above risks and realize potential opportunities in regulatory, climate change and energy policy development. Through these types of engagements, Toronto Hydro monitors proposed regulatory, climate change and energy policy changes that may impede its business. LDC also employs a comprehensive organizational regulatory application program, which includes a risk assessment, to ensure that all applications to the OEB achieve the highest utility standard of evidence gathering, preparation and presentation, and most accurately reflects the needs of LDC.

Additionally, the policy priorities of provincial and federal governments and regulatory bodies beyond those specifically applicable to the climate change and energy space, including policies of more general application, and the implementation of policies by such bodies, may impact Toronto Hydro's ability to deliver effective and efficient operations, meet business objectives, report on its activities and capitalize upon new opportunities. Developments and changes in any of the laws, rules, regulations, policies, permits, or directives applicable to the businesses carried on by Toronto Hydro, and the manner of implementation and application of the same, could materially adversely affect Toronto Hydro. This may include developments with respect to labour and employment laws, changes to accounting standards and financial reporting requirements and environmental obligations, among others. This may also include changes to public safety rules, such as restrictive measures affecting the mobility or availability of human and/or non-human resources associated with contagious diseases such as COVID-19 or other adverse public health developments, among others. The global COVID-19 pandemic resulted in governments worldwide, including the Canadian and Ontario governments, enacting emergency and ongoing measures to combat the spread of the virus. These measures, which include the implementation of stay at home orders, restrictions on non-essential workplaces, travel bans, self-imposed quarantine periods and social distancing, have caused material disruption to businesses globally and in Ontario, and resulted in emergency management measures being taken by Toronto Hydro. Toronto Hydro actively engages with government entities and participates in industry organizations to monitor emerging policies and where possible plays an advocacy role.

Franchise Risk

Risk that restrictions in LDC's business model and/or external conditions impede its ability to maintain and grow its right to be the sole provider of electricity distribution and connection services in the City (its franchise) and serve its customers. Toronto Hydro is subject to the risk that it is displaced from its strategic position or fails to gain a strategic advantage, which could materially adversely affect Toronto Hydro's strategic goals and financial results.

The OEB has the authority to grant municipal distribution licences, has issued to LDC a licence stipulating a service area that reflects the territory within the City, and has not granted any other distribution licence that permits distribution within LDC's service area. In addition, there is a legal framework in place that establishes LDC, as the holder of the municipal distribution licence in the City, to be the sole provider of distribution activities across municipal rights of way. There is no assurance that these frameworks will continue to exist sufficiently or at all in order to provide LDC the opportunity to be the comprehensive distribution provider in the City.

Other regulated and unregulated entities have competed with LDC and its predecessors, and new parties continue to emerge to provide customers with other sources of energy, including electricity and energy services. Additionally, customers have made choices to provide their own electricity or other sources of energy for their use and/or sale back into the distribution grid. The pervasiveness of this competition and the presence of alternatives to Toronto Hydro's distribution services, and the resultant effects on LDC's distribution business have varied over time and continue to vary based on many factors. These factors may include the relative price and relevant costs of energy source (e.g. natural gas, grid-supplied electricity, behind-the-meter generation, district energy), climate change policy, technology development (e.g. energy storage, energy efficiency), ability of customers to access transmission-direct connections, economic trends, real estate prices, workplace arrangements, government-based incentives, regulatory frameworks, and compliance frameworks especially for non-utility entities, load development, and the state of the marketplace and economy in general. Toronto Hydro also faces the risk of its franchise being diminished by the possibility of an overall reduction in the use of electricity in its service territory.

There can be no assurance that the future nature, prevalence, or effects of these forms of competition will be comparable to current or historic experience. Failure to effectively scan and understand our external and internal environment and take appropriate action could lead to missed business opportunities and loss of competitive advantage.

Risks to Toronto Hydro's franchise interests may also result from impairment to Toronto Hydro's image in the community, public confidence or brand. Toronto Hydro is committed to delivering safe and reliable electricity to its customers in an environmentally responsible manner at optimal costs. Negative perceptions regarding this commitment could impact the public's perception of Toronto Hydro. In addition, events and/or external factors that draw negative media attention to Toronto Hydro could cause reputational damages and impact Toronto Hydro's business and relationship with its stakeholders. These factors could lead customers, governments and regulators to look more favourably to alternative services and service providers to utility-based electricity distribution.

Toronto Hydro has dedicated personnel focused on monitoring external competitive factors and industry developments, including alternative service providers and technologies, through indicators such as customer engagements related to innovative technologies and pre-assessment requests and connection applications for energy storage. Toronto Hydro is also focused on enhancing the intelligence, automation and interactivity of LDC's electricity distribution grid to support the reliability of its core infrastructure grid operations, promote greater value, and deliver solutions for its customers. Additionally, Toronto Hydro takes measures to maintain relationships with its customers to better understand the specific needs and expectations of each class of customer. Toronto Hydro conducts customer research and consultations in the ordinary course of its operations, and as part of the development of its rate application whereby it directly considered customer preferences and feedback, in addition to other inputs, as part of developing its business plan. Toronto Hydro also has dedicated personnel focused on the utility's key account customers, which respond to issues raised by large commercial and industrial customers and assists with their energy management needs. Through these types of engagements, Toronto Hydro can monitor its customers' specific needs and can work with them to develop energy solutions.

Governance Risk

Risk that municipal activity (laws, policies, or intervention) impedes Toronto Hydro's effective performance, and ability to meet its objectives and serve its customers.

The Corporation is a government-controlled enterprise whose sole shareholder is the City. The operations of Toronto Hydro are influenced by the broad by-law enactment and enforcement powers of the City. The City is also responsible for developing policies and municipal initiatives of general application and there is no guarantee that such policies, including climate change and energy policies, will align with Toronto Hydro's strategic objectives or long-term financial health. The City may also implement additional requirements relating to reduction in carbon emissions and adaptation to climate change as part of initiatives such as the City's TransformTO Climate Action Strategy. This may require Toronto Hydro to make additional investments in infrastructure and necessitate additional time, money and effort related to compliance with such requirements. Due to its authority to put in place oversight bodies which may have or be given jurisdiction over Toronto Hydro as a government-controlled enterprise, certain agencies of the City may be empowered to investigate or audit Toronto Hydro, which could lead to significant reputational or financial harm.

The City also plays a role as a municipal asset manager and construction entity and could substantially impact Toronto Hydro's operations and impose material costs through its infrastructure work plans and policies (e.g. asset relocation costs, work restrictions, climate change adaptation, etc.). The City may also impact Toronto Hydro when elected officials take actions as community representatives whereby such actions are contrary to the strategic objectives or necessary operational functions of Toronto Hydro.

As the Corporation's sole shareholder, the City has set out the governing objectives and principles, including financial objectives, for the Corporation through the Shareholder Direction, as described above. Under the Shareholder Direction, the City has the power to direct Toronto Hydro to conduct its affairs and govern its operations in accordance with such rules, policies, directives or objectives as are directed by City Council from time to time, subject to applicable law. Certain conflicts may arise where the City's goals and objectives in implementing such rules, policies, directives or objectives differ from the Shareholder Direction principles and could materially adversely affect Toronto Hydro's business, operations, financial condition or prospects.

Toronto Hydro engages on a systematic basis with the City Mayor, City Councillors, the City Manager's office, and other departments and agencies to ensure a sharing of perspectives on the vital interests of Toronto Hydro and its customers. Through such engagements the parties review and consider the challenges to Toronto Hydro achieving the objectives and principles set out under the Shareholder Direction, and in particular the impact that proposed changes in city by-laws or municipal policies may create for Toronto Hydro's ability to meet its business objectives and serve its customers.

Safety Risk

Risk to Toronto Hydro employees or the general public of critical/fatal injuries and illnesses relating to or impacting upon Toronto Hydro activities.

As an electricity distribution company, Toronto Hydro is inherently subject to the risk that employees may be exposed to critical or fatal injuries or illness as a result of the work environment in which they operate. Due to the nature of Toronto Hydro's business and business activities, employees could be exposed to hazards when performing their work duties and occupational safety is an integral part of Toronto Hydro's corporate culture. Hazards that workers may be exposed to include, but are not limited to, electrical contact, working in confined spaces, fires and explosions, slips, trips and falls, motor vehicle incidents, and the risk of illnesses such as COVID-19. Such hazards can result in personal injury, operational interruptions, loss or damage to equipment, property, or information technology systems, and cause environmental damage. Toronto Hydro is subject to compliance with provincial Health and Safety legislation. Toronto Hydro's management approach to occupational safety is to meet and often exceed legal compliance requirements and eliminate or safeguard known occupational hazards and risks. Toronto Hydro also follows the Internal Responsibility System to clearly define responsibility and accountability for safety at each level within the organization. There are processes in place to develop and nurture good leadership practices through recruitment, education, training and performance management practices that encourage the application of Toronto Hydro's corporate values, including safety. In 2013, LDC received OHSAS 18001 certification which is the international standard for occupational health and safety management systems. OHSAS was later replaced by ISO 45001 which Toronto Hydro successfully migrated to in 2019 as OHSAS 18001 will discontinue in September 2021. LDC conducts annual third-party audits to maintain ISO 45001 certification. In addition, occupational health and safety legal compliance audits are conducted by an external third party every two years. The ISO 45001 certificate expires February 4, 2022.

Toronto Hydro also has in place a pandemic response plan, which has been activated by the COVID-19 emergency, as well as previous pandemics and epidemics. This plan has been a significant part of Toronto Hydro's emergency response to COVID-19 and has been used to seek to limit exposure within its workforce. The pandemic response plan continues to be updated and enhanced for use in the COVID-19 pandemic, as well as future potential infectious disease emergencies.

Due to the nature of Toronto Hydro's business of operating and maintaining its distribution system, Toronto Hydro is also subject to the risk of public injuries or fatalities. Toronto Hydro mitigates risks to public safety through equipment inspection, replacement and maintenance, employee training, communications programs and reactive and emergency work. "Safety by Design" principles are applied in the development of construction standards and design practices. New products for use in the distribution system go through a thorough review and introduction process. The selection process for new products and the development of standards promotes customer health and safety.

Cyber Security Risk

Risk that Toronto Hydro is unable to adequately safeguard digital information assets, connections to digital infrastructure, physical assets and people from threats or vulnerabilities.

Toronto Hydro's ability to operate effectively is also in part dependent on the development, maintenance and management of complex information technology and operational technology systems. Computer systems are employed to operate LDC's electricity distribution system, and Toronto Hydro's financial, billing and business systems to capture data and to produce timely and accurate information.

LDC's electricity distribution infrastructure and technology systems are potentially vulnerable to damage or interruption from cyber-attacks, breaches or other compromises, which could result in business interruption, service disruptions, theft of intellectual property and confidential information (about customers, suppliers, counterparties and employees), additional regulatory scrutiny, litigation and reputational damage. The cybersecurity threat landscape is continually evolving and actors are using more sophisticated methods to penetrate information technology systems. In particular, the utilities sector, as operators of critical infrastructure and providers of essential services with large customer bases has become an increasing target for cybersecurity activity. Toronto Hydro has implemented security controls substantially aligned with industry best practices and standards including the National Institute of Standards and Technology Cybersecurity Framework and the OEB's Ontario Cyber Security Framework, and maintains cyber insurance. Cyber-attacks, breaches or other compromises of electricity distribution infrastructure and technology systems could result in service disruptions and system failures, including as a result of a failure to provide electricity to customers, property damage, corruption or unavailability of critical data or confidential employee or customer

information. A significant breach could materially adversely affect the financial performance of Toronto Hydro or its reputation and standing with customers, regulators and in the financial markets. It could also expose Toronto Hydro to third-party claims. Overseeing the management of these risks, Toronto Hydro's Audit Committee receives a comprehensive annual update on the organization's cybersecurity program and responses.

LDC must also comply with legislative and licence requirements relating to the collection, use and disclosure of personal information (including the personal information of customers), as well as information provided by suppliers, contractors, employees, counterparties, and others. Such information could be exposed in the event of a cybersecurity incident or other unauthorized access, which could materially adversely affect Toronto Hydro and also result in third-party claims against Toronto Hydro.

Preventative controls are employed to protect information and technology assets against cyber-attacks and mitigate their effects. Toronto Hydro maintains close coordination with industry partners and agencies and technology vendors who provide near real-time threat intelligence. Detective controls are employed to continuously monitor information systems so that Toronto Hydro can respond appropriately to minimize the damage in the event of a cyber-attack. Additionally, in respect of Toronto Hydro's operational technology systems in general, controls are in place which mitigates against wider systemic risk to the business systems. Toronto Hydro has also developed robust processes for assessment of third-party providers and contractors that interact with its information technology systems, and has contractual protection and technical safeguards in place to safeguard against third-party risks. Even with these measures in place, since the techniques used to obtain unauthorized access, disable or degrade service, or sabotage systems change frequently and is only detected once a cyber incident has initiated, Toronto Hydro may be unable to anticipate these techniques or to implement adequate preventative measures.

As Toronto Hydro focuses on increasing the intelligence, automation and interactive nature of its distribution system, the incorporation of a greater level of technology and information systems into its infrastructure, makes the distribution system inherently more prone to external cyberattack. As such, there can be no assurance that the measures taken will be effective in protecting LDC's electricity distribution infrastructure or assets, or the personal information of its customers, from a cyber-attack or the effects therefrom.

As a consequence of COVID-19 and instructions from public health officials, the Corporation has mandated that a large proportion of the Corporation's workforce undertake work remotely. The Corporation has robust internal cybersecurity and technology use policies in place, as well as a cybersecurity training program in place for its employees. Despite the proactive steps taken to adapt to the pandemic situation, the Corporation's ability to operate effectively is dependent on the security, development, maintenance, and management of complex information technology systems. LDC's electricity distribution infrastructure and technology systems are potentially vulnerable to damage or interruption from cyber-attacks, breaches or other compromises. Although Toronto Hydro has altered its systems and processes in response to COVID-19 pandemic, conditions and the resultant increase in cyber threats, business and service disruptions from any such occurrence may be more lengthy, costly and damaging than under business-as-usual conditions and could have a material adverse effect on the Corporation's business, operations, financial condition or prospects. During the pandemic, threat vectors evolved related to remote working, scams, spams, phishing, vishing, remote connectivity, virtual private networks, and collaboration tools, as a result of which the Corporation has expanded the focus of its mitigation efforts. Preventative and detective controls are employed by the Corporation in seeking to protect and continuously monitor information systems and technology assets to help minimize damage in the event of a cyber-attack, breach or other compromise.

Financial Risk

Risk that Toronto Hydro is unable to maintain its financial health and performance at acceptable levels.

Toronto Hydro is directly and indirectly subject to various market and credit fluctuations which could have materially adverse impacts. For example, LDC is exposed to credit risk with respect to customer non-payment of electricity bills. The risk of such non-payment on a wide scale may be heightened during times of general economic difficulty, as exemplified during the COVID-19 pandemic, and due to other macroeconomic or local factors. The COVID-19 outbreak has caused material disruption to businesses globally and in Ontario resulting in continuing economic challenges. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions. The continued efficacy of such policies is uncertain, as is the ability of governments to enact such policies. As a consequence of COVID-19, governmental orders, instructions from public health officials and adverse changes in general economic and market conditions, LDC remains exposed to reduction in customer consumption, increased credit risk with respect to customer non-payment of electricity bills and increased operating

and infrastructure development costs. Increases in outstanding receivables due to reduced or delayed customer payments could also contribute to liquidity risk for LDC as it continues to be charged for electricity commodity, transmission and other charges, which are intended to be flow-through items to customers.

