ATTACHMENT 2b

TORONTO HYDRO CORPORATION

REPORT TO THE SHAREHOLDER

FOR THE YEAR ENDED DECEMBER 31, 2021

This report contains confidential financial, commercial and/or technical information that belongs to Toronto Hydro and has been prepared solely for the use of its shareholder. Much of the information included in this report is publicly available on the System for Electronic Document Analysis and Retrieval website at www.sedar.com.

This record contains the technical, commercial, financial, or labour relations information of Toronto Hydro and is provided solely for the use of its shareholder pursuant to requirements under the Amended and Restated Shareholder Direction Relating to Toronto Hydro Corporation, as adopted by the Council of the City and as amended and/or restated from time to time. It is provided in confidence pursuant to s. 4.4 of the Shareholder Direction. The disclosure of this information may reasonably be expected to significantly prejudice Toronto Hydro's competitive position, interfere with its contractual negotiations, result in similar information no longer being supplied to the City of Toronto, result in undue loss to Toronto Hydro, and/or reveal information supplied during labour relations disputes. In addition, any such disclosure could give rise to a breach of law, including applicable securities laws. Any unauthorized disclosure is strictly prohibited.

Submitted to: Finance Department,
City of Toronto
March 2, 2022

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A glossary of terms used throughout this report can be found on page 3 of Appendix A – Financial Report.

I. Results of Operations

A. Basis of Presentation

The Corporation's audited consolidated financial statements as at and for the year ended December 31, 2021 ["Consolidated Financial Statements"] have been prepared in accordance with IFRS as issued by the IASB. The accounting policies are disclosed in note 25 of the Corporation's Consolidated Financial Statements.

In January 2014, the IASB issued IFRS 14 *Regulatory Deferral Accounts* 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 IFRS 14 will remain in force until either repealed or replaced by permanent guidance on rate-regulated accounting from the IASB.

[All tabular dollar amounts in millions of Canadian dollars, unless otherwise noted]

B. Modified Income Statement

DECEMBER 31, 2021	Actual $	Budget $	*Fav [Unfav] $*	
Energy Sales and Purchases				
Energy sales	2,702.4	3,556.1	*(853.7)*	
Energy purchases	(2,775.2)	(3,556.1)	*780.9*	
Gross Energy Margin	(72.8)	-	*(72.8)*	
Energy price net regulatory balances	72.8	-	*72.8*	A
Net energy margin	-	-	-	
Distribution				
Electricity distribution revenue	759.1	777.9	*(18.8)*	B
Other revenue	105.6	92.0	*13.6*	C
Total distribution and other revenue	**864.7**	**869.9**	***(5.2)***	
Operating expenses	323.0	316.9	*(6.1)*	D
Depreciation and amortization	292.7	294.9	*2.2*	E
Financing costs	79.1	80.3	*1.2*	F
Income tax expense [including regulatory balances]	12.9	17.0	*4.1*	G
Total operating costs	**707.7**	**709.1**	***1.4***	
Gain on disposals of PP&E	2.7	1.0	*1.7*	H
Remaining net movements in regulatory balances	(18.7)	(21.6)	*2.9*	I
Net income after net movements in regulatory balances	**141.0**	**140.2**	***0.8***	J
Effective tax rate	8.4%	10.8%		

A. Energy purchases are a pass-through for local distribution companies in Ontario and are billed strictly on volume. The difference between energy purchases and energy sales is deferred as a regulatory balance and rolled into future electricity rates.

B. Distribution revenue is derived based on a blend of energy sold, peak usage by large customers and fixed charges per customer, and is not on the same basis as energy sales. The unfavourable variance in distribution revenue was primarily driven by lower commercial electricity consumption as a result of the COVID-19 pandemic and lower than budgeted revenue collected through OEB-approved rate riders.

C. Other revenue includes revenue from services ancillary to electrical distribution, delivery of street lighting services, pole and duct rentals, and amortization of deferred revenue related to capital contributions. The favourable variance in other revenue was primarily due to higher than budgeted revenue from ancillary services.

D. The unfavourable variance in operating expenses was primarily due to higher than budgeted costs related to ancillary services [$14.7 million] and unbudgeted COVID-19 related costs [$4.8 million], partially offset by lower than budgeted general administrative costs [$13.4 million]. The unbudgeted COVID-19 related costs were related to COVID-19 testing kits, cleaning supplies, protective equipment and other costs directly related to the implementation of safety measures [$3.6 million] and incremental bad debt expense based on management's best estimate of the impact of the COVID-19 pandemic on the expected credit losses [$1.2 million].

E. The favourable variance in depreciation is mainly due to lower derecognition of assets from service.

F. Financing costs were in line with budget.

G. The favourable variance in income tax [including regulatory balances] was due to higher net deductions in permanent and temporary differences between accounting and tax treatments [$3.2 million] and lower than budgeted net income and net movements in regulatory balances before income taxes [$0.9 million].

H. The favourable variance in gain on disposals of PP&E was mainly due to the gain realized on the sale of a property in the first quarter of 2021. The gain on sale of property was recorded as a regulatory credit balance on the consolidated balance sheets to reduce future electricity distribution rates, with a corresponding offset in net movements in regulatory balances.

I. The favourable variance in net movements in regulatory accounts excluding energy price and deferred tax regulatory balances was primarily due to lower than budgeted amounts collected through OEB-approved rate riders.

J. Net income after net movements in regulatory balances was in line with budget.

[All tabular dollar amounts in millions of Canadian dollars, unless otherwise noted]

C. Capital Expenditures

For the year ended December 31, 2021, spending related to PP&E and intangible assets was as follows:

DECEMBER 31, 2021	Actual $	Budget $	*Fav [Unfav] $*
Regulated capital expenditures			
Distribution system			
Planned [(1)]	517.8	512.4	*(5.4)*
Reactive [(2)]	46.5	56.6	*10.1*
Technology assets	45.2	45.7	*0.5*
Other [(3)]	23.7	34.5	*10.8*
Total regulated capital expenditures	**633.2**	**649.2**	***16.0***
Unregulated capital expenditures [(4)]	14.2	9.3	*(4.9)*
Total capital expenditures	**647.4**	**658.5**	***11.1***

(1) Includes, among other initiatives, the replacement of underground and overhead infrastructures, station programs, delivery of customer connections and customer-initiated plant relocations and expansions.
(2) Non-discretionary replacement of failed or failing assets across the distribution system.
(3) Includes fleet capital and building enhancements.
(4) Primarily relates to behind-the-meter battery storage projects, street lighting and generation equipment.

The variance of $16.0 million in capital expenditures for regulated activities was primarily due to lower than budgeted spending on underground infrastructure [$24.0 million], customer-initiated plant relocations and expansions [$10.4 million], reactive projects [$10.1 million], fleet capital [$5.8 million], and facility and building security improvements [$4.9 million]. These variances were partially offset by higher spending on station programs [$14.9 million], customer connections [$9.5 million], overhead infrastructure [$7.7 million], and equipment to increase capacity in high-growth areas [$6.3 million].

The variance of $4.9 million in capital expenditures for unregulated activities was primarily due to higher spending on behind-the-meter battery storage projects.

[All tabular dollar amounts in millions of Canadian dollars, unless otherwise noted]

D. Cash Flow Analysis

DECEMBER 31, 2021	Actual $	Budget $	*Fav [Unfav] $*
Cash provided by operations			
Net income after net movements in regulatory balances	141.0	140.2	*0.8*
Net movements in regulatory balances	(54.1)	21.6	*(75.7)*
Net movements in regulatory balances arising from deferred taxes	(8.9)	(29.7)	*20.8*
Changes in non-cash operating working capital balances	8.4	(52.2)	*60.6*
Depreciation and amortization	292.7	294.9	*(2.2)*
Net change in other non-current assets and liabilities	11.1	(0.7)	*11.8*
Capital contributions received	101.2	129.1	*(27.9)*
Increase in customer deposits	8.8	1.6	*7.2*
Gain on disposals of PP&E	(2.7)	(1.0)	*(1.7)*
Other operating activities [interest and taxes]	90.5	117.7	*(27.2)*
	588.0	**621.5**	***(33.5)***
Cash used in investing activities			
Purchase of PP&E and intangible assets	(603.4)	(656.2)	*52.8*
Proceeds on disposals of PP&E	2.8	1.0	*1.8*
	(600.6)	**(655.2)**	***54.6***
Interest paid	(82.2)	(83.9)	*1.7*
Cash requirement before dividends	**(94.8)**	**(117.6)**	***22.8***
Dividends paid	(70.3)	(79.2)	*8.9*
Cash requirement after dividends	**(165.1)**	**(196.8)**	***31.7***
Source [repayment] of financing			
Proceeds from issuance of debentures	347.5	298.1	*49.4*
Repayment of debentures	(300.0)	(300.0)	*-*
Increase in commercial paper	115.0	198.7	*(83.7)*
	162.5	**196.8**	***(34.3)***
Net change in working capital facility during the year	**(2.6)**	**-**	***(2.6)***

The cash requirement after dividends was $31.7 million lower than budgeted primarily due to lower than budgeted purchases of PP&E and intangible assets [$52.8 million] and lower than budgeted dividends paid [$8.9 million], partially offset by lower than budgeted cash provided by operations [$33.5 million].

The lower than budgeted cash provided by operations was primarily due to unfavourable settlement variances on energy sales which were deferred as a regulatory balance to be collected from customers in the future and lower than budgeted capital contributions received. This variance was partially offset by favourable changes in non-cash operating working capital balances as a result of timing differences in the settlement of receivables and payables.

[All tabular dollar amounts in millions of Canadian dollars, unless otherwise noted]

II. Financing Activities and Short-Term Borrowings

A. 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 September 2, 2021, the maturity date of the Revolving Credit Facility was extended from October 10, 2024 to September 2, 2026.

The Corporation has a commercial paper program allowing up to $750.0 million of unsecured short-term promissory notes [“Commercial Paper Program”] to be issued in various maturities of no more than one year. The Commercial Paper Program is supported by liquidity facilities available under the Revolving Credit Facility; hence, available borrowing under the Revolving Credit Facility is reduced by the amount of commercial paper outstanding at any point in time.

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

	Revolving Credit Facility Limit $	Revolving Credit Facility Borrowings $	Commercial Paper Outstanding $	Revolving Credit Facility Availability $
December 31, 2021	800.0	-	275.0	525.0
December 31, 2020	800.0	-	160.0	640.0

Additionally, the Corporation is a party to a 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”]. On September 2, 2021, the amount which can be issued against the Prudential Facility was increased from $75.0 million to $100.0 million. As at December 31, 2021, letters of credit in the amount of $59.2 million were issued against the Prudential Facility, of which $26.2 million were issued on August 9, 2021 to support the plan amendments for post-employment benefit obligations as noted per note 9 to the Corporation's Financial Statements.

The Corporation is a party to a $20.0 million demand facility with a second Canadian chartered bank for the purpose of working capital management [“Working Capital Facility”]. As at December 31, 2021, $8.8 million had been drawn under the Working Capital Facility.

For the year ended December 31, 2021, the average aggregate outstanding borrowings under the Corporation’s Revolving Credit Facility, Working Capital Facility and Commercial Paper Program were $288.3 million with a weighted average interest rate of 0.28%.

B. Debentures

The Corporation filed a base shelf prospectus dated July 29, 2021 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 in an aggregate amount of up to $1.0 billion during the 25-month period following the date of the prospectus.

As at December 31, 2021, the Corporation had debentures outstanding in the principal amount of $2.4 billion. These debentures will mature between 2023 and 2063.