The current, and potential future, challenging economic climate affected by factors including but not limited to the effects of the COVID-19 pandemic may lead to material adverse changes in cash flows, working capital levels and/or debt balances, which may also have a direct negative impact on the Corporation's operating results and financial position in the future. Accordingly, the Corporation continues to monitor and adapt its response plan as the economic climate evolves. Actions by the provincial government or regulatory authorities may impede LDC's ability to mitigate the risk of customer non-payment using means normally permitted by law at certain times of the year, including security deposits (i.e. letters of credit, surety bonds, cash deposits or lock-box arrangements, under terms prescribed by the OEB), late payment penalties, pre-payment, pre-authorized payment, load limiters or disconnection. LDC may have no option in certain cases but to assume the amount of any default, whether in whole or in part, and LDC's security interest or other measures, if any, may not provide sufficient protection. While LDC would be liable for the full amount of the default, there can be no assurance that the OEB would allow recovery of the bad debt expense or of the increased operating or construction costs, and such expenses and costs could have a material adverse effect on the Corporation's business, operations, financial condition or prospects. The OEB would examine any electricity distributor's application for recovery of extraordinary bad debt and other expenses on a case-by-case basis. During the COVID-19 emergency, Toronto Hydro has employed various measures available in seeking to mitigate the occurrence and cost of customer payment delays or non-payments while remaining mindful of the challenges being faced by its customers. Such measures are determined by Toronto Hydro on a case by case basis and may not be determinative of future practice. If the level of customer payment delays or non-payment, or increased costs contribute to liquidity challenges, the Corporation expects that it would utilize various mitigation tools at its disposal in seeking to improve its liquidity, such as accessing further debt, including under its expanded Commercial Paper Program, its credit facilities or through the issuance of debentures, or reducing costs and delaying payments. The COVID-19 situation continues to be dynamic and the ultimate duration and magnitude of the impact on the economy and Toronto Hydro's business cannot be determined with certainty at this time. Toronto Hydro also may not be able to optimize its debt to equity ratio or access capital markets at effective rates. Toronto Hydro relies on debt financing through the Corporation's MTN Program, CP Program or existing credit facilities to finance Toronto Hydro's daily operations, repay existing indebtedness, and fund capital expenditures. The Corporation's ability to arrange sufficient and cost-effective debt financing could be materially adversely affected by a number of factors, including financial market conditions and activity in the global capital markets, which could also be significantly affected by COVID-19 or other emergency conditions, the regulatory environment in Ontario, Toronto Hydro's business, operations, financial condition or prospects, compliance with covenants, the ratings assigned to the Corporation or the debentures issued under the Corporation's MTN Program by credit rating agencies, the rating assigned to short-term borrowings under the CP Program by a credit rating agency, and the availability of the commercial paper market. In the event the Corporation is unable to maintain an R-1 (low) credit rating for its CP Program, the Corporation's ability to access short term capital and pay its obligations as they become due could be materially adversely affected. In addition, if the Corporation cannot maintain attractive credit ratings for its MTN Program, debt capital under such program may become too costly or unavailable, which could materially adversely affect the Corporation's financial health and performance. There can be no assurance that debt or equity financing will be available or sufficient to meet Toronto Hydro's requirements, objectives, or strategic opportunities. If and when financing is available, there can be no assurance that it will be on acceptable terms to Toronto Hydro. As the City of Toronto is the sole shareholder of the Corporation, it is dependent on the City for new equity which may not be available. The Corporation regularly reviews the external market environment and has regular engagements with its credit rating agencies, securities dealers and investor community to monitor capital structure risk.

Generally, Toronto Hydro is exposed to fluctuations in interest rates for the valuation of its post-employment benefit obligations. Toronto Hydro estimates that a 1% (100 basis point) increase in the discount rate used to value these obligations would decrease the accrued benefit obligation of Toronto Hydro, as at December 31, 2020, by $49.9 million, and a 1% (100 basis point) decrease in the discount rate would increase the accrued benefit obligation, as at December 31, 2020, by $64.0 million.

Toronto Hydro is also exposed to short-term interest rate risk on the short-term borrowings under its CP Program and Working Capital Facility, as well as customer deposits, while most of its remaining obligations for the most recently completed financial year were either non-interest bearing or bear fixed interest rates, and its financial assets for the most recently completed financial year were predominately short-term in nature and mostly non-interest bearing. Toronto Hydro manages interest rate risk by monitoring its mix of fixed and floating rate instruments, and taking action as necessary to maintain an appropriate balance as established under its treasury policies. Toronto Hydro

estimates that a 25 basis point increase (decrease) in short-term interest rates, with all other variables held constant, would result in an increase (decrease) of approximately $0.6 million to annual finance costs.

Toronto Hydro typically has limited exposure to the changing values of foreign currencies. While Toronto Hydro 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 as at December 31, 2020 was not material.

Toronto Hydro's financial health and performance may also be adversely affected by events or measures that reduce the demand for electricity. Such events or measures may include, but are not limited to, closures of businesses and other institutions such as schools and government operations as a result of extreme storms and other weather conditions, natural disasters, terrorism, and pandemics such as COVID-19, or as a result of change in economic, policy, customer preference or technological conditions.

The Corporation regularly reviews the external market environment and has regular engagements with its credit rating agencies, securities dealers and investor community to monitor capital structure risk.

Human Capital Risk

Risk that Toronto Hydro is unable to maintain necessary resource talent and skilled resources.

Toronto Hydro is subject to the risk that human resources may not be available with the necessary knowledge, skills and education to support Toronto Hydro's future talent requirements. Retirements pose risks for knowledge management and business continuity at Toronto Hydro. Development and retention of talent to meet the evolving needs of the business requires LDC to focus on a series of proactive activities and programs to mitigate these risks, such as strategic workforce planning, promotion of apprenticeship programs, investments in colleges and universities, succession planning, knowledge transfer and a robust training program.

Toronto Hydro's ability to operate successfully in the electricity industry in Ontario will continue to depend in part on its ability to make changes to existing work processes and conditions in order to adapt to changing circumstances, including limitations and restrictions placed on human resources as a result of COVID-19. Toronto Hydro's ability to make such changes or adapt, in turn, will continue to depend in part on its relationship with its labour unions, including negotiating collective bargaining agreements with the Society of United Professionals and PWU. There can be no assurance that Toronto Hydro will be able to secure the support of its labour unions.

Toronto Hydro's ability to develop its work processes to meet changing circumstances also depends on its ability to access adequate resources from its external contractor community. Toronto Hydro's ability to successfully access and benefit from third party service providers will depend, in part, on a lack of disruption that may be caused by COVID-19. If such disruption occurs, there may be a material adverse effect on Toronto Hydro's business and operations. One way in which Toronto Hydro seeks to mitigate this risk is through its use of business practices and internal procedures to identify a diverse group of reputable third-party service providers and entering into contracts with, and monitoring the performance of, these third-party service providers.

Operations Risk

Risk that Toronto Hydro is not able to effectively meet the needs of its customers and a growing city, and maintain the security and reliability of the distribution grid at acceptable levels. The primary factors driving Toronto Hydro's operations risk relate to asset management, customer management, physical security, and business interruption.

Toronto Hydro may be unable to maintain reasonable levels of reliability for its customers due to failure of existing distribution infrastructure and assets (including assets not directly involved in electricity distribution such as facilities and computer systems), access to the supply of electricity from the provincial and local generation and transmission systems, and the inability to replace or expand distribution infrastructure in an optimal timeframe. Electricity distribution is a capital-intensive business. As the municipal electricity distribution company serving the largest city in Canada, LDC continues to invest in the renewal of existing aging infrastructure and in the development of new infrastructure to address safety, reliability, hardening of the distribution system against the effects of climate change, and customer service requirements now and in the future.

LDC estimates that over a quarter of its electricity distribution assets have already exceeded or will reach the end of their expected operating lives over the next five years (i.e. by 2026). Asset condition assessment demographics also

indicate substantial asset investment needs for a number of critical assets during this period. At the same time, Toronto is one of the fastest growing cities in North America and LDC must make upgrades to keep pace with urban intensification and electrification, optimize flexibility of connection to generation and transmission systems, and ensure good stewardship of the distribution system in a manner that accounts for a changing climate. Further, extreme weather is no longer an infrequent experience, and has instead become a regular condition of operating a distribution system. Toronto Hydro has experienced several extreme weather events in recent years, including ice storms, freezing rain, extreme wind and flooding, that have led to a significant number of customers experiencing electricity outages and challenges to maintaining access to electricity supply from the transmission system. In addition, as the City, Ontario and the Government of Canada implement policies and programs to respond and adapt to climate change, and adoption of electric vehicles and fuel-switching potentially increases, the pressures on Toronto Hydro's system will only increase, and such factors may drive a need for incremental capital expenditures for system upgrades and new technologies so that the grid can reliably handle increased loads.

LDC's ability to continue to provide a safe work environment for its employees and a reliable and safe distribution service to its customers and the general public will depend on, among other things, the ability of Toronto Hydro to fund additional infrastructure investments, and the OEB allowing recovery of costs in respect of LDC's maintenance program and capital expenditure requirements for distribution plant refurbishment and replacement.

LDC is focused on overcoming the above challenges and executing its capital and maintenance programs. It uses a variety of asset and project management tools to implement its plans, measures progress on a recurring short interval basis, and regularly monitors and manages the health of its assets. LDC is also extensively engaged in regional planning activities and processes with the IESO to ensure the adequacy of the regional transmission system serving the City of Toronto. However, if LDC is unable to carry out these plans in a timely and optimal manner or becomes subject to significant unforeseen equipment failures, equipment performance will degrade. Such degradation may compromise the reliability of distribution assets, climate change readiness, the ability to deliver sufficient electricity and/or customer supply security and increase the costs of operating and maintaining these assets. Similarly, there is no certainty that regional planning efforts controlled by external governing agencies and regulators will address all electricity supply matters as identified by LDC.

Toronto Hydro may also fail to accurately measure customer electricity consumption, respond to and address customer service issues or bill customers correctly or on time (including meter to cash management). In order to provide timely and accurate billing and customer service, Toronto Hydro has implemented a number of policies, procedures and guidelines including those related to metering, accounts receivable and connections/disconnections. Toronto Hydro monitors metering/billing accuracy, customer communications and customer service quality on an ongoing basis.
As noted above under "COVID-19 Pandemic Considerations", Toronto Hydro has implemented a number of provincial government and OEB-based programs, including changes to commodity prices, as well as its own initiatives such as extensions of disconnect moratoriums and reductions in late payment charges, in order to assist customers.

Toronto Hydro also faces external threats to its physical and perimeter security. This includes the security of Toronto Hydro's facilities including office buildings and distribution stations. In order to safeguard its assets and staff, Toronto Hydro has developed policies and guidelines around physical and perimeter security and facilities related emergency preparedness. Toronto Hydro has also implemented electronic security technologies to ensure that only authorized personnel have access to Toronto Hydro facilities.

Similarly, Toronto Hydro may be unable to maintain continuing and sustainable business operations, or recover from business interruption after an incident that is beyond normal operations. Toronto Hydro's operations are exposed to the effects of natural and other unexpected occurrences such as extreme storm and other weather conditions, natural disasters, loss of the supply of electricity from the provincial and local generation and transmission system, as well as terrorism and pandemics, such as COVID-19. Costs and operational changes, associated with such events may have a material and adverse effect on Toronto Hydro's business and operations in both its short and longer term. These impacts may also include limiting Toronto Hydro's ability to build, repair and maintain capital infrastructure, with resultant impacts on reliability and revenue. Although the infection rate of workforces and the transmission within workplaces of Toronto Hydro and its key service providers has been limited to date, the spread of COVID-19 could also disrupt Toronto Hydro's operations if any of its employees, contractors or representatives are suspected of being, or have been, infected by the virus. Toronto Hydro has implemented various initiatives aimed at improving the system's resiliency to increasingly frequent extreme weather events caused by climate change. These initiatives include updating major equipment specifications, revising planning guidelines, investigating the load forecast impact, revising design practices, and enhancing maintenance programs. Toronto Hydro has also implemented a grid emergency management program to prepare for and respond to major threats to operations such as COVID-19, and

major power outage events. The grid emergency management program has incorporated recommendations from the independent review panel of experts formed to review Toronto Hydro's response to the 2013 Ice Storm that affected Toronto. Although Toronto Hydro's facilities and operations are constructed, operated and maintained with such occurrences in mind, there can be no assurance that they will successfully withstand such occurrences in all circumstances. Any major damage to Toronto Hydro's facilities or interruption of Toronto Hydro's operations arising from these occurrences could result in lost revenues and repair costs that can be substantial. Although Toronto Hydro has insurance which it considers to be consistent with industry practice, if it sustained a large uninsured loss caused by natural or other unexpected occurrences, LDC may apply to the OEB for the recovery of the loss related to the electricity distribution system. There can be no assurance that the OEB would approve, in whole or in part, such an application.

Although Toronto Hydro has maintained capital, maintenance and reactive work programs at or above planned and forecasted levels during the COVID-19 pandemic through emergency response and planning, as a consequence of COVID-19, governmental orders and instructions from public health officials, the Corporation may still have greater difficulty undertaking its planned and reactive work and recovering from a business interruption incident that is beyond normal operations. The Corporation's operations are exposed to the effects of natural and other unexpected occurrences such as extreme storm and other weather conditions, natural disasters, loss of the supply of electricity from the provincial and local generation and transmission system, terrorism, and pandemics. Operational changes associated with COVID-19 may make LDC's responses to business interruption events less effective and more costly than under business-as-usual conditions. Failure to adequately respond to a business interruption event during the COVID-19 pandemic, or otherwise, could have a material adverse effect on the Corporation's business, operations, financial condition or prospects. The Corporation has implemented various initiatives aimed at improving its operational resiliency, including a grid emergency management program to prepare for and respond to major operational threats. Since March 2020, an executive-led incident management team has been instated, and currently meets biweekly to seek to manage the effects of COVID-19 and minimize interruptions to the Corporation's enterprise critical functions. Physical and procedural controls have been put in place to seek to manage and mitigate the impact of COVID-19 in the workplace. Efficacy of these controls is frequently reviewed and improvements and corrections are introduced as required by the Incident Management Team. The Corporation has also undertaken significant health and safety actions including investing in support measures and supplies as noted above under "Operating Expenses", and proactive supply chain investments as noted under "Investing Activities" above to address potential challenges to its operations arising from COVID-19.

Compliance Risk

Risk that Toronto Hydro does not meet its material compliance obligations under legal and regulatory instruments.

Toronto Hydro is committed to complying with applicable legal and regulatory requirements and other requirements to which the organization subscribes. Toronto Hydro has a Corporate Compliance program that strengthens the organization's culture of compliance and aims to provide reasonable assurance, to Toronto Hydro's senior leadership and Toronto Hydro's Board of Directors, of adherence with material compliance requirements. Despite this reasonable assurance, there can be no certainty that Toronto Hydro will be in material compliance with applicable future laws, rules, regulations and policies at all times. Failure by Toronto Hydro to comply with applicable laws, rules, regulations and policies may subject Toronto Hydro to civil or regulatory proceedings that could have a material adverse effect on Toronto Hydro. The OEB may not allow recovery in rates for the costs of coming into or maintaining compliance with these laws, rules, regulations and policies.

Critical Accounting Estimates

The preparation of the Corporation's Consolidated Financial Statements in accordance with IFRS requires management to make judgments, estimates and assumptions which affect the application of accounting policies, reported assets, liabilities and regulatory balances, and the disclosure of contingent assets and liabilities at the date of the Consolidated Financial Statements, and the reported revenues and expenses for the year. The estimates are based on historical experience, current conditions and various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities as well as for identifying and assessing the accounting treatment with respect to commitments and contingencies. Actual results could differ from those estimates, including changes as a result of future decisions made by the OEB, the IESO, the Ontario Ministry of Energy, Northern Development and Mines or the Ontario Ministry of Finance. The assessment of the duration and severity of the COVID-19 pandemic is subject to significant uncertainty; accordingly, judgments, estimates and assumptions related to the impact of the pandemic made by management in the

preparation of the Corporation's Consolidated Financial Statements are also subject to significant uncertainty. Management has analyzed the impact of the COVID-19 pandemic on its estimates and adjusted the expected credit loss provision to account for the higher level of expected customer defaults as at December 31, 2020 (see note 15(b) to the Consolidated Financial Statements). The extent of the future impact of the pandemic on the Corporation's financial results and business operations is not known at this time

Information about judgments in applying accounting policies that have the most significant effects on the amounts recognized in the financial statements is included in note 25(b) relating to recognition of regulatory balances and note 25(j) relating to principal versus agent determination for recording revenue on a gross or net basis.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively. Assumptions and estimates with a significant risk of resulting in a material adjustment within the next financial year are used in the following notes to the Consolidated Financial Statements:

Note 24 – Recognition and measurement of provisions and contingencies;
Note 25(b) – Recognition and measurement of regulatory balances;
Note 25 (d) – Recognition and measurement of loss allowance for accounts receivable and unbilled revenue;
Notes 25(f) and 25(g) – Determination of useful lives of depreciable assets;
Note 25(j) – Revenue recognition – measurement of unbilled revenue;
Notes 25(m) and 13 – Measurement of post-employment benefits – key actuarial assumptions; and
Notes 25(o) and 20 – Recognition of deferred tax assets – availability of future taxable income against which deductible temporary differences and tax loss carryforwards can be used.

Significant Accounting Policies

The Corporation's Consolidated Financial Statements have been prepared in accordance with IFRS with respect to the preparation of financial information. The Consolidated Financial Statements are presented in Canadian dollars, which is the Corporation's functional currency. The significant accounting policies of the Corporation are summarized in note 25 to the Consolidated Financial Statements.

Changes in Accounting Standards

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

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

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

Future Accounting Pronouncements

Rate-Regulated Accounting

On January 28, 2021, the IASB published the Exposure Draft *Regulatory Assets and Regulatory Liabilities*, with comments requested by June 30, 2021. The IASB proposes an accounting model under which an entity subject to rate regulation that meets the scope criteria would recognize regulatory assets and liabilities. Movements in regulatory assets and liabilities would give rise to regulatory income and expense. If finalized as a new IFRS Standard, the IASB's proposals would replace IFRS 14 *Regulatory Deferral Accounts* ("IFRS 14"), an interim Standard that permits, but does not require, a first-time adopter of IFRS to continue using previous GAAP to account for regulatory deferral account balances. Under the current proposal, an entity would apply the final IFRS standard retrospectively to annual reporting periods beginning 18 to 24 months after the new IFRS Standard is issued.

The Corporation is currently reviewing the proposals in the Exposure Draft and is assessing how the proposed new accounting model would impact its current regulatory accounting under IFRS 14.

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

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

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

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

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

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

Forward-Looking Information

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

Specific forward-looking information in the MD&A includes, but is not limited to, the statements regarding the settlement variance and other regulatory balance variances as described in the section entitled "Results of Operations"; the consideration of forecasted economic factors in determining the impact of the COVID-19 pandemic on expected credit losses as set out in the section entitled "Results of Operations"; the effect of changes in energy consumption on future revenue as described in the section entitled "Summary of Quarterly Results of Operations"; the Corporation's plans to lower overall financing costs and enhance borrowing flexibility as described in the section entitled "Liquidity and Capital Resources"; the effect of overhead and underground infrastructure initiatives on LDC's ability to provide service to its customers, as described in the section entitled "Liquidity and Capital Resources"; the Corporation's available sources of liquidity and capital resources and the sufficiency thereof to satisfy working capital requirements for the next 12 months as described in the section entitled "Liquidity and Capital Resources"; the anticipated contractual obligations and other commitments of the Corporation over the next five years as set out in the section entitled "Liquidity and Capital Resources"; the ability of the Corporation, during the COVID-19 pandemic crisis, to continue to deliver its capital infrastructure development and maintenance work in accordance with its plans, as described in "Liquidity and Capital Resources"; the amortization of the debt issuance costs of the Series 16 debentures as described in the section entitled "Financing Activities"; the effects of the Corporation's strategic plan on its ability to deliver long-term benefits to customers, stakeholders, its shareholder and investors, as described in the section entitled "Corporate Developments"; the duration of the orders implemented by the Province of Ontario, including the TOU and Tiered rate changes, and the impact on operations and performance, including net income, as described in the section entitled "Corporate Developments"; the impact on operations and performance, including net income, arising from additional CEAP funding as described in the section entitled "Corporate Developments"; the effect of

amendments targeting Class A and Class B customer global adjustment rates and the impact on LDC's net income of subsequent LDC and IESO charges for global adjustment as described in the section entitled "Corporate Developments"; electricity distribution rates and rate applications as described in the section entitled "Corporate Developments"; the recovery of global adjustment from all Class A and Class B customers in 2021 as described in the section entitled "Corporate Developments"; the termination of the ECA, the continuance of participant agreements that were in effect before April 1, 2019, the extension of the date by which participants are to complete the projects thereunder and LDC's continued responsibility for its obligations under the participant agreements as described in the section entitled "Corporate Developments"; the continued adequacy of the provision of funds required to cover probable costs and losses from legal proceedings as described in the section entitled "Legal Proceedings"; the impact on the Corporation's operations, operating results and financial position in the future, and the ultimate duration and magnitude of the impact on the economy and the Corporation's business, of COVID-19 as described in the section entitled "Risk Management and Risk Factors"; the pervasiveness of competition and the presence of alternatives to Toronto Hydro's distribution services, and the resultant effects on LDC's distribution business as described in the section entitled "Risk Management and Risk Factors"; the continued ability of the Corporation to arrange sufficient and cost-effective debt financing in order to meet its short and long term obligations as described in the section entitled "Risk Management and Risk Factors"; the success of the Corporation's various measures seeking to mitigate the occurrence and cost of customer payment delays or non-payments, the impact of business interruption incidents and damages arising from cyber-attack, breach or other compromise of technology systems, as described in the section entitled "Risk Management and Risk Factors"; the continued efficacy of physical and procedural controls put in place to manage and mitigate the impact of COVID-19 in the workplace, as described in the section entitled "Risk Management and Risk Factors"; the potential material adverse changes in cash flows, working capital levels and/or debt balances, which may also have a direct negative impact on the Corporation's operating results and financial position in the future, as described in the section entitled "Risk Management and Risk Factors"; the Corporation's assessment of the impact on adoption of the amendments to IAS 1 and IAS 8, if any, as described in the section entitled "Changes in Accounting Standards"; and the Corporation's assessment of the impact on adoption of the amendments to IAS 1, IAS 37, and IFRS 14, if any, as described in the section entitled "Future Accounting Pronouncements".

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

The forward-looking information is subject to risks, uncertainties and other factors that could cause actual results to differ materially from historical results or results anticipated by the forward-looking information. The factors which could cause results or events to differ from current expectations include, but are not limited to, risks associated with the execution of LDC's capital and maintenance programs necessary to maintain the performance of aging distribution assets and make required infrastructure improvements; risks associated with capital projects; risks associated with electricity industry regulatory developments and other governmental policy changes, including factors relating to LDC's distribution activities and to climate change; risks associated with increased competition from regulated and unregulated entities; risks associated with the timing and results of regulatory decisions regarding LDC's revenue requirements, cost recovery and rates; risks associated with information system security and with maintaining complex information technology systems; risks associated with maintaining the security of the Corporation's information assets, including but not limited to the collection, use and disclosure of personal information; risk of external threats to LDC's facilities, infrastructure and operations posed by unexpected weather conditions caused by climate change and other factors; risks associated with changing weather patterns due to climate change and resultant impacts to electricity consumption based on historic seasonal trends; risks related to terrorism and pandemics, including but not limited to COVID-19, and LDC's limited insurance coverage for losses resulting from these events; risks related to

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

TORONTO HYDRO Corporation

Selected Annual Information

The following table sets forth selected annual financial information for the three years ended December 31, 2020, 2019 and 2018. This information has been derived from the Corporation's consolidated financial statements.

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

	2020 $	2019 $	2018 $
Year Ended December 31			
Total Revenues [1]	3,929.6	3,673.3	3,472.7
Net income after net movements in regulatory balances [1]	117.1	154.4	167.3
As at December 31			
Total assets and regulatory balances [2]	6,069.0	5,778.7	5,360.1
Total debentures [2,3]	2,382.2	2,183.0	2,034.9
Other non-current financial liabilities [4]	22.1	19.4	33.9
Total equity [2]	1,912.0	1,887.5	1,833.5
Dividends [5]	92.6	100.4	93.9

[1] See "Results of Operations" for further details on distribution revenue, other revenue, and net income after net movements in regulatory balances.

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

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

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

[5] See "Liquidity and Capital Resources" for further details on dividends.

Additional Information

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

Toronto, Canada

March 3, 2021

CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

See Financial Report for abbreviations and defined terms used in the audited consolidated financial statements.

MANAGEMENT'S REPORT

The accompanying Consolidated Financial Statements have been prepared by management of Toronto Hydro Corporation (the "Corporation"), who are responsible for the integrity, consistency and reliability of the information presented. The Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards and applicable securities legislation.

The preparation of the Consolidated Financial Statements necessarily involves the use of estimates and assumptions based on management's judgments, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods. Estimates and assumptions are based on historical experience, current conditions and various other assumptions believed to be reasonable in the circumstances, with critical analysis of the significant accounting policies followed by the Corporation as described in Note 25 to the Consolidated Financial Statements. The preparation of the Consolidated Financial Statements includes information regarding the estimated impact of future events and transactions. Actual results in the future may differ materially from the present assessment of this information because future events and circumstances may not occur as expected. The Consolidated Financial Statements have been prepared within reasonable limits of materiality in light of information available up to March 3, 2021.

In meeting its responsibility for the reliability of financial information, management maintains and relies on a comprehensive system of internal controls and internal audit, which is designed to provide reasonable assurance that the financial information is relevant, reliable and accurate, and that the Corporation's assets are safeguarded and transactions are properly authorized and executed. The system includes formal policies and procedures and appropriate delegation of authority and segregation of responsibilities within the organization. An internal audit function evaluates the effectiveness of these internal controls and reports its findings to management and the Audit Committee of the Corporation, as required.

The Board of Directors, through its Audit Committee, is responsible for overseeing management in the performance of its financial reporting and internal controls. The Audit Committee is composed of independent directors and meets periodically with management, the internal auditors and the external auditors to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues, to satisfy itself that each group has properly discharged its respective responsibility and to review the Consolidated Financial Statements before recommending approval by the Board of Directors. The Audit Committee also considers, for review by the Board of Directors and approval by the shareholder, the appointment of the external auditors. The external auditors have direct and full access to the Audit Committee, with and without the presence of management, to discuss their audit and their findings as to the integrity of the financial reporting and the effectiveness of the system of internal controls.

The Consolidated Financial Statements were reviewed by the Audit Committee, and on their recommendation, were approved by the Board of Directors. The Consolidated Financial Statements have been examined by KPMG LLP, independent external auditors appointed by the Corporation's shareholder. The external auditors' responsibility is to express their opinion on whether the Consolidated Financial Statements are fairly presented in accordance with International Financial Reporting Standards. The attached Independent Auditors' Report outlines the scope of their examination and their opinion.

On behalf of Toronto Hydro Corporation's management:

"Anthony Haines"	*"Aida Cipolla"*
Anthony Haines	Aida Cipolla
President and Chief Executive Officer	Executive Vice-President and Chief Financial Officer

KPMG LLP
Bay Adelaide Centre
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INDEPENDENT AUDITORS' REPORT

To the Shareholder of Toronto Hydro Corporation

Opinion

We have audited the consolidated financial statements of Toronto Hydro Corporation (the Entity), which comprise:

- the consolidated balance sheets as at December 31, 2020 and December 31, 2019
- the consolidated statements of income for the years then ended
- the consolidated statements of comprehensive income for the years then ended
- the consolidated statements of changes in equity for the years then ended
- the consolidated statements of cash flows for the years then ended

and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2020 and December 31, 2019, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "Auditors' Responsibilities for the Audit of the Financial Statements" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KPMG LLP is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.
KPMG Canada provides services to KPMG LLP.

Other Information

Management is responsible for the other information. Other information comprises:

- the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.
- the information, other than the financial statements and the auditors' report thereon, included in a document likely to be entitled "Annual Report"

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

The information, other than the financial statements and the auditors' report thereon, included in a document likely to be entitled "Annual Report" is expected to be made available to us after the date of this auditors' report. If, based on the work will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards (IFRS), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

The engagement partner on the audit resulting in this auditors' report is Francis L. Klemenchuk.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants
Toronto, Canada
March 3, 2021

TORONTO HYDRO Corporation

CONSOLIDATED BALANCE SHEETS

[in millions of Canadian dollars]

As at December 31	***Note***	**2020 $**	2019 $
ASSETS			
Current			
Accounts receivable and unbilled revenue	*4, 15[b]*	**469.2**	541.3
Income tax receivable		**12.4**	0.5
Materials and supplies		**9.8**	7.8
Other assets	*5*	**16.7**	14.1
Total current assets		**508.1**	563.7
Property, plant and equipment	*6*	**5,039.2**	4,700.9
Intangible assets	*7*	**343.1**	339.7
Other assets	*5*	**8.2**	9.4
Total assets		**5,898.6**	5,613.7
Regulatory balances	*8*	**170.4**	165.0
Total assets and regulatory balances		**6,069.0**	5,778.7
LIABILITIES AND EQUITY			
Current			
Working capital facility	*9*	**6.2**	1.0
Commercial paper	*9*	**160.0**	136.0
Accounts payable and accrued liabilities	*10*	**406.1**	505.1
Customer deposits		**44.9**	49.1
Deferred revenue	*11*	**18.1**	13.6
Deferred conservation credit	*3[c]*	**16.0**	9.5
Debentures	*12*	**299.8**	-
Total current liabilities		**951.1**	714.3
Debentures	*12*	**2,082.4**	2,183.0
Customer deposits		**18.7**	18.9
Deferred revenue	*11*	**538.2**	398.3
Post-employment benefits	*13*	**332.7**	334.9
Deferred tax liabilities	*20*	**47.1**	23.1
Other liabilities		**3.4**	0.5
Total liabilities		**3,973.6**	3,673.0
Equity			
Share capital	*16*	**817.8**	817.8
Retained earnings		**1,094.2**	1,069.7
Total equity		**1,912.0**	1,887.5
Total liabilities and equity		**5,885.6**	5,560.5
Regulatory balances	*8*	**183.4**	218.2
Total liabilities, equity and regulatory balances		**6,069.0**	5,778.7

Commitments, contingencies and subsequent events *2, 23, 24*

ON BEHALF OF THE BOARD:

"David McFadden"
David McFadden, Director

"Michael Nobrega"
Michael Nobrega, Director

See accompanying notes to the consolidated financial statements.

TORONTO HYDRO Corporation

CONSOLIDATED STATEMENTS OF INCOME

[in millions of Canadian dollars]

Year ended December 31	***Note***	**2020** **$**	2019 $
Revenues			
Energy sales	*17*	**3,142.5**	2,779.7
Distribution revenue	*17*	**694.4**	799.2
Other	*17*	**92.7**	94.4
		3,929.6	3,673.3
Expenses			
Energy purchases		**3,150.5**	2,779.6
Operating expenses	*18*	**326.0**	308.9
Depreciation and amortization	*6, 7*	**274.3**	255.6
		3,750.8	3,344.1
Finance costs	*19*	**(77.1)**	(80.1)
Gain on disposals of property, plant and equipment		**-**	2.2
Income before income taxes		**101.7**	251.3
Income tax expense	*20*	**(28.6)**	(67.9)
Net income		**73.1**	183.4
Net movements in regulatory balances	*8*	**18.8**	(62.4)
Net movements in regulatory balances arising from deferred taxes	*8*	**25.2**	33.4
Net income after net movements in regulatory balances		**117.1**	154.4

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

[in millions of Canadian dollars]

Year ended December 31	***Note***	**2020** **$**	2019 $
Net income after net movements in regulatory balances		**117.1**	154.4
Other comprehensive income			
Items that will not be reclassified to income or loss			
Remeasurements of post-employment benefits, net of tax [2020 - ($1.3), 2019 - $10.1]	*13*	**3.8**	(28.1)
Net movements in regulatory balances related to OCI, net of tax [2020 - ($1.3), 2019 - $10.1]	*8, 13*	**(3.8)**	28.1
Other comprehensive income, net of tax		**-**	-
Total comprehensive income		**117.1**	154.4

See accompanying notes to the consolidated financial statements.

TORONTO HYDRO Corporation

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

[in millions of Canadian dollars]

Year ended December 31	***Note***	**2020** **$**	2019 $
Share capital	*16*	**817.8**	817.8
Retained earnings, beginning of year		**1,069.7**	1,015.7
Net income after net movements in regulatory balances		**117.1**	154.4
Dividends	*16, 22*	**(92.6)**	(100.4)
Retained earnings, end of year		**1,094.2**	1,069.7
Total equity		**1,912.0**	1,887.5

See accompanying notes to the consolidated financial statements.

TORONTO HYDRO® Corporation

CONSOLIDATED STATEMENTS OF CASH FLOWS

[in millions of Canadian dollars]

Year ended December 31	*Note*	**2020** **$**	2019 $
OPERATING ACTIVITIES			
Net income after net movements in regulatory balances		**117.1**	154.4
Net movements in regulatory balances	*8*	**(18.8)**	62.4
Net movements in regulatory balances arising from deferred taxes	*8*	**(25.2)**	(33.4)
Adjustments			
Depreciation and amortization	*6, 7*	**274.3**	255.6
Amortization of deferred revenue	*11*	**(8.2)**	(5.9)
Finance costs		**77.1**	80.1
Income tax expense		**28.6**	67.9
Post-employment benefits		**2.9**	20.8
Gain on disposals of property, plant and equipment		**-**	(2.2)
Other		**0.3**	0.8
Capital contributions received	*11*	**151.7**	127.8
Net change in other non-current assets and liabilities		**0.7**	(5.8)
Decrease in customer deposits		**(4.4)**	(11.8)
Changes in non-cash operating working capital balances	*21*	**46.0**	(76.8)
Income tax paid		**(15.2)**	(37.3)
Net cash provided by operating activities		**626.9**	596.6
INVESTING ACTIVITIES			
Purchase of property, plant and equipment	*21*	**(639.5)**	(518.3)
Purchase of intangible assets	*21*	**(40.8)**	(53.0)
Proceeds on disposals of property, plant and equipment		**0.5**	2.3
Net cash used in investing activities		**(679.8)**	(569.0)
FINANCING ACTIVITIES			
Increase in commercial paper, net of repayments	*9*	**24.0**	23.0
Dividends paid	*16*	**(92.6)**	(100.4)
Proceeds from issuance of debentures	*12*	**199.7**	399.8
Debt issuance costs paid	*12*	**(1.4)**	(2.5)
Repayment of debentures		**-**	(250.0)
Repayment of lease liability		**-**	(0.2)
Interest paid		**(82.0)**	(85.7)
Net cash provided by (used in) financing activities		**47.7**	(16.0)
Net change in cash and cash equivalents during the year		**(5.2)**	11.6
Working capital facility, beginning of year		**(1.0)**	(12.6)
Working capital facility, end of year		**(6.2)**	(1.0)

See accompanying notes to the consolidated financial statements.