On October 18, 2021, the Corporation issued $350.0 million of senior unsecured debentures. The issuance consisted of $150.0 million of 2.47% senior unsecured debentures due on October 20, 2031 at a price of $999.73 per $1,000 principal amount [“Series 17”], and $200.0 million of 3.27% senior unsecured debentures due on October 18, 2051 at a price of $999.43 per $1,000 principal amount ["Series 18"]. The Series 17 and Series 18 debentures bear interest payable semi-annually in arrears. The net proceeds of both series have been 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 refinance the Corporation's outstanding debentures upon maturity, to finance the Corporation's capital expenditure program and for general corporate purposes. Debt issuance costs of $2.3 million relating to both Series were recorded against the carrying amount of the debentures in the fourth quarter of 2021 and are amortized to finance costs using the effective interest method.

[All tabular dollar amounts in millions of Canadian dollars, unless otherwise noted]

The Corporation's Series 7 debentures matured and were repaid on November 18, 2021.

C. Covenants

	Revolving Credit Facility		Senior Unsecured Debentures		Shareholder Direction	
	Requirement	**Actual as at December 31, 2021**	**Requirement**	**Actual as at December 31, 2021**	**Requirement**	**Actual as at December 31, 2021**
Total Debt: Total Capitalization	Not to exceed 0.75:1.00	0.58:1.00				
Consolidated Funded Indebtedness: Total Consolidated Capitalization			Not to exceed 0.75:1.00	0.59:1.00		
Financial Assistance	Not to exceed 15% of Consolidated Net Worth	0.00%			Up to $500 million	$59.2 million
Credit Rating					A- or better by two rating agencies	S&P: A DBRS: A

Revolving Credit Facility

As at December 31, 2021, the Corporation was in compliance with all applicable covenants under its Revolving Credit Facility.

Senior Unsecured Debentures

The covenants that the Corporation must comply with in regard to the senior unsecured debentures include the following: negative pledges, limitations on funded indebtedness, limitations on designated subsidiary indebtedness and restrictions on mergers and dispositions.

As at December 31, 2021, the Corporation was in compliance with all covenants included in its trust indenture and supplemental trust indentures under the senior unsecured debentures.

Shareholder Direction

The Corporation continues to meet its current objectives for the shareholder, specifically, the credit rating requirement of A [minus] or better [or its equivalent rating, depending on the credit rating agency] on its senior debt securities, as rated by two accredited credit rating agencies in Ontario [Standard & Poor's, DBRS or Moody's], and to operate within the authorized financial assistance threshold.

Credit Rating

As at December 31, 2021, the Corporation’s debentures were rated “A” by Standard & Poor’s and “A” by DBRS.

On April 29, 2021, DBRS confirmed the Corporation’s issuer rating and debentures rating at “A” and its commercial paper rating at R-1 (low), all with stable trends.

On May 11, 2021, Standard & Poor’s confirmed the Corporation’s issuer rating at “A”, with a stable trend, and the debentures rating at “A”.

APPENDIX

A

FINANCIAL REPORT TO THE ONTARIO SECURITIES COMMISSION [“OSC”]

TORONTO HYDRO Corporation

FINANCIAL REPORT
DECEMBER 31, 2021

TORONTO HYDRO CORPORATION

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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 and its variants

ECA – Energy Conservation Agreement

Electricity Act – *Electricity Act, 1998* [Ontario], as amended

ERM – Enterprise Risk Management

GAAP – Generally Accepted Accounting Principles

GHG – Greenhouse Gas

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

ISO 45001 – 2018 Occupational Health and Safety Management Systems

ISO 55001 – 2014 Asset Management Systems

ITA – Income Tax Act [Canada], as amended

ITC – Investment tax credit

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

MTN Program – Medium term note program established by the Corporation under which the Corporation issues debentures

OCI – Other comprehensive income

OEB – Ontario Energy Board

OEB Act – *Ontario Energy Board Act, 1998* [Ontario], as amended

OHSAS – Occupational Health and Safety Assessment Series

OHSAS 18001 – BS OHSAS 18001:2007, British Standard Occupational Health and Safety Assessment Series

OMERS – Ontario Municipal Employees Retirement System

OPEB – Other post-employment benefits

PILs – Payments in lieu of corporate taxes

PP&E – Property, plant and equipment

PWU – Power Workers' Union

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

TransformTO – The City's TransformTO Net Zero Strategy, which outlines a pathway to achieve net zero emissions in Toronto by 2040

US GAAP – United States Generally Accepted Accounting Principles

WMS – Wholesale Market Service

MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

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, 2021 was $19.5 million and $141.0 million, respectively, compared to $[2.0] million and $117.1 million for the comparable periods in 2020;
- Capital expenditures were primarily related to the renewal of the electricity infrastructure of LDC and were $184.9 million and $647.4 million for the three months and year ended December 31, 2021, respectively, compared to $146.0 million and $617.2 million for the comparable periods in 2020;
- On July 29, 2021, the Corporation filed a base shelf prospectus 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 August 20, 2021, LDC filed its 2022 rate application seeking the OEB's approval to finalize distribution rates and other charges for the period commencing on January 1, 2022 and ending on December 31, 2022. On December 9, 2021, the OEB issued a decision and rate order approving LDC's 2022 rates and providing for other deferral and variance account dispositions;
- On October 18, 2021, the Corporation issued $350.0 million of senior unsecured debentures. The issuance consisted of $150.0 million of 2.47% senior unsecured debentures due on October 20, 2031 ["Series 17"], and $200.0 million of 3.27% senior unsecured debentures due on October 18, 2051 ["Series 18"]. The Series 17 and Series 18 debentures bear interest payable semi-annually in arrears;
- The Corporation's Series 7 debentures matured and were repaid on November 18, 2021; and
- On March 2, 2022, the Board of Directors of the Corporation declared a quarterly dividend in the amount of $21.2 million with respect to the first quarter of 2022 [first quarter of 2021 - $17.6 million], payable to the City by March 31, 2022.

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, 2021 and 2020, 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:

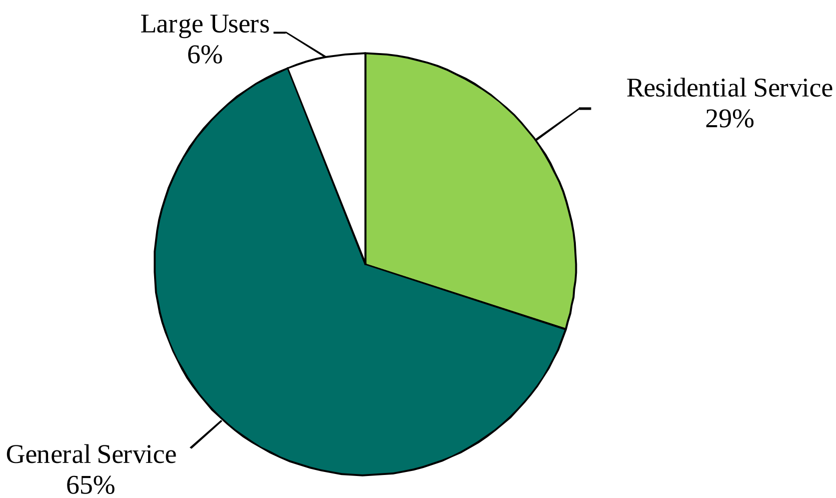
- LDC - distributes electricity; and
- TH Energy - provides street lighting and expressway lighting services in the city of Toronto.

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 787,000 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, 2021, LDC recognized energy sales and distribution revenue of $3,461.5 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, 2021



[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 provincial laws, 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 set 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.

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]

	2021 $	2020 $	Change $
Revenues			
Energy sales	625.0	783.1	(158.1)
Distribution revenue	186.6	169.4	17.2
Other	32.4	24.3	8.1
	844.0	976.8	(132.8)
Expenses			
Energy purchases	653.3	771.9	(118.6)
Operating expenses	92.6	88.1	4.5
Depreciation and amortization	79.2	78.1	1.1
	825.1	938.1	(113.0)
Finance costs	(20.3)	(19.5)	(0.8)
Gain on disposals of PP&E	0.4	—	0.4
Income (loss) before income taxes	(1.0)	19.2	(20.2)
Income tax (expense) recovery	9.2	(8.3)	17.5
Net income	8.2	10.9	(2.7)
Net movements in regulatory balances	23.3	(16.5)	39.8
Net movements in regulatory balances arising from deferred taxes	(12.0)	3.6	(15.6)
Net income (loss) after net movements in regulatory balances	19.5	(2.0)	21.5

For the three months ended December 31, 2021, net income [loss] after net movements in regulatory balances was higher by $21.5 million. The increase was mainly due to the reversal of the bad debt expense regulatory deferral in the fourth quarter of 2020 [$17.7 million], higher distribution revenue as result of higher distribution rates [$8.2 million] and higher other revenue primarily driven by street lighting cost recoveries for services performed for the 2016-2020 period [$8.1 million], partially offset by higher amounts deferred into capital related regulatory accounts [$9.6 million].

On December 16, 2020, OEB staff issued a report on the COVID-19 Emergency Deferral Account consultation, which management used to reassess the recoverability of incremental COVID-19 related costs including bad debt expense. As a result, the bad debt expense regulatory deferral of $17.7 million that was previously recorded as a debit balance in the COVID-19 Emergency Deferral Account was reversed in the fourth quarter of 2020 resulting in an impact of $17.7 million which was reflected in net income [loss] after net movements in regulatory balances for the three months ended December 31, 2020. On June 17, 2021, the OEB issued the final report which adopted the staff proposal and as such, management's assessment of recoverability remains unchanged [refer to "COVID-19 Pandemic Considerations" below].

The variances in energy sales and energy purchases do not impact net income after net movements in regulatory balances as there is a corresponding offset in net movements in regulatory balances. The difference between energy sales and energy purchases is recorded as a settlement variance within regulatory balances on the Corporation's consolidated balance sheets and represents amounts to be recovered from or refunded to customers through future rates approved by the OEB.

Consolidated Statements of Income
Year ended December 31
[in millions of Canadian dollars]

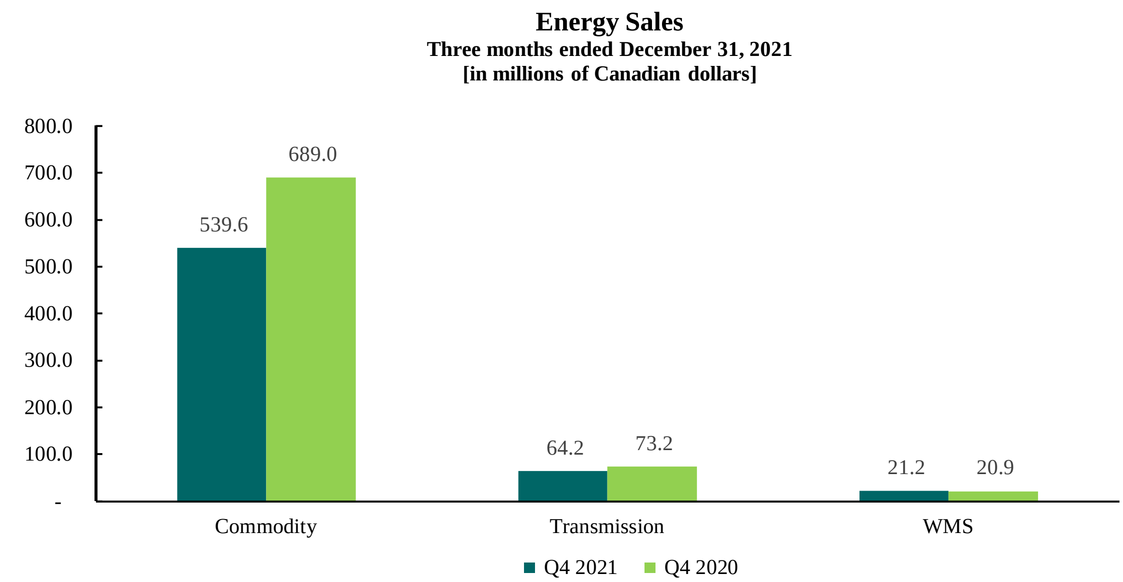
	2021 $	2020 $	Change $
Revenues			
Energy sales	2,702.4	3,142.5	(440.1)
Distribution revenue	759.1	694.4	64.7
Other	105.6	92.7	12.9
	3,567.1	3,929.6	(362.5)
Expenses			
Energy purchases	2,775.2	3,150.5	(375.3)
Operating expenses	323.0	326.0	(3.0)
Depreciation and amortization	292.7	274.3	18.4
	3,390.9	3,750.8	(359.9)
Finance costs	(79.1)	(77.1)	(2.0)
Gain on disposals of PP&E	2.7	—	2.7
Income before income taxes	99.8	101.7	(1.9)
Income tax expense	(21.8)	(28.6)	6.8
Net income	78.0	73.1	4.9
Net movements in regulatory balances	54.1	18.8	35.3
Net movements in regulatory balances arising from deferred taxes	8.9	25.2	(16.3)
Net income after net movements in regulatory balances	141.0	117.1	23.9