1. NATURE OF BUSINESS

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

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

2. BASIS OF PRESENTATION

The Corporation's audited consolidated financial statements for the years ended December 31, 2020 and 2019 ["Consolidated Financial Statements"] have been prepared in accordance with IFRS as issued by the IASB.

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

The Corporation has evaluated the events and transactions occurring after the consolidated balance sheet date through March 3, 2021 when the Corporation's Consolidated Financial Statements were authorized for issuance by the Corporation's Board of Directors, and identified the events and transactions which required recognition in the Consolidated Financial Statements and/or disclosure in these notes to the Consolidated Financial Statements *[notes 3[a] and 16]*.

The summary of significant accounting policies has been disclosed in note 25.

3. REGULATION

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

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

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

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

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

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

a) COVID-19 Pandemic Considerations

On March 11, 2020, the World Health Organization declared that the COVID-19 outbreak was a global pandemic. On March 17, 2020, the Ontario Government declared a State of Emergency pursuant to the *Emergency Management and Civil Protection Act*. The Ontario Government renewed the declaration, as required by the legislation, until July 24, 2020. During the State of Emergency, the Ontario Government issued emergency orders under the legislation and extended them as required by the legislation. On July 24, 2020, the *Reopening Ontario (A Flexible Response to COVID-19) Act, 2020* came into effect, bringing the declared State of Emergency to an end. The *Reopening Ontario Act* also enabled the Ontario Government to extend, amend, and revoke the remaining emergency orders in order to facilitate a flexible response to the ongoing COVID-19 risks.

On March 19, 2020, the OEB extended the ban on disconnecting residential customers to July 31, 2020, in light of the COVID-19 pandemic. For the same reason, at the same time, the OEB also banned the disconnection of other low volume customers (as defined in the OEB Act) prior to July 31, 2020. In addition, the Corporation extended its ban on disconnecting residential and low volume customers until the transition back into the OEB's annual recurring winter disconnection ban on November 15, 2020 *[note 15[b]]*.

On March 24, 2020, the Ontario Government issued an emergency order setting TOU rates for on-peak, mid-peak, and off-peak at 10.1 cents per kWh, which prior to the emergency order was the TOU off-peak rate. That emergency order was effective through May 7, 2020. On May 6, 2020, the Ontario Government issued an emergency order extending those TOU rates through May 31, 2020. On May 30, 2020, the Ontario Government announced the COVID-19 Recovery Rate, setting a fixed TOU electricity price at 12.8 cents per kWh, 24 hours a day, seven days a week, effective June 1, 2020 until October 31, 2020. On October 13, 2020, the OEB announced new TOU rates for on-peak, mid-peak, and off-peak, that once again vary according to when electricity is used, effective November 1, 2020. There was no impact to net income to the Corporation.

On March 25, 2020, the OEB established a deferral account for regulatory balances to record the costs of changes to billing systems resulting from the Ontario Government's TOU emergency order, other incremental costs and lost revenues associated with the COVID-19 pandemic. On May 14, 2020, the OEB launched a consultation process to inform its decision-making with respect to how the account will operate, including eligibility requirements, and the process and timing for the disposition. On December 16, 2020, OEB staff issued a proposal with respect to the deferral account and related consultation *[note 8]*.

On August 20, 2020, the Ontario Government amended O. Reg. 95/05 *Classes of Consumers and Determination of Rates*. Accordingly, customers on the RPP have the choice to pay TOU rates or tiered rates, effective November 1, 2020. By default, RPP customers will pay TOU rates. RPP customers who choose to pay tiered rates will pay a lower rate for consumption below a monthly threshold, and a higher rate for consumption above that threshold. The tiered rates and the threshold are set by the OEB twice per year, at the same time as the OEB sets TOU rates. There was no impact to net income to the Corporation.

On December 15, 2020, the OEB announced new RPP TOU and tiered rates to reflect a decrease in supply cost resulting from the Ontario Government's decision to remove certain renewable generation costs from the global adjustment and funding them directly through the tax base. The reduction was accompanied by a corresponding reduction to the Ontario Electricity Rebate. There was no net income impact to the Corporation.

On December 22, 2020, the Ontario Government amended O. Reg. 95/05 *Classes of Consumers and Determination of Rates*, setting both the TOU rates for on-peak, mid-peak, and off-peak and tiered rates at the TOU off-peak rate of

8.5 cents per kWh. That regulatory amendment was effective through January 28, 2021, and most recently extended until February 22, 2021. On February 23, 2021, residential and small business customers resumed paying TOU and tiered pricing under the RPP at prices that were set by the OEB on December 15, 2020. There was no net income impact to the Corporation.

b) Electricity Distribution Rates

The OEB's regulatory framework for electricity distributors is designed to support the cost-effective planning and operation of the electricity distribution network and to provide an appropriate alignment between a sustainable, financially viable electricity sector and the expectations of customers for reliable service at a reasonable price.

The OEB typically regulates the electricity rates for distributors using a combination of detailed cost of service reviews and custom index adjustments similar to IRM. A cost of service review uses a future test-year to establish rates, and provides for revenues required to recover the forecasted costs of providing the regulated service, and a fair and reasonable return on rate base. Custom index adjustments are typically used for one or more years following a cost of service review and provide for adjustments to rates based on an inflationary factor net of a productivity factor and an efficiency factor as determined relative to other electricity distributors.

On July 31, 2014, LDC filed its first CIR application. The CIR mechanism is an OEB ratemaking methodology that utilizes a cost of service approach in the first year and a custom index approach in the subsequent years, for a given period. On December 29, 2015, the OEB issued a Decision approving the CIR application, and on March 1, 2016 issued a Final Rate Order ["2015-2019 CIR decision and rate order"] which began the process of LDC receiving revenue to fund its 2015-2019 investment plan and operations. Pursuant to the Decision, for each subsequent year during that period, LDC was required to file rate applications to finalize annual distribution rates on a custom index basis.

On August 31, 2018, LDC filed its 2019 rate application seeking OEB's approval to finalize distribution rates and other charges for the period commencing on January 1, 2019 and ending on December 31, 2019. On December 13, 2018, the OEB issued a Decision and Rate Order approving LDC's 2019 rates and providing for other deferral and variance account dispositions. This was the final annual rate application to finalize distribution rates in the 2015-2019 period.

On December 19, 2019, the OEB issued its 2020-2024 CIR Decision and on February 20, 2020, the OEB issued its CIR Final Rate Order, both in relation to the rate application filed on August 15, 2018 ["2020-2024 CIR decision and rate order"]. The 2020-2024 CIR decision and rate order approved a revenue requirement of $750.2 million for 2020, and rates calculated on that basis. The rates for 2020 were implemented on March 1, 2020, with an effective date of January 1, 2020. The financial considerations of the OEB's 2020-2024 CIR decision and rate order are reflected in the Consolidated Financial Statements including disclosure of approved disposition for a number of requested rate riders *[note 8]*.

c) CDM Activities

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

Under its ECA with the IESO, LDC had a joint CDM plan with Oakville Hydro Electricity Distribution Inc. for the delivery of CDM programs over the 2015-2020 period. As part of implementing its new mandate, the IESO terminated the ECA effective June 20, 2019. LDC was required to cease marketing and business development for all CDM programs immediately and make commercially reasonable efforts to wind down the delivery of programs. Under the ECA, LDC was entitled to reimbursement from the IESO of its eligible expenses and administrative costs relating to the wind-down of its role in the CDM programs. Participant agreements with customers for many of the CDM

programs that were in effect before April 1, 2019 remained in effect notwithstanding the termination of the ECA and LDC remains responsible for its obligations under such agreements. On July 22, 2020, the Government of Ontario issued ministerial directives to the IESO directing it to extend the deadline by which participants are to complete the projects from December 31, 2020 to June 30, 2021. Amounts received from the IESO for the funding of the projects under the participant agreements, but not yet spent, are presented on the Corporation's consolidated balance sheets under current liabilities as deferred conservation credit.

4. ACCOUNTS RECEIVABLE AND UNBILLED REVENUE

Accounts receivable and unbilled revenue consist of the following:

	2020 $	2019 $
Unbilled revenue	**228.7**	269.4
Trade receivables	**183.9**	217.5
Due from related parties *[note 22]*	**41.6**	44.4
Other	**15.0**	10.0
	469.2	541.3

5. OTHER ASSETS

Other assets consist of the following:

	2020 $	2019 $
Prepaid expenses	**15.4**	12.9
Deferred financing costs	**1.2**	1.5
Other	**8.3**	9.1
Total other assets	**24.9**	23.5
Less: Current portion of other assets relating to:		
Prepaid expenses	**15.4**	12.9
Deferred financing costs	**0.4**	0.4
Other	**0.9**	0.8
Current portion of other assets	**16.7**	14.1
Non-current portion of other assets	**8.2**	9.4

6. PROPERTY, PLANT AND EQUIPMENT

PP&E consist of the following:

	Distribution assets $	Land and buildings $	Equipment and other $	Construction in progress $	Total $
Cost					
Balance as at January 1, 2019	4,080.8	409.6	299.6	427.9	5,217.9
Additions/(Transfers), net	414.6	19.1	46.7	53.3	533.7
Disposals and retirements	(30.3)	(1.8)	(15.2)	—	(47.3)
Balance as at December 31, 2019	4,465.1	426.9	331.1	481.2	5,704.3
Additions/(Transfers), net	**486.0**	**13.5**	**45.8**	**32.1**	**577.4**
Disposals and retirements	**(31.2)**	**(0.6)**	**(1.7)**	**—**	**(33.5)**
Balance as at December 31, 2020	**4,919.9**	**439.8**	**375.2**	**513.3**	**6,248.2**
Accumulated depreciation					
Balance as at January 1, 2019	618.7	51.0	156.1	—	825.8
Depreciation	156.4	15.3	27.6	—	199.3
Disposals and retirements	(7.0)	(0.5)	(14.2)	—	(21.7)
Balance as at December 31, 2019	768.1	65.8	169.5	—	1,003.4
Depreciation	**169.9**	**15.6**	**29.7**	**—**	**215.2**
Disposals and retirements	**(8.1)**	**(0.2)**	**(1.3)**	**—**	**(9.6)**
Balance as at December 31, 2020	**929.9**	**81.2**	**197.9**	**—**	**1,209.0**
Carrying amount					
Balance as at December 31, 2019	3,697.0	361.1	161.6	481.2	4,700.9
Balance as at December 31, 2020	**3,990.0**	**358.6**	**177.3**	**513.3**	**5,039.2**

As at December 31, 2020, "Land and buildings" included right-of-use assets related to leases of land and office space with cost of $7.6 million [December 31, 2019 - $7.6 million], accumulated depreciation of $0.8 million [December 31, 2019 - $0.6 million], and carrying amount of $6.8 million [December 31, 2019 - $7.0 million]. For the year ended December 31, 2020, the Corporation recorded depreciation expense of $0.2 million [2019 - $0.3 million] related to the right-of-use assets.

For the year ended December 31, 2020, borrowing costs in the amount of $2.9 million [2019 - $3.2 million] were capitalized to PP&E with an average interest rate of 3.19% [2019 - 3.57%].

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

7. INTANGIBLE ASSETS

Intangible assets consist of the following:

	Computer software $	Contributions $	Software in development $	Contributions for work in progress $	Total $
Cost					
Balance as at January 1, 2019	207.8	164.1	15.0	39.5	426.4
Additions/(Transfers), net	27.8	25.2	6.7	6.4	66.1
Other	—	(12.7)	—	—	(12.7)
Balance as at December 31, 2019	235.6	176.6	21.7	45.9	479.8
Additions/(Transfers), net	**29.1**	**(0.3)**	**(1.1)**	**12.1**	**39.8**
Balance as at December 31, 2020	**264.7**	**176.3**	**20.6**	**58.0**	**519.6**
Accumulated amortization					
Balance as at January 1, 2019	96.8	10.7	—	—	107.5
Amortization	25.8	6.8	—	—	32.6
Balance as at December 31, 2019	122.6	17.5	—	—	140.1
Amortization	**29.3**	**7.1**	**—**	**—**	**36.4**
Balance as at December 31, 2020	**151.9**	**24.6**	**—**	**—**	**176.5**
Carrying amount					
Balance as at December 31, 2019	113.0	159.1	21.7	45.9	339.7
Balance as at December 31, 2020	**112.8**	**151.7**	**20.6**	**58.0**	**343.1**

For the year ended December 31, 2020, borrowing costs in the amount of $1.7 million [2019 - $0.5 million] were capitalized to intangible assets with an average interest rate of 3.19% [2019 - 3.57%].

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

"Contributions" represent payments made to HONI for dedicated infrastructure in order to receive connections to transmission facilities. The remaining amortization period for computer software ranges from less than one year to eight years. The remaining amortization period for contributions ranges from eight to 24 years.

TORONTO HYDRO Corporation

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2020 and 2019
[All tabular amounts in millions of Canadian dollars]

8. REGULATORY BALANCES

Debit balances consist of the following:

	January 1, 2020 $	Balances arising in the period $	Recovery/ reversal $	Other movements $	December 31, 2020 $	Remaining recovery/ reversal period (months)	Carrying charges applicable
OPEB net actuarial loss	**86.3**	**(5.1)**	**(5.7)**	**—**	**75.5**	note 8[a]	—
Deferred taxes	**21.4**	**26.5**	**—**	**—**	**47.9**	note 8[b]	—
LRAM	**35.9**	**(1.8)**	**(0.9)**	**—**	**33.2**	note 8[c]	(1)
Settlement variances	**—**	**8.2**	**4.1**	**(8.9)**	**3.4**	note 8[d]	(1)
OPEB cash versus accrual	**7.1**	**—**	**(6.2)**	**—**	**0.9**	note 8[e]	—
Foregone revenue	**2.8**	**—**	**—**	**(2.8)**	**—**	note 8[f]	—
IFRS transitional adjustments	**—**	**—**	**0.8**	**(0.8)**	**—**	note 8[g]	—
Other	**11.5**	**1.2**	**(3.2)**	**—**	**9.5**	24	(1)
	165.0	**29.0**	**(11.1)**	**(12.5)**	**170.4**		

	January 1, 2019 $	Balances arising in the period $	Recovery/ reversal $	Other movements $	December 31, 2019 $	Remaining recovery/ reversal period (months)	Carrying charges applicable
OPEB net actuarial loss	48.1	38.2	—	—	86.3	note 8[a]	—
LRAM	29.0	18.8	(11.9)	—	35.9	note 8[c]	(1)
Deferred taxes	—	23.3	—	(1.9)	21.4	note 8[b]	—
OPEB cash versus accrual	5.4	1.7	—	—	7.1	note 8[e]	—
Foregone revenue	23.2	—	(20.4)	—	2.8	note 8[f]	—
IFRS transitional adjustments	7.0	—	—	(7.0)	—	note 8[g]	—
Stranded meters	3.6	—	—	(3.6)	—	note 8[n]	(1)
Named properties	1.6	—	(1.5)	—	0.1	note 8[o]	—
Capital contributions	0.5	—	(0.5)	—	—	note 8[p]	—
Other	7.5	3.9	—	—	11.4	34	(1)
	125.9	85.9	(34.3)	(12.5)	165.0		

(1) Carrying charges were added to the regulatory balance in accordance with the OEB's direction, at a rate of 2.18% for January 1, 2020 to June 30, 2020 and 0.57% for July 1, 2020 to December 31, 2020 [January 1, 2019 to March 31, 2019 - 2.45%, April 1, 2019 to December 31, 2019 - 2.18%].