For the year ended December 31, 2021, net income after net movements in regulatory balances was higher by $23.9 million. The increase was driven by higher distribution revenue as a result of higher distribution rates [$28.1 million] and higher other revenue primarily driven by street lighting cost recoveries for services performed for the 2016-2020 period and higher ancillary services revenues [$12.9 million]. These variances were partially offset by higher depreciation and amortization related to in-service asset additions [$18.4 million] and higher income taxes including regulatory balances arising from deferred taxes [$9.5 million].

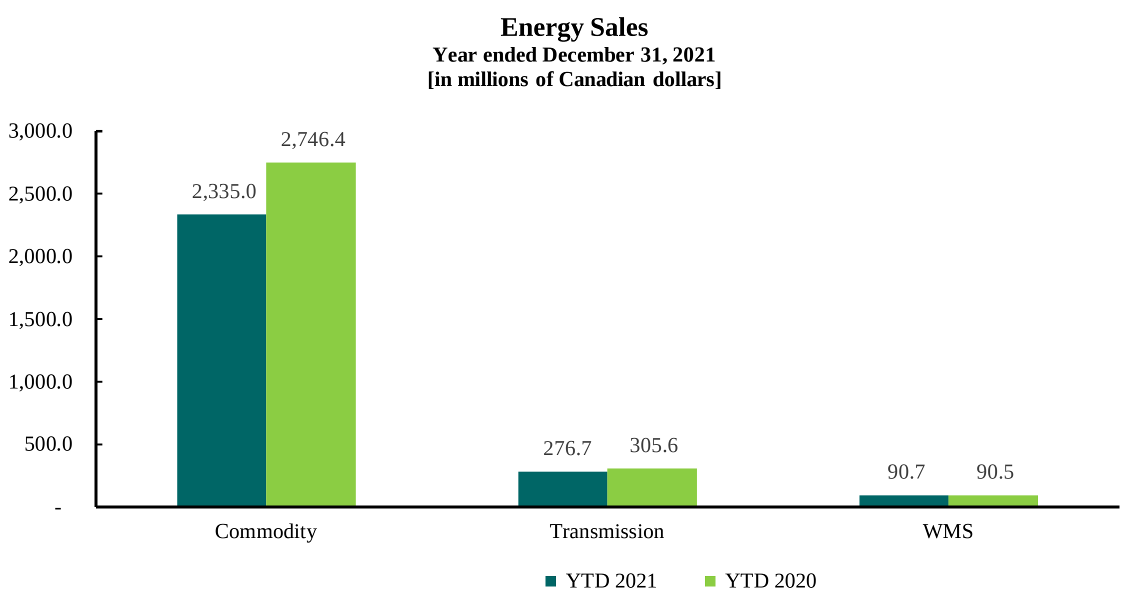
The variances in energy sales and energy purchases do not impact net income after net movements in regulatory balances as there is a corresponding offset in net movements in regulatory balances. The difference between energy sales and energy purchases is recorded as a settlement variance within regulatory balances on the Corporation's consolidated balance sheets and represents amounts to be recovered from or refunded to customers through future rates approved by the OEB.

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, 2021 were $625.0 million, compared to $783.1 million for the comparable period in 2020. The decrease was primarily due to lower commodity charges [$149.4 million].



Energy sales for the year ended December 31, 2021 were $2,702.4 million, compared to $3,142.5 million for the comparable period in 2020. The decrease was primarily due to lower commodity charges [$411.4 million] and lower retail transmission charges [$28.9 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, 2021 was $186.6 million and $759.1 million, respectively, compared to $169.4 million and $694.4 million for the comparable periods in 2020.

The increase in distribution revenue for the three months ended December 31, 2021 was primarily due to higher revenue collected through OEB-approved rate riders [$9.5 million] and higher 2021 distribution rates [$8.2 million], partially offset by lower electricity consumption [$0.8 million].

The increase in distribution revenue for the year ended December 31, 2021 was primarily due to higher revenue collected through OEB-approved rate riders [$33.3 million], higher 2021 distribution rates [$28.1 million] and higher electricity consumption [$2.4 million].

Commercial consumption is still below pre-pandemic levels and the Corporation's revenues continue to be impacted by the COVID-19 pandemic. The Corporation continues to track lost revenues related to lower commercial electricity consumption and the late payment charge reductions resulting from 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, 2021 [refer to "COVID-19 Pandemic Considerations" below].

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.

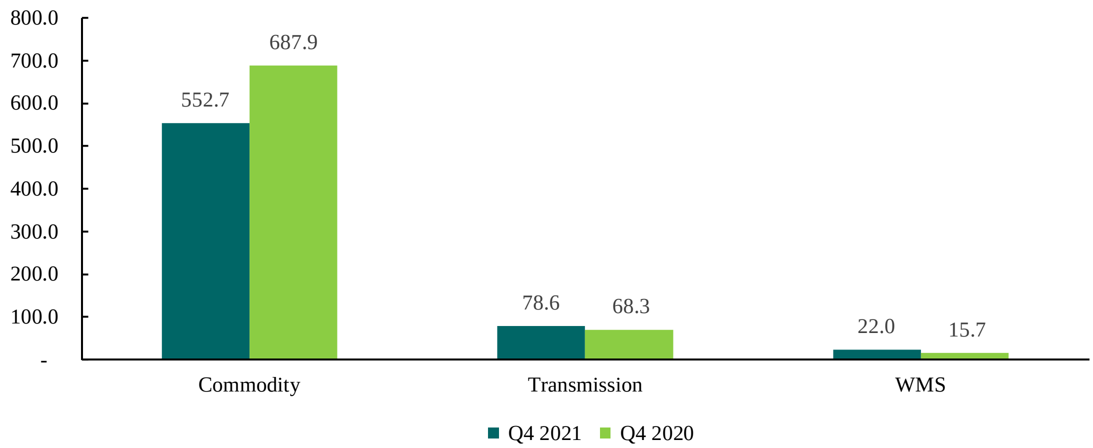
Other revenue for the three months and year ended December 31, 2021 was $32.4 million and $105.6 million, respectively, compared to $24.3 million and $92.7 million for the comparable periods in 2020.

The increase in other revenue for the three months and year ended December 31, 2021 was primarily due to street lighting cost recoveries for services performed for the 2016-2020 period, in accordance with the agreement with the City, higher revenue in connection with ancillary services and an increase in amortization of capital contributions.

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, 2021
[in millions of Canadian dollars]



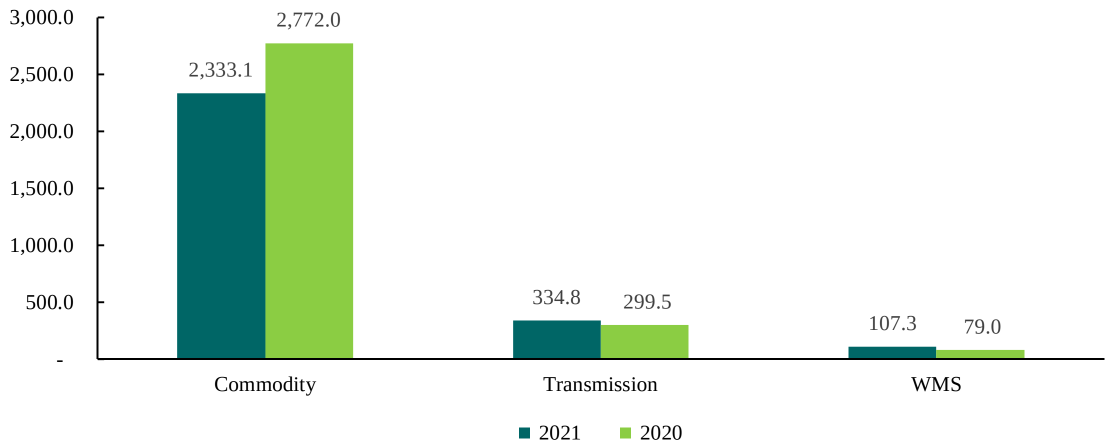
Energy purchases for the three months ended December 31, 2021 were $653.3 million compared to $771.9 million for the comparable period in 2020. The decrease was primarily due to lower commodity charges [$135.2 million], partially offset by higher retail transmission charges [$10.3 million].

Energy Purchases, Energy Sales, and Settlement Variances
Three months ended December 31, 2021
[in millions of Canadian dollars]

	Energy Purchases $	Energy Sales $	Settlement Variances $
Commodity charges	552.7	539.6	13.1
Retail transmission charges	78.6	64.2	14.4
WMS charges	22.0	21.2	0.8
Total	653.3	625.0	28.3

For the three months ended December 31, 2021, LDC recognized $625.0 million in energy sales to customers and was billed $653.3 million for energy purchases from the IESO. The difference between energy sales and energy purchases represents a $28.3 million settlement variance for the period. The settlement variance was recorded as an increase to the regulatory debit balance [$28.4 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, 2021
[in millions of Canadian dollars]



Energy purchases for the year ended December 31, 2021 were $2,775.2 million compared to $3,150.5 million for the comparable period in 2020. The decrease was primarily due to lower commodity charges [$438.9 million], partially offset by higher retail transmission charges [$35.3 million].

Energy Purchases, Energy Sales, and Settlement Variances
Year ended December 31, 2021
[in millions of Canadian dollars]

	Energy Purchases $	Energy Sales $	Settlement Variances $
Commodity charges	2,333.1	2,335.0	(1.9)
Retail transmission charges	334.8	276.7	58.1
WMS charges	107.3	90.7	16.6
Total	2,775.2	2,702.4	72.8

For the year ended December 31, 2021, LDC recognized $2,702.4 million in energy sales to customers and was billed $2,775.2 million for energy purchases from the IESO. The difference between energy sales and energy purchases represents a $72.8 million settlement variance for the period. The settlement variance was recorded as an increase to the regulatory debit balance [$73.2 million including carrying charges on the accumulated settlement variance balance; see the regulatory debit 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, 2021 were $92.6 million and $323.0 million, respectively, compared to $88.1 million and $326.0 million for the comparable periods in 2020.

The increase in operating expenses for the three months ended December 31, 2021 was primarily due to higher system maintenance and ancillary costs.