TORONTO HYDRO Corporation

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2020 and 2019
[All tabular amounts in millions of Canadian dollars]

Credit balances consist of the following:

	January 1, 2020 $	Balances arising in the period $	Recovery/ reversal $	Other movements $	December 31, 2020 $	Remaining recovery/ reversal period (months)	Carrying charges applicable
Capital-related revenue requirement	**77.1**	**0.8**	**—**	**—**	**77.9**	note 8[h]	(1)
Gain on disposal	**61.8**	**0.8**	**(25.1)**	**—**	**37.5**	note 8[i]	(1)
Derecognition	**32.8**	**0.4**	**—**	**—**	**33.2**	note 8[j]	(1)
Development charges	**10.9**	**3.9**	**—**	**—**	**14.8**	note 8[k]	(1)
Tax-related variances	**11.4**	**(0.2)**	**—**	**—**	**11.2**	note 8[l]	(1)
Settlement variances	**8.9**	**—**	**—**	**(8.9)**	**—**	note 8[d]	(1)
Accounts receivable credits	**3.4**	**0.1**	**—**	**—**	**3.5**	note 8[m]	(1)
Foregone revenue	**—**	**4.0**	**(0.3)**	**(2.8)**	**0.9**	note 8[f]	—
IFRS transitional adjustments	**0.8**	**—**	**—**	**(0.8)**	**—**	note 8[g]	—
Other	**11.1**	**2.3**	**(9.0)**	**—**	**4.4**	12-48	(1)
	218.2	**12.1**	**(34.4)**	**(12.5)**	**183.4**		

	January 1, 2019 $	Balances arising in the period $	Recovery/ reversal $	Other movements $	December 31, 2019 $	Remaining recovery/ reversal period (months)	Carrying charges applicable
Capital-related revenue requirement	56.5	20.6	—	—	77.1	note 8[h]	(1)
Gain on disposal	61.8	1.3	(1.3)	—	61.8	note 8[i]	(1)
Derecognition	21.8	11.0	—	—	32.8	note 8[j]	(1)
Tax-related variances	1.1	10.9	(0.6)	—	11.4	note 8[l]	(1)
Development charges	7.9	3.0	—	—	10.9	note 8[k]	(1)
Settlement variances	19.2	(0.4)	(9.9)	—	8.9	note 8[d]	(1)
Accounts receivable credits	—	3.4	—	—	3.4	note 8[m]	(1)
IFRS transitional adjustments	—	—	7.8	(7.0)	0.8	note 8[g]	—
Stranded meters	—	—	4.0	(3.6)	0.4	note 8[n]	(1)
Deferred taxes	1.9	—	—	(1.9)	—	note 8[b]	—
Smart meters	0.3	—	(0.3)	—	—	—	—
Other	7.7	3.0	—	—	10.7	1 - 48	(1)
	178.2	52.8	(0.3)	(12.5)	218.2		

(1) Carrying charges were added to the regulatory balance in accordance with the OEB's direction, at a rate of 2.18% for January 1, 2020 to June 30, 2020 and 0.57% for July 1, 2020 to December 31, 2020 [January 1, 2019 to March 31, 2019 - 2.45%, April 1, 2019 to December 31, 2019 - 2.18%].

The "Balances arising in the period" column consists of new additions to regulatory balances (for both debits and credits). The "Recovery/reversal" column consists of amounts disposed through OEB-approved rate riders. The "Other movements" column consists of impairment and reclassification between the regulatory debit and credit balances. In addition, the "Other movements" column includes reclassification of regulatory deferral accounts considered to be insignificant into the "Other" categories. There was no impairment recorded for the year ended December 31, 2020.

Reconciliation between the net movements in regulatory balances shown in the regulatory debit and credit balances tables and the net movements presented on the consolidated statements of income and the consolidated statements of comprehensive income is as follows:

	2020 $	2019 $
Total movements per regulatory debit balances table	**5.4**	39.1
Total movements per regulatory credit balances table	**34.8**	(40.0)
Total net movements	**40.2**	(0.9)
Net movements per financial statements:		
Net movements in regulatory balances	**18.8**	(62.4)
Net movements in regulatory balances arising from deferred taxes	**25.2**	33.4
Net movements in regulatory balances related to OCI, net of tax	**(3.8)**	28.1
Total net movements per financial statements	**40.2**	(0.9)

Regulatory developments in Ontario's electricity industry and other governmental policy changes may affect the electricity distribution rates charged by LDC and the costs LDC is permitted to recover. There is a risk that the OEB may disallow the recovery of a portion of certain costs incurred in the current period through future rates or disagree with the proposed recovery period. In the event that the disposition of these balances is assessed to no longer be probable based on management's judgment, any impairment will be recorded in the period when the assessment is made.

The regulatory balances of the Corporation consist of the following:

a) OPEB net actuarial loss

This regulatory balance accumulates the actuarial gains and losses arising from changes in actuarial assumptions and experience adjustments recognized in OCI. The balance arising during the year ended December 31, 2020 of $5.1 million is related to the actuarial gain recorded for the year [2019 - $38.2 million actuarial loss] *[note 13[a]]*. The net position is an actuarial loss recoverable in future rates.

In the 2020-2024 CIR decision and rate order, the OEB approved partial recovery of the balance amounting to $6.4 million over a 10-month period commencing on March 1, 2020.

b) Deferred taxes

This regulatory balance relates to both deferred tax amounts reclassified under IFRS 14 *Regulatory Deferral Accounts* ["IFRS 14"] *[note 25[b]]* and the expected future electricity distribution rate impact to customers arising from timing differences in the recognition of deferred tax assets and liabilities. LDC does not apply for disposition of the balance since it is reversed through timing differences in the recognition of deferred tax assets and liabilities.

The amounts reclassified under IFRS 14 include the deferred tax asset related to regulatory balances of $8.3 million (debits) as at December 31, 2020 [December 31, 2019 - $6.1 million (debits)], and the recognition of a regulatory balance in respect of additional temporary differences for which a deferred tax amount was recognized of $14.3 million (credits) as at December 31, 2020 [December 31, 2019 - $5.5 million (credits)].

The deferred tax amount related to the expected future impact to electricity distribution rates was $53.9 million (debits) as at December 31, 2020 [December 31, 2019 - $20.8 million (debits)].

c) Lost revenue adjustment mechanism

This regulatory balance relates to the difference between the level of CDM program activities included in LDC's load forecast used to set approved rates and the actual impact of CDM activities achieved. Approved variances for 2017 were recovered through OEB-approved rate riders over 12 months commencing on January 1, 2019.

As part of OEB's decision and rate order approving LDC's 2021 rates, OEB approved recovery of $33.1 million related to 2018 and 2019 variances over a 12-month period commencing January 1, 2021.

d) Settlement variances

This account includes the variances between amounts charged by LDC to customers, based on regulated rates, and the corresponding cost of electricity and non-competitive electricity service costs incurred by LDC. 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. Approved variances up to 2017, including carrying charges forecasted to the end of 2018, were disposed through OEB-approved rate riders over 12 months commencing on January 1, 2019.

In the 2020-2024 CIR decision and rate order, the OEB approved disposition of $7.5 million related to the 2018 settlement variances over a 22-month period commencing on March 1, 2020. As part of OEB's decision and rate order approving LDC's 2021 rates, OEB approved recovery of $25.3 million related to 2019 settlement variances over a 12-month period commencing January 1, 2021.

e) OPEB cash versus accrual

This regulatory balance relates to the difference between LDC's forecasted OPEB costs determined on an accrual basis and the cash payments made under the OPEB plans. In the 2015-2019 CIR decision and rate order, the OEB directed LDC to track the difference as a temporary arrangement, pending the OEB's conclusion on the sector-wide policy consultation it initiated on the regulatory treatment of pension and OPEB costs. On September 14, 2017, the OEB issued its final report on the consultation and established the use of the accrual accounting method as the default method on which to set rates for OPEB costs.

In the 2020-2024 CIR decision and rate order, the OEB approved recovery of the 2019 balance over a 10-month period commencing on March 1, 2020 and recovery of OPEB costs on an accrual basis.

f) Foregone revenue

This regulatory balance relates to the revenue that LDC would have recovered in 2015 and 2016 if new OEB-approved rates were implemented as of May 1, 2015 and January 1, 2016, respectively. In the 2015-2019 CIR decision and rate order, the OEB approved foregone revenue rate riders over 46 months commencing on March 1, 2016 for May 1, 2015 to December 31, 2015 based on approved 2015 rates and for January 1, 2016 to February 29, 2016 based on approved 2016 rates.

The 2020 balance arising of $4.0 million is revenue to be returned to customers, related to January and February 2020 as a result of implementing new OEB-approved rates on March 1, 2020. In the 2020-2024 CIR decision and rate order, the OEB approved the disposition of 2020 foregone revenue over a 22-month period commencing on March 1, 2020.

g) IFRS transitional adjustments

This regulatory balance relates to the differences arising from accounting policy changes for PP&E and intangible assets due to the transition from US GAAP to IFRS in 2014, primarily related to derecognition of certain assets and additional capitalized borrowing costs. In the 2015-2019 CIR decision and rate order, the OEB approved recovery of the forecasted balance over 46 months commencing on March 1, 2016.

In the 2020-2024 CIR decision and rate order, the OEB approved disposition of the 2019 balance for the difference between the forecasted and actual IFRS transitional adjustments over a 10-month period commencing on March 1, 2020.

h) Capital-related revenue requirement

This regulatory balance relates to the asymmetrical variance between the cumulative 2015 to 2019 capital-related revenue requirement included in rates and the actual capital-related revenue requirement over the same period. The cumulative 2015 to 2019 capital-related revenue requirement included in rates exceeded the actual capital-related revenue requirement over the same rate period. LDC applied for disposition of this account in order to return the balance to customers through a rate rider.

In the 2020-2024 CIR decision and rate order, the OEB approved disposition of the 2019 balance over a 24-month period commencing on January 1, 2023.

i) Gain on disposal

This regulatory balance consists of the net of amounts disposed through the OEB-approved rate riders offset by the related tax savings (credits) and the after-tax gain realized on three significant LDC properties (credits).

As part of the 2015-2019 CIR decision and rate order, LDC agreed to a rate rider that would pass the total forecasted net gains along with future tax savings on the first two properties back to customers, effective from March 1, 2016 to December 31, 2018. The gain on disposal of the two properties was realized by LDC in 2015 and 2018, respectively. In the second quarter of 2017, LDC realized a gain in connection with the disposal of the third property.

In the 2020-2024 CIR decision and rate order, the incremental balance related to the actual realized gain and tax savings that exceeded the approved rate riders in connection with the disposal of the first two LDC properties was approved for disposition over a 22-month period commencing on March 1, 2020. The OEB also approved disposition of the actual realized gain and tax savings in connection with the disposal of the third property over a 22-month period commencing on March 1, 2020.

j) Derecognition

This regulatory balance relates to the difference between the revenue requirement on derecognition of PP&E and intangible assets included in the OEB-approved rates and the actual amounts of derecognition.

In the 2020-2024 CIR decision and rate order, the OEB approved disposition of the 2019 balance over a 12-month period commencing on January 1, 2022.

k) Development charges

This regulatory balance relates to excess expansion deposits retained by LDC where the requested number of connections or electricity demand were not met by the connecting customer. Pursuant to the OEB's Distribution System Code, LDC may collect expansion deposits from specific customers to guarantee the payment of additional costs relating to expansion projects. During the customer connection horizon, LDC has an obligation to annually return the expansion deposit to the connecting customer in proportion to the actual connections or electricity demand that occurred in that year. If the number of connections or electricity demand requested by the customer do not materialize by the end of the connection horizon, LDC retains the excess expansion deposit not otherwise returned to the connecting customer.

In the 2020-2024 CIR decision and rate order, the OEB approved disposition of the 2019 balance over a 48-month period commencing on January 1, 2021.

l) Tax-related variance accounts

The regulatory balance arose primarily from the revenue requirement impact of accelerated capital cost allowance deductions from the Accelerated Investment Incentive tax measure which received Royal Assent on June 21, 2019. In the 2020-2024 CIR decision and rate order, the OEB approved the disposition of the 2019 balance over a 24-month period commencing on January 1, 2023.

In addition, the balance includes a residual credit balance that arose from favourable income tax reassessments on certain prior year tax positions received, which differed from those assumed in previous applications for electricity distribution rates.

m) Accounts receivable credits

This regulatory account relates to closed customer accounts with unclaimed credit balances.

In the 2020-2024 CIR decision and rate order, the OEB approved disposition of the 2019 balance over a 48-month period commencing on January 1, 2021.

n) Stranded meters and smart meters

These regulatory balances relate to the provincial government's decision to install smart meters throughout Ontario.

In the 2015-2019 CIR decision and rate order, the OEB approved LDC's request for recovery of the forecasted net book value of the stranded meters as at December 31, 2014 over 46 months commencing on March 1, 2016.

The OEB ruling on smart meters 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. This allowed LDC to recover the incremental revenue requirement associated with these assets for the period during which they remained outside of rate base.

In the 2020-2024 CIR decision and rate order, the OEB approved disposition of the 2019 balance for the difference between the forecasted and actual net book value of stranded meters as at December 31, 2014 over a 48-month period commencing on January 1, 2021.

o) Named properties

As part of 2010 rates, LDC had forecasted net gains on certain properties which were planned for sale between 2007 and 2011. This regulatory balance relates to the excess of those forecasted net gains over the actual net gains realized upon the sale of the named properties. In the 2015-2019 CIR decision and rate order, the OEB approved disposition of this variance over 46 months commencing on March 1, 2016.

p) Capital contributions

This regulatory balance relates to the difference between amounts included in rates for HONI capital contributions and actual contributions made in 2010 and 2011. In the 2015-2019 CIR decision and rate order, the OEB approved disposition of this variance over 46 months commencing on March 1, 2016.

q) COVID-19 emergency

On March 25, 2020, the OEB established the COVID-19 Emergency Deferral Account in recognition that distributors will incur incremental costs and lost revenues resulting from the COVID-19 pandemic. The OEB accounting guidance specified that incremental bad debt expense can be included in COVID-19 Emergency Deferral Account. On May 14, 2020, the OEB launched a consultation process to inform its decision-making with respect to how the account will operate, including eligibility requirements, and the process and timing for the disposition. As at September 30, 2020, the balance recorded as a regulatory debit balance in the COVID-19 Emergency Deferral Account was $17.7 million and represented management's best estimate of the incremental bad debt expense as a result of the COVID-19 pandemic expected to be probable of recovery.

On December 16, 2020, OEB staff issued a proposal, which provided an update on the OEB's most recent orientation in the policy consultation. Based on this information, management believes there is high uncertainty in regards to the recoverability of costs and lost revenues related to government and OEB customer relief actions, and therefore a low probability of recovery. Consequently, the balance of $17.7 million that was previously deferred to the COVID-19 Emergency Deferral Account for incremental bad debt expense was reversed such that no amount was deferred as at December 31, 2020. LDC continues to track lost revenues related to lower commercial electricity consumption, direct relief provided to customers through reduction of late payment charges, incremental bad debt expense and costs directly related to the implementation of safety measures as a result of the COVID-19 pandemic but no amounts have been recorded in the COVID-19 Emergency Deferral Account as at December 31, 2020.

9. SHORT-TERM BORROWINGS

The Corporation is a party to a credit agreement with a syndicate of Canadian chartered banks which established a revolving credit facility ["Revolving Credit Facility"], pursuant to which it may borrow up to $800.0 million, of which up to $210.0 million is available in the form of letters of credit. On August 22, 2019, the maturity date of the Revolving Credit Facility was extended by one year from October 10, 2023 to October 10, 2024. Borrowings under the Revolving Credit Facility bear interest at fluctuating rates plus an applicable margin based on the Corporation's credit rating.

The Corporation has a Commercial Paper Program allowing unsecured short-term promissory notes to be issued in various maturities of no more than one year. On May 25, 2020, the amount the Corporation may issue under this program was increased by $150.0 million from $600.0 million to $750.0 million. The Commercial Paper Program is supported by liquidity facilities available under the Revolving Credit Facility; hence, available borrowing under the Revolving Credit Facility is reduced by the amount of commercial paper outstanding at any point in time. Proceeds from the Commercial Paper Program are used for general corporate purposes. Borrowings under the Commercial Paper Program bear interest based on the prevailing market conditions at the time of issuance.

Additionally, the Corporation is a party to:

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

- a $20.0 million demand facility with a second Canadian chartered bank for the purpose of working capital management ["Working Capital Facility"].

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

	Revolving Credit Facility Limit $	Revolving Credit Facility Borrowings $	Commercial Paper Outstanding $	Revolving Credit Facility Availability $
December 31, 2020	800.0	—	160.0	640.0
December 31, 2019	800.0	—	136.0	664.0

For the year ended December 31, 2020, the average aggregate outstanding borrowings under the Corporation's Revolving Credit Facility, Working Capital Facility and Commercial Paper Program were $349.6 million [2019 - $333.9 million] with a weighted average interest rate of 0.76% [2019 - 1.94%].