The decrease in operating expenses for the year ended December 31, 2021 was primarily due to lower incremental bad debt expense recorded in 2021, partially offset by higher ancillary and system maintenance costs.

The incremental bad debt expense as a result of the COVID-19 pandemic for the three months and year ended December 31, 2021 was $nil and $1.2 million, respectively, compared to a decrease in the provision of $0.5 million and an increase of $17.2 million for the comparable periods in 2020.

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

For the three months and year ended December 31, 2021 the Corporation incurred $0.6 million and $3.6 million, respectively [December 31, 2020 – $0.8 million and $3.9 million] in operating expenses for COVID-19 testing kits, cleaning supplies, protective equipment and other costs directly related to the implementation of safety measures as a result of the COVID-19 pandemic.

As at December 31, 2021, the incremental bad debt expense and operating expenses related to the COVID-19 pandemic have not been recorded in the COVID-19 Emergency Deferral Account [refer to "COVID-19 Pandemic Considerations" below].

Depreciation and Amortization

Depreciation and amortization expense, which includes derecognition of assets removed from service, for the three months and year ended December 31, 2021 was $79.2 million and $292.7 million, respectively, compared to $78.1 million and $274.3 million for the comparable periods in 2020.

The increase in depreciation and amortization for the three months ended December 31, 2021 was primarily due to in-service asset additions, partially offset by certain assets being fully depreciated and lower derecognition of assets removed from service.

The increase in depreciation and amortization for the year ended December 31, 2021 was primarily due to in-service asset additions and higher derecognition of assets removed from service, partially offset by certain assets being fully depreciated.

Finance Costs

Finance costs for the three months and year ended December 31, 2021 were $20.3 million and $79.1 million, respectively, and were in line with $19.5 million and $77.1 million for the comparable periods in 2020.

Gain on Disposals of PP&E

Gain on disposals of PP&E for the three months and year ended December 31, 2021 was $0.4 million and $2.7 million, respectively, compared to $nil for the comparable periods in 2020.

The increase in gain on disposals of PP&E for the year ended December 31, 2021 was primarily related to the sale of a property in the first quarter of 2021 [$1.5 million]. The gain on sale of property was recorded as a regulatory credit on the Consolidated Balance Sheets to reduce future electricity distribution rates, with a corresponding offset in net movements in regulatory balances.

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, 2021 was $2.8 million and $12.9 million, respectively, compared to $4.7 million and $3.4 million for the comparable periods in 2020.

The decrease in income tax expense and income tax recorded in net movements in regulatory balances for the three months ended December 31, 2021 was primarily due to higher net deductions in permanent and temporary differences between accounting and tax treatments.

The increase in income tax expense and income tax recorded in net movements in regulatory balances for the year ended December 31, 2021 was primarily due to higher income before taxes, the tax impact of lower incremental bad debt provision due to COVID-19, lower net deductions in permanent and temporary differences between accounting and tax treatments, and higher tax recognized on property dispositions.

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 [$11.0 million] and decrease in the regulatory credit [$32.2 million] balances for the year ended December 31, 2021 equals the sum [$43.2 million] of net movements in regulatory balances, net movements in regulatory balances arising from deferred taxes and net movements in regulatory balances related to OCI, shown for the period [refer to "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 [refer to 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, 2021 were a recovery of $23.3 million and $54.1 million, respectively, compared to a charge of $16.5 million and a recovery of $18.8 million for the comparable periods in 2020. The recovery of $23.3 million and $54.1 million for the three months and year ended December 31, 2021 was primarily due to the settlement variance between the electricity costs billed monthly by the IESO and LDC's billing to customers, partially offset by amounts disposed through OEB-approved rate riders.

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 [refer to "COVID-19 Pandemic Considerations" below] 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 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.

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, 2021.

Summary of Quarterly Results of Operations
[in millions of Canadian dollars]

	December 31, 2021 $	September 30, 2021 $	June 30, 2021 $	March 31, 2021 $
Energy sales	625.0	756.9	643.3	677.2
Distribution revenue	186.6	201.4	188.5	182.6
Other	32.4	25.2	26.2	21.8
Revenues	844.0	983.5	858.0	881.6
Net income after net movements in regulatory balances	19.5	47.8	37.9	35.8
	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

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.

Financial Position

The following table outlines the significant changes in the Consolidated Balance Sheet as at December 31, 2021 as compared to the Consolidated Balance Sheet as at December 31, 2020.

Consolidated Balance Sheet Data
[in millions of Canadian dollars]

Balance Sheet Account	Increase (Decrease) $	Explanation of Significant Change
Assets		
Accounts receivable and unbilled revenue	(10.2)	The decrease was primarily due timing of billing and collection activities and lower pass-through electricity costs, partially offset by higher electricity consumption.
Income tax receivable	(10.0)	The decrease was primarily due to the utilization of income tax instalments in the year.
PP&E and intangible assets	352.9	The increase was primarily due to capital expenditures [refer to "Investing Activities" below], partially offset by depreciation including derecognition.
Liabilities and Equity		
Commercial paper	115.0	The increase was primarily due to the issuances of commercial paper required for general corporate purposes [refer "Liquidity and Capital Resources" below].
Accounts payable and accrued liabilities	19.2	The increase was primarily due to higher capital activity during the fourth quarter of 2021 and timing differences in payments.
Debentures	48.5	The increase was primarily due to the issuance of $150.0 million of Series 17 debentures and $200.0 million of Series 18 debentures, partially offset by the repayment of $300.0 million of Series 7 debentures [refer to "Liquidity and Capital Resources" and "Financing Activities" below].
Deferred revenue	111.9	The increase was primarily due to capital contributions received.
Post-employment benefits	(26.1)	The decrease was primarily due to the recognized actuarial gain incurred mainly as a result of the higher discount rate as at December 31, 2021.
Deferred tax liabilities	16.7	The increase was primarily due to lower tax values as compared to accounting values of PP&E and intangible assets, and the impact of the actuarial gain on post-employment benefit liabilities.