As at December 31, 2020, $6.2 million had been drawn under the Working Capital Facility [December 31, 2019 - $1.0 million] and $32.9 million of letters of credit had been issued against the Prudential Facility [December 31, 2019 - $33.2 million].

10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consist of the following:

	2020 $	2019 $
Trade payables	**253.7**	308.4
Accrued liabilities	**107.6**	153.5
Due to related parties *[note 22]*	**25.8**	24.1
Accrued interest	**17.3**	17.5
Other	**1.7**	1.6
	406.1	505.1

11. DEFERRED REVENUE

Deferred revenue consists of the following:

	2020 $	2019 $
Capital contributions, beginning of year	**410.4**	288.6
Capital contributions received	**151.7**	127.8
Amortization	**(8.2)**	(5.9)
Other	**(0.2)**	(0.1)
Capital contributions, end of year	**553.7**	410.4
Other deferred revenue, beginning of year	**1.5**	2.4
Other deferred revenue received	**15.6**	10.0
Revenue recognized	**(14.5)**	(10.9)
Other deferred revenue, end of year	**2.6**	1.5
Total deferred revenue	**556.3**	411.9
Less: Current portion of deferred revenue relating to:		
Capital contributions	**15.5**	12.1
Other deferred revenue	**2.6**	1.5
Current portion of deferred revenue	**18.1**	13.6
Non-current portion of deferred revenue	**538.2**	398.3

12. DEBENTURES

Debentures consist of the following:

	2020 $	2019 $
Senior unsecured debentures		
Series 6 – 5.54% due May 21, 2040	**200.0**	200.0
Series 7 – 3.54% due November 18, 2021	**300.0**	300.0
Series 8 – 2.91% due April 10, 2023	**250.0**	250.0
Series 9 – 3.96% due April 9, 2063	**245.0**	245.0
Series 10 – 4.08% due September 16, 2044	**200.0**	200.0
Series 11 – 3.55% due July 28, 2045	**200.0**	200.0
Series 12 – 2.52% due August 25, 2026	**200.0**	200.0
Series 13 – 3.485% due February 28, 2048	**200.0**	200.0
Series 14 – 2.43% due December 11, 2029	**200.0**	200.0
Series 15 – 2.99% due December 10, 2049	**200.0**	200.0
Series 16 – 1.50% due October 15, 2030	**200.0**	—
Total debentures	**2,395.0**	2,195.0
Less: Unamortized debt issuance costs	**11.7**	11.2
Unamortized discount/premium	**1.1**	0.8
Current portion of debentures	**299.8**	—
Long-term portion of debentures	**2,082.4**	2,183.0

All debentures of the Corporation rank equally.

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

On November 12, 2019, the Corporation issued $400.0 million of senior unsecured debentures. The issuance consisted of two tranches of debt, $200.0 million of 2.43% senior unsecured debentures due on December 11, 2029 at a price of $999.28 per $1,000 principal amount [“Series 14”], and $200.0 million of 2.99% senior unsecured debentures due on December 10, 2049 at a price of $999.59 per $1,000 principal amount [“Series 15”]. The Series 14 and Series 15 debentures bear interest payable semi-annually in arrears. Debt issuance costs of $2.5 million relating to both Series of debentures were recorded against the carrying amount of the debentures and are amortized to finance costs using the effective interest method.

The Corporation’s Series 3 debentures matured and were repaid on November 12, 2019.

On October 15, 2020, the Corporation issued $200.0 million of 1.50% senior unsecured debentures due on October 15, 2030 at a price of $998.43 per $1,000 principal amount [“Series 16”]. The Series 16 debentures bear interest payable semi-annually in arrears. Debt issuance costs of $1.4 million relating to the Series 16 debentures were recorded against the carrying amount of the debentures in the fourth quarter of 2020 and are amortized to finance costs using the effective interest method.

The Corporation may redeem all or part of its outstanding debentures at any time prior to maturity at a price equal to the greater of the Canada Yield Price (determined in accordance with the terms of the debentures) and par, plus accrued and unpaid interest up to and excluding the date fixed for redemption. Also, the Corporation may, at any time and

from time to time, purchase debentures for cancellation, in the open market, by tender or by private contract, at any price agreed upon with the holder of the debentures being purchased. The debentures contain certain covenants which, subject to certain exceptions, restrict the ability of the Corporation and LDC to create security interests, incur additional indebtedness or dispose of all or substantially all of their assets.

13. EMPLOYEE FUTURE BENEFITS

Multi-employer pension plan

The Corporation's eligible employees participate in a defined benefit pension plan through OMERS. As at December 31, 2020, the OMERS plan was 97.0% funded [December 31, 2019 - 97.0%]. OMERS has a strategy to return the plan to a fully funded position. The Corporation is not able to assess the implications, if any, of this strategy or of the withdrawal of other participating entities from the OMERS plan on its future contributions. For the year ended December 31, 2020, the Corporation's contributions were $17.7 million [2019 - $18.2 million], representing less than five percent of total contributions to the OMERS plan. The Corporation expects to contribute approximately $18.3 million to the OMERS plan in 2021.

Post-employment benefits

a) Benefit obligation

	2020 $	2019 $
Balance, beginning of year	**334.9**	275.9
Current service cost	**4.6**	3.2
Interest cost	**10.0**	10.3
Benefits paid	**(11.7)**	(10.6)
Past service cost [(1)]	**0.4**	15.1
Experience loss (gain) [(2)]	**(6.3)**	1.4
Actuarial gain arising from changes in demographic assumptions [(2)]	**(27.2)**	—
Actuarial loss arising from changes in financial assumptions [(2)] [(3)]	**28.0**	39.6
Balance, end of year	**332.7**	334.9

[(1)] An arbitration process was ongoing prior to December 31, 2019 with respect to certain employees of the Corporation. As a result of the arbitrator's decision received on March 3, 2020, the Corporation recorded an estimated past service cost relating to the existence of a post-employment benefit obligation as at December 31, 2019. The plan amendment details were finalized in 2020 and were included as a component of the past service cost as at December 31, 2020. The related obligations will be supported by letters of credit.
[(2)] Actuarial loss (gain) on accumulated sick leave credits of ($0.4) million [2019 - $2.8 million] is recognized in benefit cost *[note 13[c]]* and actuarial loss (gain) on medical, dental and life insurance benefits of ($5.1) million [2019 - $38.2 million] is recognized in OCI *[note 13[d]]*.
[(3)] Reflects the impact of change in discount rate *[note 13[e]]*.

b) Amounts recognized in regulatory balances

As at December 31, 2020, the amount recognized in regulatory balances related to accumulated net actuarial loss was $75.5 million [December 31, 2019 - $86.3 million] *[note 8[a]]*.

c) *Benefit cost recognized*

	2020 $	2019 $
Current service cost	**4.6**	3.2
Interest cost	**10.0**	10.3
Past service cost *[note 13[a]]*	**0.4**	15.1
Actuarial loss (gain) on other employee benefits *[note 13[a]]*	**(0.4)**	2.8
Benefit cost	**14.6**	31.4
Capitalized to PP&E and intangible assets	**6.4**	7.6
Charged to operating expenses	**8.2**	23.8

d) *Amounts recognized in OCI*

	2020 $	2019 $
Actuarial loss (gain) *[note 13[a]]*	**(5.1)**	38.2
Income tax expense (recovery) in OCI *[note 20]*	**1.3**	(10.1)
Remeasurements of post-employment benefits, net of tax	**(3.8)**	28.1
Net movements in regulatory balances related to OCI, net of tax	**3.8**	(28.1)
OCI, net of tax	**—**	—

e) *Significant assumptions*

	2020 %	2019 %
Discount rate used in the calculation of:		
Benefit obligation as at December 31	**2.50**	3.00
Assumed medical and dental cost trend rates as at December 31:		
Rate of increase in dental costs assumed for next year	**4.00**	4.00
Rate of increase in medical costs assumed for next year	**5.00**	5.00

f) *Sensitivity analysis*

Significant actuarial assumptions for benefit obligation measurement purposes are discount rate and assumed medical and dental cost trend rates. The weighted average duration of the benefit obligation as at December 31, 2020 was 17.0 [2019 - 17.3]. The sensitivity analysis below has been determined based on reasonably possible changes of the assumptions, in isolation of one another, occurring at the end of the reporting period. This analysis may not be representative of the actual change since it is unlikely that changes in the assumptions would occur in isolation of one another as some of the assumptions may be correlated.

Changes in key assumptions would have had the following effect on the benefit obligation:

	Change in assumption	2020 $	2019 $
Benefit obligation		**332.7**	334.9
Discount rate	1% ↑	**(49.9)**	(50.5)
	1% ↓	**64.0**	64.9
Medical and dental cost trend rate	1% ↑	**40.6**	41.4
	1% ↓	**(35.9)**	(37.0)

14. CAPITAL MANAGEMENT

The Corporation's main objectives when managing capital are to:

- ensure ongoing access to funding to maintain, refurbish and expand the electricity distribution system of LDC;
- ensure sufficient liquidity is available (either through cash and cash equivalents or committed credit facilities) to meet the needs of the business;
- ensure compliance with covenants related to its credit facilities and senior unsecured debentures; and
- minimize finance costs while taking into consideration current and future industry, market and economic risks and conditions.

The Corporation monitors forecasted cash flows, capital expenditures, debt repayment and key credit ratios similar to those used by key rating agencies. The Corporation manages capital by preparing short-term and long-term cash flow forecasts. In addition, the Corporation accesses debt capital markets as required to help fund some of the periodic net cash outflows and to maintain available liquidity. There have been no changes in the Corporation's approach to capital management during the year. As at December 31, 2020, the Corporation's definition of capital included equity, borrowings under its Working Capital Facility, Commercial Paper Program and Revolving Credit Facility, long-term debt and obligations under leases, including the current portion thereof, and has remained unchanged from the definition as at December 31, 2019. As at December 31, 2020, equity amounted to $1,912.0 million [December 31, 2019 - $1,887.5 million], and borrowings under its Working Capital Facility, Commercial Paper Program and Revolving Credit Facility, long-term debt and obligations under leases, including the current portion thereof, amounted to $2,548.7 million [December 31, 2019 - $2,320.2 million].

The Corporation is subject to debt agreements that contain various covenants. The Corporation's unsecured debentures limit consolidated funded indebtedness to a maximum of 75% of total consolidated capitalization as defined in the agreements. The Corporation's Revolving Credit Facility limits the debt to capitalization ratio to a maximum of 75%.

The Corporation's debt agreements also include restrictive covenants such as limitations on designated subsidiary indebtedness, and restrictions on mergers and dispositions of designated subsidiaries. As at December 31, 2020 and December 31, 2019, the Corporation was in compliance with all covenants included in its trust indenture, supplemental trust indentures and Revolving Credit Facility agreement.

15. FINANCIAL INSTRUMENTS

a) Recognition and measurement

As at December 31, 2020 and December 31, 2019, the fair values of accounts receivable and unbilled revenue, Working Capital Facility, commercial paper, and accounts payable and accrued liabilities approximated their carrying amounts due to the short maturity of these instruments *[note 25[k]]*. The fair value of customer deposits approximates their carrying amounts taking into account interest accrued on the outstanding balance. Obligations under leases are measured based on a discounted cash flow analysis and approximate the carrying amounts as management believes that the fixed interest rates are representative of current market rates.

The carrying amounts and fair values of the Corporation's debentures consist of the following:

	2020 $		**2019 $**	
	Carrying amount	**Fair value (1)**	**Carrying amount**	**Fair value (1)**
Senior unsecured debentures				
Series 6 – 5.54% due May 21, 2040	**198.8**	**293.2**	198.8	278.1
Series 7 – 3.54% due November 18, 2021	**299.8**	**308.2**	299.6	308.2
Series 8 – 2.91% due April 10, 2023	**249.6**	**262.2**	249.5	255.9
Series 9 – 3.96% due April 9, 2063	**243.4**	**334.0**	243.4	297.3
Series 10 – 4.08% due September 16, 2044	**198.5**	**255.6**	198.4	238.0
Series 11 – 3.55% due July 28, 2045	**198.5**	**238.1**	198.4	220.3
Series 12 – 2.52% due August 25, 2026	**199.2**	**216.9**	199.1	203.5
Series 13 – 3.485% due February 28, 2048	**198.6**	**238.4**	198.5	219.2
Series 14 – 2.43% due December 11, 2029	**198.8**	**218.4**	198.7	198.8
Series 15 – 2.99% due December 10, 2049	**198.6**	**220.1**	198.6	200.7
Series 16 – 1.50% due October 15, 2030	**198.4**	**200.8**	—	—
	2,382.2	**2,785.9**	2,183.0	2,420.0

(1) The fair value measurement of financial instruments for which the fair value has been disclosed is included in Level 2 of the fair value hierarchy *[note 25[l]]*.

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.

Credit risk

The Corporation is exposed to the risk of counterparties defaulting on their obligations. The Corporation monitors and limits its exposure to credit risk on a continuous basis. The credit risk related to cash and cash equivalents is mitigated by the Corporation's treasury policies on assessing and monitoring the credit exposures of counterparties.

The Corporation's exposure to credit risk primarily relates to accounts receivable and unbilled revenue. The Corporation is subject to credit risk with respect to customer non-payment of electricity bills. As a result of the COVID-19 pandemic and material disruptions to businesses and the economy, the Corporation's credit risk has increased due to some customers not being able to pay their electricity bills when due, and LDC's security interest or other protective measures, if any, provided to LDC, such as letters of credit, cash deposits or pre-authorized payments

may not be sufficient. The Corporation considers the current economic and credit conditions to determine the loss allowance of its accounts receivable and unbilled revenue. Given the high degree of uncertainty caused by the COVID-19 pandemic, the estimates and judgments made by management in the preparation of the expected credit loss allowance are subject to a high degree of estimation uncertainty. Based on the Corporation's current estimates and assumptions, including but not limited to recent trend for customer collections and current and forecasted economic conditions, the Corporation adjusted the expected credit loss provision to account for the higher level of expected customer defaults at the balance sheet date. The Corporation continues to actively monitor its exposure to credit risk and as at December 31, 2020, recorded an incremental provision of $17.2 million to its expected credit loss allowance as a result of the COVID-19 pandemic.

LDC obtains security instruments from certain customers in accordance with direction provided by the OEB. As at December 31, 2020, LDC held security deposits in the amount of $63.6 million [December 31, 2019 - $68.0 million], of which $33.4 million [December 31, 2019 - $35.2 million] was related to security deposits on offers to connect to guarantee the payment of additional costs related to expansion projects. The Corporation's security instruments may not provide sufficient protection from counterparties defaulting on their obligations. As at December 31, 2020, there were no significant concentrations of credit risk with respect to any customer. The credit risk and mitigation strategies with respect to unbilled revenue are the same as those for accounts receivable.

The Corporation did not have any single customer that generated more than 10% of total consolidated revenue for the years ended December 31, 2020 and December 31, 2019.

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

	2020 $	2019 $
Accounts receivable, gross		
Outstanding for not more than 30 days	**167.1**	199.6
Outstanding for more than 30 days and not more than 120 days	**51.4**	44.9
Outstanding for more than 120 days	**26.5**	14.4
Total accounts receivable, gross	**245.0**	258.9
Unbilled revenue, gross	**254.7**	294.2
Loss allowance	**(30.5)**	(11.8)
Total accounts receivable and unbilled revenue	**469.2**	541.3

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 in conjunction with accounts receivable and is included in the loss allowance as at December 31, 2020 and December 31, 2019.

The Corporation has a broad base of customers. As at December 31, 2020 and December 31, 2019, the Corporation's accounts receivable and unbilled revenue which were not past due or impaired were assessed by management to have no significant collection risk.

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

	2020 $	2019 $
Balance, beginning of year	**(11.8)**	(10.8)
Loss allowance	**(23.4)**	(6.3)
Write-offs	**5.0**	5.5
Recoveries of previously written-off balances	**(0.3)**	(0.2)
Balance, end of year	**(30.5)**	(11.8)

For the year ended December 31, 2020, the Corporation recorded an incremental loss allowance primarily related to commercial electricity customers as a result of the COVID-19 pandemic.

c) Market risks

Interest rate risk

The Corporation is exposed to fluctuations in interest rates for the valuation of its post-employment benefit obligations *[note 13[f]]*. The Corporation is also 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 9]* and customer deposits. The Corporation manages interest rate risk by monitoring its mix of fixed and floating rate instruments, and taking action as necessary to maintain an appropriate balance.

As at December 31, 2020, aside from the valuation of its post-employment benefit obligations, the Corporation was exposed to interest rate risk predominately from short-term borrowings under its Commercial Paper Program and customer deposits, while most of its remaining obligations were either non-interest bearing or bear fixed interest rates, and its financial assets were predominately short-term in nature and mostly non-interest bearing. The Corporation estimates that a 25 basis point increase (decrease) in short-term interest rates, with all other variables held constant, would result in an increase (decrease) of approximately $0.6 million to annual finance costs.

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

Liquidity risks associated with financial commitments are as follows:

2020						
	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	6.2	—	—	—	—	—
Commercial paper [(1)]	160.0	—	—	—	—	—
Accounts payable and accrued liabilities [(2)]	388.8	—	—	—	—	—
Obligations under leases	—	—	0.1	0.1	0.1	—
Senior unsecured debentures						
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	—	—	—	—	—	245.0
Series 10 – 4.08% due September 16, 2044	—	—	—	—	—	200.0
Series 11 – 3.55% due July 28, 2045	—	—	—	—	—	200.0
Series 12 – 2.52% due August 25, 2026	—	—	—	—	—	200.0
Series 13 – 3.485% due February 28, 2048	—	—	—	—	—	200.0
Series 14 – 2.43% due December 11, 2029	—	—	—	—	—	200.0
Series 15 – 2.99% due December 10, 2049	—	—	—	—	—	200.0
Series 16 – 1.50% due October 15, 2030	—	—	—	—	—	200.0
Interest payments on debentures	79.8	69.2	65.5	61.9	61.9	1,161.3
	934.8	69.2	315.6	62.0	62.0	3,006.3

[(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 $17.3 million of accrued interest on debentures included within "Interest payments on debentures".

Foreign exchange risk

As at December 31, 2020, 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 Consolidated Financial Statements.

16. SHARE CAPITAL

Share capital consists of the following:

	2020 $	2019 $
Authorized The authorized share capital of the Corporation consists of an unlimited number of common shares without par value.		
Issued and outstanding 1,200 common shares, of which all were fully paid.	817.8	817.8

Dividends

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

Subject to applicable law, the Shareholder Direction provides that the Corporation will pay dividends to the City each year amounting to 60% of the Corporation's consolidated net income after net movements in regulatory balances for the prior fiscal year. The dividend is declared in quarterly instalments, subject to the discretion of the Board of Directors and payable to the City by the last business day of each fiscal quarter.

During the year ended December 31, 2020, the Board of Directors of the Corporation declared and paid dividends to the City totalling $92.6 million [2019 - $100.4 million].

On March 3, 2021, the Board of Directors of the Corporation declared a dividend in the amount of $17.6 million, payable to the City by March 31, 2021.

17. REVENUES

Revenues consist of the following:

	2020 $	2019[(1)] $
Revenue from contracts with customers		
Energy sales	**3,142.5**	2,779.7
Distribution revenue	**694.4**	799.2
Pole and duct rentals	**20.4**	19.3
Street lighting services	**18.1**	20.0
Ancillary services revenue	**14.9**	18.2
Other regulatory service charges	**7.5**	10.2
Miscellaneous	**14.1**	8.1
Revenue from other sources		
Capital contributions	**8.2**	5.9
Other	**9.5**	12.7
	3,929.6	3,673.3

(1) Includes reclassification from amounts previously reported.

Energy sales and distribution revenue by customer class are as follows:

	2020 $	2019 $
Residential service [(1)]	**1,120.7**	917.2
General service [(2)]	**2,512.4**	2,443.6
Large users [(3)]	**203.8**	218.1
Total energy sales and distribution revenue	**3,836.9**	3,578.9

[(1)] "Residential Service" means a service that is for domestic or household purposes, including single family or individually metered multifamily units and seasonal occupancy.
[(2)] "General Service" means a service supplied to premises other than those receiving "Residential Service" and "Large Users" and typically includes small businesses and bulk-metered multi-unit residential establishments. This service is provided to customers with a monthly peak demand of less than 5,000 kW averaged over a 12-month period.
[(3)] "Large Users" means a service provided to a customer with a monthly peak demand of 5,000 kW or greater averaged over a 12-month period.

18. OPERATING EXPENSES

Operating expenses consist of the following:

	2020 $	2019 $
Salaries and benefits	**227.0**	242.8
External services	**143.9**	147.1
Other support costs [(1)]	**46.2**	23.8
Materials and supplies	**26.7**	18.1
Less: Capitalized costs	**(117.8)**	(122.9)
	326.0	308.9

[(1)] Includes bad debt expense, taxes other than income taxes, utilities, rental, communication, insurance, and other general and administrative expenses.

For the year ended December 31, 2020, the Corporation recognized operating expenses of $16.3 million related to materials and supplies used to service electricity distribution assets [2019 - $9.3 million].

19. FINANCE COSTS

Finance costs consist of the following:

	2020 $	2019 $
Interest income	**(1.3)**	(3.0)
Interest expense		
Interest on long-term debt [(1)]	**78.4**	77.9
Interest on short-term debt	**4.3**	8.1
Other interest	**0.3**	0.8
Capitalized borrowing costs	**(4.6)**	(3.7)
	77.1	80.1

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

20. INCOME TAXES

Income tax expense differs from the amount that would have been recorded using the combined statutory Canadian federal and provincial income tax rate. Reconciliation of income tax expense computed at the statutory income tax rate to the income tax provision is set out below:

	2020 $	2019 $
Rate reconciliation before net movements in regulatory balances		
Income before income taxes	**101.7**	251.3
Statutory Canadian federal and provincial income tax rate	**26.5%**	26.5%
Expected income tax expense	**27.0**	66.6
Non-taxable amounts	**(0.3)**	(0.8)
Gain on disposal	—	0.4
Other	**1.9**	1.7
Income tax expense	**28.6**	67.9
Effective tax rate	**28.1%**	27.0%
Rate reconciliation after net movements in regulatory balances		
Net income after net movements in regulatory balances, before income tax [(1)]	**120.5**	188.9
Statutory Canadian federal and provincial income tax rate	**26.5%**	26.5%
Expected income tax expense	**31.9**	50.1
Temporary differences recoverable in future rates	**(29.4)**	(15.7)
Gain on disposal	—	0.4
Other	**0.9**	(0.3)
Income tax expense and income tax recorded in net movements in regulatory balances	**3.4**	34.5
Effective tax rate	**2.8%**	18.3%

[(1)] Income tax includes income tax expense and income tax recorded in net movements in regulatory balances.

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

	2020 $	2019 $
Income tax expense	**28.6**	67.9
Income tax recorded in net movements in regulatory balances	**(25.2)**	(33.4)
Income tax expense and income tax recorded in net movements in regulatory balances	**3.4**	34.5
Income tax expense (recovery) in OCI *[note 13[d]]*	**1.3**	(10.1)
Income tax expense (recovery) in OCI recorded in net movements in regulatory balances	**(1.3)**	10.1
Income tax expense in OCI	—	—

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2020 and 2019
[All tabular amounts in millions of Canadian dollars]

Components of income tax expense and income tax recorded in net movements in regulatory balances are as follows:

	2020 $	2019 $
Current tax expense		
Current year	**5.9**	34.4
Deferred tax expense		
Origination and reversal of temporary differences	**(2.5)**	0.1
Income tax expense and income tax recorded in net movements in regulatory balances	**3.4**	34.5

Deferred tax assets (liabilities) consist of the following:

	Net balance January 1, 2020 $	Recognized in net income $	Recognized in OCI $	Net balance December 31, 2020 $
PP&E and intangible assets	**(83.3)**	**(30.7)**	**—**	**(114.0)**
Post-employment benefits	**88.7**	**0.7**	**(1.3)**	**88.1**
Tax credit carryforward	**—**	**2.5**	**—**	**2.5**
Other taxable temporary differences	**(28.5)**	**4.8**	**—**	**(23.7)**
	(23.1)	**(22.7)**	**(1.3)**	**(47.1)**

	Net balance January 1, 2019 $	Recognized in net income $	Recognized in OCI $	Net balance December 31, 2019 $
PP&E and intangible assets	(45.9)	(37.4)	—	(83.3)
Post-employment benefits	73.0	5.6	10.1	88.7
Other taxable temporary differences	(26.8)	(1.7)	—	(28.5)
	0.3	(33.5)	10.1	(23.1)

As at December 31, 2020, the Corporation had accumulated net capital losses of $18.7 million [December 31, 2019 - $18.7 million], which are available to offset capital gains in future years. There were no accumulated non-capital losses for income tax purposes as at December 31, 2020 and December 31, 2019.

Deferred tax assets have not been recognized in respect of the following items because it is not probable that future taxable income will be available against which the Corporation can utilize the benefits therefrom.

	2020 $	2019 $
Deductible temporary differences	**7.0**	7.2
Net capital losses	**5.0**	5.0
	12.0	12.2

21. CONSOLIDATED STATEMENTS OF CASH FLOWS

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

	2020 $	2019 $
Accounts receivable and unbilled revenue	**72.1**	(43.0)
Income tax receivable	**(11.9)**	(0.5)
Materials and supplies	**(2.0)**	0.3
Other current assets	**(2.6)**	(3.4)
Accounts payable and accrued liabilities	**(20.6)**	(26.8)
Income tax payable	**—**	(5.1)
Deferred revenue	**4.5**	0.7
Deferred conservation credit	**6.5**	1.3
Other current liabilities	**—**	(0.3)
	46.0	(76.8)

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

	2020 $	2019 $
Purchase of PP&E, cash basis	**639.5**	518.3
Net change in accruals related to PP&E	**(63.0)**	14.5
Other	**0.9**	0.9
Total additions to PP&E	**577.4**	533.7
Purchase of intangible assets, cash basis	**40.8**	53.0
Net change in accruals related to intangible assets	**(1.0)**	0.4
Other	**—**	12.7
Total additions to intangible assets	**39.8**	66.1

Summary of changes in liabilities arising from financing activities:

	2019 $	Cash flows [1] $	Non-cash changes $	2020 $
Year ended December 31				
Commercial paper	**136.0**	**24.0**	**—**	**160.0**
Dividends payable	**—**	**(92.6)**	**92.6**	**—**
Debentures *[note 12]*	**2,183.0**	**198.3**	**0.9**	**2,382.2**
Accrued interest [2]	**17.5**	**(82.0)**	**81.8**	**17.3**
Lease liability [3]	**0.3**	**—**	**—**	**0.3**
	2,336.8	**47.7**	**175.3**	**2,559.8**

	2018 $	Cash flows [1] $	Non-cash changes $	2019 $
Year ended December 31				
Commercial paper	113.0	23.0	—	136.0
Dividends payable	—	(100.4)	100.4	—
Debentures *[note 12]*	2,034.9	147.3	0.8	2,183.0
Accrued interest [2]	17.6	(85.7)	85.6	17.5
Lease liability [3]	1.3	(0.2)	(0.8)	0.3
	2,166.8	(16.0)	186.0	2,336.8

[1] Cash inflows and cash outflows arising from commercial paper borrowings and debentures are presented on a net basis.
[2] Included within accounts payable and accrued liabilities *[note 10]*.
[3] Included within other liabilities.

22. RELATED PARTY TRANSACTIONS

As the City is the sole shareholder of the Corporation, the Corporation and the City are considered related parties.

Summary of Transactions with Related Parties	2020 $	2019 $
Revenues	**304.6**	299.3
Operating expenses and capital expenditures	**10.5**	7.3
Dividends declared and paid	**92.6**	100.4

Summary of Amounts Due to/from Related Parties	2020 $	2019 $
Accounts receivable and unbilled revenue	**41.6**	44.4
Accounts payable and accrued liabilities	**25.8**	24.1
Customer deposits	**12.6**	14.1

Revenues represent amounts charged to the City primarily for electricity, street lighting and ancillary services. Operating expenses and capital expenditures represent amounts charged by the City for purchased road cut repairs, property taxes and other services. Dividends are paid to the City *[note 16]*.

Accounts receivable and unbilled revenue represent receivables from the City primarily for electricity, street lighting and ancillary services including amounts not yet billed. Accounts payable and accrued liabilities represent amounts payable to the City related to road cut repairs and other services. Customer deposits represent amounts received from the City for future expansion projects.

Key management personnel include the Corporation's senior executive officers and members of the Board of Directors. The compensation costs associated with the key management personnel are as follows:

	2020 $	2019 $
Short-term employee benefits	**5.3**	4.7
Post-employment benefits	**2.9**	0.9
Termination benefits	**2.6**	—
	10.8	5.6

23. COMMITMENTS

Capital projects

As at December 31, 2020, the future minimum payments for capital projects and other commitments were as follows:

	Capital projects [1] and other $
Less than one year	**36.3**
Between one and five years	**39.1**
Total amount of future minimum payments [2]	**75.4**

[1] Mainly commitments for construction services.
[2] Refer to note 15 for financial commitments excluded from the table above.

24. CONTINGENCIES

Legal Proceedings

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

25. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Basis of consolidation

The Consolidated Financial Statements include the accounts of the Corporation and its wholly owned subsidiaries. All intercompany balances and transactions have been eliminated.

b) Regulation

The following regulatory treatments have resulted in accounting treatments which differ from those prescribed by IFRS for enterprises operating in an unregulated environment and regulated entities that did not adopt IFRS 14.

Regulatory Balances

In January 2014, the IASB issued IFRS 14 as an interim standard giving entities conducting rate-regulated activities the option of continuing to recognize regulatory balances according to their previous GAAP. Regulatory balances provide useful information about the Corporation's financial position, financial performance and cash flows. IFRS 14 is restricted to first-time adopters of IFRS and remains in force until either repealed or replaced by permanent guidance on rate-regulated accounting from the IASB.

The Corporation has determined that certain debit and credit balances arising from rate-regulated activities qualify for the application of regulatory accounting treatment in accordance with IFRS 14. Under rate-regulated accounting, the timing and recognition of certain expenses and revenues may differ from those otherwise expected under other IFRS in order to appropriately reflect the economic impact of regulatory decisions regarding the Corporation's regulated revenues and expenditures. These amounts arising from timing differences are recorded as regulatory debit and credit balances on the Corporation's consolidated balance sheets, and represent existing rights and obligations regarding cash flows expected to be recovered from or refunded to customers, based on decisions and approvals by the OEB. Regulatory balances can be recognized for rate-setting and financial reporting purposes only if the OEB directs the relevant regulatory treatment or if future OEB direction is determined by management to be probable. In the event that the disposition of these balances is assessed to no longer be probable based on management's judgment, the balances are recorded in the Corporation's consolidated statements of income in the period when the assessment is made. Regulatory balances, which do not meet the definition of an asset or liability under any other IFRS, are segregated on the consolidated balance sheets and are presented on the consolidated statements of income and the consolidated statements of comprehensive income as net movements in regulatory balances and net movements in regulatory balances related to OCI, net of tax. The netting of regulatory debit and credit balances is not permitted. The measurement of regulatory balances is subject to certain estimates and assumptions, including assumptions made in the interpretation of the OEB's regulations and decisions.

c) Cash and cash equivalents

Cash and cash equivalents include cash in bank accounts and short-term investments with terms to maturity of 90 days or less from their date of acquisition. On the consolidated statements of cash flows, cash and cash equivalents (working capital facility) include bank overdrafts that are repayable on demand and form an integral part of the Corporation's cash management.

d) Accounts receivable and unbilled revenue

Accounts receivable are recorded at the invoiced amount and overdue amounts bear interest at OEB-approved rates. Unbilled revenue is recorded based on an estimated amount for electricity delivered and for other services provided and not yet billed. The estimate is primarily based on the customers' previous billings with adjustments mainly for assumptions related to seasonality and weighted average price. The carrying amount of accounts receivable and unbilled revenue is reduced through a loss allowance, if applicable, and the amount of the related impairment loss is recognized in the consolidated statements of income. The impairment loss is the difference between an asset's carrying amount and the estimated future cash flows. When the Corporation considers that there are no realistic prospects of recovery of the financial assets, the relevant amounts are written off. If the amount of impairment loss subsequently decreases due to an event occurring after the impairment was recognized, then the previously recognized impairment loss is reversed through net income.

Accounts receivable and unbilled revenue are assessed at each reporting date to determine whether there is objective evidence of impairment, which includes default or delinquency by a debtor, indications that a debtor or issuer will enter bankruptcy, and adverse changes in the payment status of borrowers or issuers. Accounts receivable and unbilled revenue that are not individually assessed for impairment are collectively assessed for impairment by grouping together receivables with similar risk characteristics, and the Corporation considers historical trends on the timing of recoveries and the amount of loss incurred, adjusted for forward-looking factors specific to the current economic and credit conditions.

The Corporation measures the loss allowance at an amount equal to the lifetime expected credit losses ["ECL"] for all trade receivables that result from transactions with customers and do not contain a significant financing component. A provision matrix is used by the Corporation to measure the lifetime ECL of accounts receivable from individual customers. Loss rates are calculated using a 'roll rate' method based on the probability of a trade receivable progressing through successive stages of delinquency to write-off and are based on the average of actual credit loss experience over the past three years, as it more accurately reflects anticipated credit loss. Roll rates are calculated separately for exposures based on customer account status. The Corporation also adjusts the ECL in efforts to account for current economic conditions and events (including forward-looking macroeconomic data) and historical information (including credit agency reports, if available). The Corporation considers the reasons for the accounts being past due, the characteristics of existing accounts, reasonable and supportable forecasts and other considerations that may affect the collectability of the reported amounts.

e) Materials and supplies

Materials and supplies consist primarily of small consumable materials mainly related to the maintenance of the electricity distribution infrastructure. The Corporation classifies all major construction related components of its electricity distribution infrastructure to PP&E. Materials and supplies are carried at the lower of cost and net realizable value, with cost determined on a weighted average cost basis net of a provision for obsolescence.

f) Property, plant and equipment

PP&E are measured at cost less accumulated depreciation and any accumulated impairment losses, if applicable. The cost of PP&E represents the original cost, consisting of direct materials and labour, contracted services, borrowing costs, and directly attributable overhead. Subsequent costs are capitalized only if it is probable that the future economic benefits associated with the expenditure will flow to the Corporation and the costs can be measured reliably. If significant parts of an item of PP&E have different useful lives, then they are accounted for as separate major components of PP&E. The carrying amount of an item of PP&E is derecognized on disposal of the asset or when no future economic benefits are expected to accrue to the Corporation from its continued use. Any gain or loss arising on derecognition is recorded in the consolidated statements of income in the period in which the asset is derecognized. The gain or loss on disposal of an item of PP&E is determined as the sale proceeds less the carrying amount of the asset and costs of removal and is recognized in the consolidated statements of income.

Depreciation begins when an asset becomes available for use. Depreciation is provided on a straight-line basis over the estimated useful lives at the following annual rates:

Distribution assets:	
Distribution lines	1.7% to 5.0%
Transformers	3.3% to 5.0%
Meters	2.5% to 6.7%
Stations	2.0% to 10.0%
Buildings	1.3% to 5.0%
Equipment and other:	
Street lighting assets	1.7% to 5.0%
Other capital assets	4.0% to 25.0%
Right-of-use assets	1.0% to 11.1%

Right-of-use assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Corporation will obtain ownership by the end of the lease term, in which case they are depreciated to the end of the useful life of the underlying assets. Right-of-use assets are recognized for contracts that are, or contain, leases. Construction in progress relates to assets not currently available for use and therefore is not depreciated. The depreciation method and useful lives are reviewed at each financial year-end and adjusted if appropriate. There are no residual values for items of PP&E.

g) Intangible assets

Intangible assets are measured at cost less accumulated amortization and any accumulated impairment losses, if applicable.

Amortization begins when an asset becomes available for use. Amortization is provided on a straight-line basis over the estimated useful lives at the following annual rates:

Computer software	10.0% to 25.0%
Contributions	4.0%

Software in development and contributions for work in progress relate to assets not currently available for use and therefore are not amortized. Contributions represent payments made to HONI for dedicated infrastructure in order to receive connections to transmission facilities. The amortization method and useful lives are reviewed at each financial year-end and adjusted if appropriate.

h) Impairment of non-financial assets

The Corporation reviews the carrying amounts of its non-financial assets other than materials and supplies and deferred tax assets at each reporting date to determine whether there is any indication of impairment, in which case the assets' recoverable amounts are estimated. For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent on the cash inflows of other assets or CGUs. The Corporation has determined that its CGUs are at the individual entity level due to interdependencies of each entity's group of assets to generate cash flows. An impairment loss is recognized if the carrying amount of an asset or CGU exceeds its recoverable amount. Impairment losses are recognized in the consolidated statements of income, and are allocated to reduce the carrying amounts of assets in the CGU on a pro rata basis. An impairment loss recognized in prior periods is reversed when an asset's recoverable amount has increased, but not exceeding the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years.

i) Capitalized borrowing costs

Borrowing costs directly attributable to the acquisition, construction or development of qualifying assets that necessarily take a substantial period of time to get ready for their intended use are capitalized, until such time as the assets are substantially ready for their intended use. The interest rate for capitalization is the Corporation's weighted average cost of borrowing, and is applied to the carrying amount of the construction-in-progress assets or assets under development including borrowing costs previously capitalized, net of capital contributions received. Capitalization commences immediately as the expenditure on a qualifying asset is incurred. Borrowing costs are included in the cost of PP&E and intangible assets for financial reporting purposes, and charged to operations through depreciation and amortization expense over the useful lives of the related assets.

j) Revenue recognition

The Corporation assesses each contract with the customer to identify the performance obligation. The transaction price and the payment terms are agreed upon in the contract between the Corporation and the customer.

Revenues from energy sales and electricity distribution are recorded on the basis of cyclical billings and include an estimated amount for electricity delivered and not yet billed. The performance obligation is satisfied over time when the electricity is simultaneously received and consumed by the customer. The majority of billing cycles and payment terms are on a monthly basis. These revenues are impacted by energy demand primarily driven by outside temperature, and customer class usage patterns and composition.

Energy sales arise from charges to customers for electricity consumed, based on regulated rates. Energy sales include amounts billed or billable to customers for commodity charges, retail transmission charges, and WMS charges at current rates. These charges are passed through to customers over time and are considered revenue by LDC due to the collection risk of the related balances. The Corporation applies judgment to determine whether revenues are recorded on a gross or net basis. The Corporation has primary responsibility for the delivery of electricity to the customer. For any given period, energy sales should be equal to the cost of energy purchased. However, a difference between energy sales and energy purchases arises when there is a timing difference between the amounts charged by LDC to customers, based on regulated rates, and the electricity and non-competitive electricity service costs billed monthly by the IESO to LDC. This difference is recorded as a settlement variance, representing future amounts to be recovered from or refunded to customers through future billing rates approved by the OEB. In accordance with IFRS 14, this settlement variance is presented within regulatory balances on the consolidated balance sheets and within net movements in regulatory balances on the consolidated statements of income.

Distribution revenue is recorded based on OEB-approved distribution rates to recover the costs incurred by LDC in delivering electricity to customers. Distribution revenue also includes revenue related to the collection of OEB-approved rate riders.

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

Capital contributions received in advance from electricity customers and developers to construct or acquire PP&E for the purpose of connecting a customer to a network are recorded as deferred revenue and amortized into other revenue at an equivalent rate to that used for the depreciation of the related PP&E. Capital contributions received from developers to construct or acquire PP&E for the purpose of connecting future customers to the distribution network are considered out of scope of IFRS 15 *Revenue from Contracts with Customers*. Contributions received from customers to construct or acquire PP&E to deliver services other than those related to delivery of electricity are recorded as deferred revenue and amortized into other revenue over the term of the contract with the customer.

Revenues and costs associated with CDM programs are presented using the net basis of accounting and are recorded in accordance with IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*. Cost

efficiency incentives related to the CDM programs, included as part of other revenue, are recognized when it is probable that future economic benefits will flow to the entity and the amount can be reasonably measured.

The Corporation has not incurred any additional costs to obtain or fulfill contracts with its customers nor any kind of variable considerations from the above-mentioned revenue generating activities.

k) Financial instruments

All financial assets and financial liabilities are classified as “Amortized cost”. These financial instruments are recognized initially at fair value adjusted for any directly attributable transaction costs. Subsequently, they are measured at amortized cost using the effective interest method less any impairment for the financial assets. The fair value of a financial instrument is the amount of consideration that would be agreed upon in an arm’s length transaction between willing parties.

The Corporation uses the following methods and assumptions to estimate the fair value of each class of financial instruments for which carrying amounts are included in the consolidated balance sheets:

- Cash and cash equivalents are classified as “Amortized cost” and are initially measured at fair value. The carrying amounts approximate fair value due to the short maturity of these instruments.

- Accounts receivable and unbilled revenue are classified as “Amortized cost” and are initially measured at fair value. Subsequent measurements are recorded at amortized cost using the effective interest rate method. The carrying amounts approximate fair value due to the short maturity of these instruments.

- Working Capital Facility, Revolving Credit Facility and commercial paper are classified as “Amortized cost” and are initially measured at fair value. Subsequent measurements are recorded at amortized cost using the effective interest rate method. The carrying amounts approximate fair value due to the short maturity of these instruments. Transaction costs incurred in connection with the Corporation’s revolving credit facility are capitalized within other assets on the consolidated balance sheets and are amortized on a straight-line basis over the term of the facility, and are included in finance costs.

- Accounts payable are classified as “Amortized cost” and are initially measured at fair value. Subsequent measurements are recorded at amortized cost using the effective interest rate method. The carrying amounts approximate fair value due to the short maturity of these instruments.

- Customer deposits are classified as “Amortized cost” and are initially measured at fair value. Subsequent measurements are recorded at cost plus accrued interest. The carrying amounts approximate fair value taking into account interest accrued on the outstanding balance.

- Obligations under leases are classified as “Amortized cost” and are initially measured at fair value, or at the present value of the minimum lease payments, if lower. Subsequent measurements are based on a discounted cash flow analysis and approximate the carrying amount as management believes that the fixed interest rates are representative of current market rates.

- Debentures are classified as “Amortized cost” and are initially measured at fair value. The carrying amounts of the debentures are carried at amortized cost, based on the fair value of the debentures at issuance, which was the fair value of the consideration received adjusted for transaction costs. The fair values of the debentures are based on the present value of contractual cash flows, discounted at the Corporation’s current borrowing rate for similar debt instruments *[note 15[a]]*. Debt issuance costs incurred in connection with the Corporation’s debenture offerings are capitalized as part of the carrying amount of the debentures and amortized over the term of the related debentures, using the effective interest method, and the amortization is included in finance costs.

l) Fair value measurements

The Corporation utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. A fair value hierarchy exists that prioritizes observable and unobservable inputs used to measure fair value. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Corporation's assumptions with respect to how market participants would price an asset or liability. The fair value hierarchy includes three levels of inputs that may be used to measure fair value:

- Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities. An active market for the asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis;

- Level 2: Other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly or indirectly; and

- Level 3: Unobservable inputs, supported by little or no market activity, used to measure the fair value of the assets or liabilities to the extent that observable inputs are not available.

m) Employee benefits

(i) Short-term employee benefits

Short-term employee benefit obligations that are due to be settled wholly within twelve months after the end of the annual reporting period in which the employees render the related service are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Corporation has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(ii) Multi-employer pension plan

The Corporation's full-time employees participate in a pension plan through OMERS. The OMERS plan is a jointly sponsored, multi-employer defined benefit pension plan established in 1962 by the province of Ontario for employees of municipalities, school boards, libraries, police and fire departments, and other local agencies in communities across Ontario. Both participating employers and employees are required to make plan contributions equally based on participating employees' contributory earnings, and share equally in funding gains or losses. The plan assets and pension obligations are not segregated in separate accounts for each member entity. The OMERS plan is accounted for as a defined contribution plan and the contribution payable is recognized as an employee benefit expense in the consolidated statements of income in the period when the service is rendered by the employee, since it is not practicable to determine the Corporation's portion of pension obligations or of the fair value of plan assets.

(iii) Post-employment benefits

The Corporation has a number of unfunded benefit plans providing post-employment benefits to its employees, including certain retirement, medical, dental and life insurance benefits. The Corporation also pays accumulated sick leave credits, up to certain established limits based on service, in the event of retirement, termination or death of certain employees.

The cost of providing benefits under the benefit plans is actuarially determined using the projected unit credit method, which incorporates management's best estimate of future salary levels, retirement ages of employees, health care costs, and other actuarial factors. Past service cost is recognized when a plan amendment or curtailment occurs.

Changes in actuarial assumptions and experience adjustments give rise to actuarial gains and losses. Actuarial gains and losses on post-employment benefits other than sick leave credits are recognized in OCI as they arise, and are subsequently reclassified from OCI to a regulatory balance on the consolidated balance sheets. Actuarial gains and losses on accumulated sick leave credits are recognized in the consolidated statements of income in the period in which they arise.

The measurement date used to determine the present value of the benefit obligation is December 31 of the applicable year. The latest actuarial valuation was performed as at January 1, 2020.

n) Customer deposits

Security deposits from electricity customers are cash collections to guarantee the payment of electricity bills. This liability includes related interest amounts owed to the customers with a corresponding amount charged to finance costs. Deposits that are refundable upon demand are classified as a current liability.

Security deposits on offers to connect are cash collections from specific customers to guarantee the payment of additional costs relating to expansion projects. This liability includes related interest amounts owed to the customers with a corresponding amount charged to finance costs. Deposits are classified as a current liability when the Corporation no longer has an unconditional right to defer payment of the liability for at least 12 months after the reporting period.

o) Income taxes

Under the Electricity Act, the Corporation is required to make PILs to the Ontario Electricity Financial Corporation. These payments are calculated in accordance with the ITA and the TA as modified by regulations made under the Electricity Act and related regulations. This effectively results in the Corporation paying income taxes equivalent to what would be imposed under the Federal and Ontario Tax Acts.

The Corporation uses the liability method of accounting for income taxes. Under the liability method, current income taxes payable are recorded based on taxable income. The Corporation recognizes deferred tax assets and liabilities for the future tax consequences of events that have been included in the Consolidated Financial Statements or income tax returns. Deferred tax assets and liabilities are determined based on the difference between the carrying value of assets and liabilities on the consolidated balance sheets and their respective tax basis, using the tax rates enacted or substantively enacted by the consolidated balance sheet date that are in effect for the year in which the differences are expected to reverse. Tax benefits associated with income tax positions taken, or expected to be taken, in a tax return are recorded only when it is probable that they will be realized, and are measured at the best estimate of the tax amount expected to be paid to or recovered from the taxation authorities. Deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that the related tax benefits will be realized. The calculation of current and deferred taxes requires management to make certain judgments with respect to changes in tax interpretations, regulations and legislation, and to estimate probable outcomes on the timing and reversal of temporary differences and tax authority audits of income tax.

Rate-regulated accounting requires the recognition of regulatory balances and related deferred tax assets and liabilities for the amount of deferred taxes expected to be refunded to or recovered from customers through future electricity distribution rates. A gross up to reflect the income tax benefits or liabilities associated with the revenue impact resulting from the realization of deferred taxes is recorded within regulatory balances. Deferred taxes that are not included in the rate-setting process are charged or credited to the consolidated statements of income.

The benefits of the refundable and non-refundable apprenticeship and other ITCs are credited against the related expense in the consolidated statements of income.

p) Use of judgments and estimates

The preparation of the Corporation's Consolidated Financial Statements in accordance with IFRS requires management to make judgments, estimates and assumptions which affect the application of accounting policies, reported assets, liabilities and regulatory balances, and the disclosure of contingent assets and liabilities at the date of the Consolidated Financial Statements, and the reported revenues and expenses for the year. The estimates are based on historical experience, current conditions and various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities as well as for identifying and assessing the accounting treatment with respect to commitments and contingencies. Actual results could differ from those estimates, including changes as a result of future decisions made by the OEB, the IESO, the Ontario Ministry of Energy, Northern Development and Mines or the Ontario Ministry of Finance. The assessment of the duration and severity of the COVID-19 pandemic is subject to significant uncertainty; accordingly, judgments, estimates and assumptions related to the impact of the pandemic made by management in the preparation of the Corporation's Consolidated Financial Statements are also subject to significant uncertainty. Management has analyzed the impact of the COVID-19 pandemic on its estimates and adjusted the expected credit loss provision to account for the higher level of expected customer defaults as at December 31, 2020 *[note 15[b]]*. The extent of the future impact of the pandemic on the Corporation's financial results and business operations is not known at this time.

Information about judgments in applying accounting policies that have the most significant effects on the amounts recognized in the financial statements is included in note 25[b] relating to recognition of regulatory balances and note 25[j] relating to principal versus agent determination for recording revenue on a gross or net basis.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively. Assumptions and estimates with a significant risk of resulting in a material adjustment within the next financial year are used in the following:

- Note 24 – Recognition and measurement of provisions and contingencies;
- Note 25[b] – Recognition and measurement of regulatory balances;
- Note 25[d] – Recognition and measurement of loss allowance for accounts receivable and unbilled revenue;
- Notes 25[f] and 25[g] – Determination of useful lives of depreciable assets;
- Note 25[j] – Revenue recognition – measurement of unbilled revenue;
- Notes 25[m] and 13 – Measurement of post-employment benefits – key actuarial assumptions; and
- Notes 25[o] and 20 – Recognition of deferred tax assets – availability of future taxable income against which deductible temporary differences and tax loss carryforwards can be used.

q) Changes in accounting standards

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

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

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

r) Future accounting pronouncements

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

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

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

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

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

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