Consolidated Balance Sheet Data
[in millions of Canadian dollars]

Balance Sheet Account	Increase (Decrease) $	Explanation of Significant Change
Other liabilities	14.0	The increase was primarily due to an accrual for payment to HONI related to construction of an asset for Copeland Station connection to transmission facilities.
Retained earnings	70.7	The increase was due to net income after net movements in regulatory balances [$141.0 million], offset by dividends paid [$70.3 million].
Regulatory Balances		
Regulatory debit balances	11.0	The increase was primarily related to the settlement variance between the electricity costs billed monthly by the IESO and LDC's billing to customers and deferred taxes, partially offset by amounts disposed through OEB-approved rate riders and the recognized actuarial gain resulting from the remeasurement of post-employment benefit obligations to reflect the higher discount rate.
Regulatory credit balances	(32.2)	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 $490.3 million and $808.2 million, respectively, as at December 31, 2021, resulting in a working capital deficit of $317.9 million. The deficit is primarily attributable to the Corporation's preference for utilizing its Commercial Paper Program [defined in "Financing Activities" below] and Working Capital Facility [defined below] before issuing additional debentures to fulfill the Corporation's ongoing liquidity requirements, including funding of significant capital spending. The Corporation seeks to maintain an optimal mix of short-term and long-term debt in order to lower overall financing costs and to enhance borrowing flexibility.

The Corporation's primary sources of liquidity and capital resources are cash provided by operating activities, issuance of commercial paper, amounts available to be drawn against its credit facilities, and borrowings from debt capital markets. On October 18, 2021, the Corporation issued $350.0 million of unsecured debentures [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, 2021	800.0	—	275.0	525.0
December 31, 2020	800.0	—	160.0	640.0

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, 2021, $8.8 million had been drawn under the Working Capital Facility, compared to $6.2 million as at December 31, 2020. On the consolidated statements of cash flows, cash and cash equivalents [working capital facility] includes bank overdrafts that are repayable on demand and form an integral part of the Corporation's cash management.

Consolidated Statements of Cash Flow Data
[in millions of Canadian dollars]

	Three months ended December 31,		Year ended December 31,	
	2021 $	2020 $	2021 $	2020 $
Cash and cash equivalents (Working capital facility), beginning of period	1.1	(1.1)	(6.2)	(1.0)
Net cash provided by operating activities	230.7	192.9	588.0	613.9
Net cash used in investing activities	(173.5)	(147.6)	(600.6)	(666.8)
Net cash provided by (used in) financing activities	(67.1)	(50.4)	10.0	47.7
Working capital facility, end of period	(8.8)	(6.2)	(8.8)	(6.2)

Operating Activities

Net cash provided by operating activities for the three months and year ended December 31, 2021 was $230.7 million and $588.0 million, respectively, compared to $192.9 million and $613.9 million for the comparable periods in 2020.

The increase in net cash provided by operating activities for the three months ended December 31, 2021 was primarily due to timing differences in the settlement of receivables and payables.

The decrease in net cash provided by operating activities for the year ended December 31, 2021 was primarily due to lower capital contributions received and timing differences in the settlement of receivables and payables, partially offset by lower income taxes paid and higher customer deposits.

Investing Activities

Net cash used in investing activities for the three months and year ended December 31, 2021 was $173.5 million and $600.6 million, respectively, compared to $147.6 million and $666.8 million for the comparable periods in 2020.

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 measures to protect its employees, its partners and the public, and continued to deliver its capital infrastructure development and maintenance work in accordance with its plans.

The following table summarizes the Corporation's capital expenditures [on an accrual basis] for the periods indicated [refer to note 21 to the Consolidated Financial Statements for cash basis].

Capital Expenditures
[in millions of Canadian dollars]

	Three months ended December 31,		Year ended December 31,	
	2021 **$**	**2020** **$**	**2021** **$**	**2020** **$**
Regulated LDC				
Distribution system				
Planned [1]	148.1	120.4	517.8	465.3
Reactive [2]	13.3	10.9	46.5	52.0
Technology assets	13.9	7.2	45.2	37.0
Other [3]	7.2	6.1	23.7	16.9
Regulated capital expenditures	182.5	144.6	633.2	571.2
Unregulated capital expenditures [4]	2.4	1.4	14.2	46.0
Total capital expenditures	184.9	146.0	647.4	617.2

[1] Includes, among other initiatives, the replacement of underground and overhead infrastructures, station programs, delivery of customer connections and customer-initiated plant relocations and expansions.
[2] Non-discretionary replacement of failed or failing assets across the distribution system.
[3] Includes fleet capital and building enhancements.
[4] 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, 2021 were $182.5 million and $633.2 million, respectively, compared to $144.6 million and $571.2 million for the comparable periods in 2020.

For the three months ended December 31, 2021, the increase in regulated capital expenditures was primarily due to higher spending on customer connections [$22.4 million] and station programs [$16.1 million].

For the year ended December 31, 2021, the increase in regulated capital expenditures was primarily due to higher spending on station programs [$40.6 million], customer connections [$26.9 million], a non-recurring transfer of behind-the-meter battery storage expenditures from regulated to unregulated expenditures in 2020 as a result of the 2020-2024 CIR decision and rate order [$22.7 million], higher facility and building security improvements [$11.0 million] and network infrastructure [$9.5 million]. These variances were partially offset by lower spending on customer-initiated plant relocations and expansions [$15.9 million], critical capital equipment [$14.1 million] and underground infrastructure [$13.3 million].

For the year ended December 31, 2021, the decrease in unregulated capital expenditures was primarily due to a non-recurring transfer of behind-the-meter battery storage expenditures from regulated to unregulated expenditures in 2020 as a result of the 2020-2024 CIR decision and rate order [$22.7 million].

The largest capital initiatives in 2021 include the delivery of customer connections, station programs, replacement of overhead and underground infrastructures and customer-initiated plant relocations and expansions.

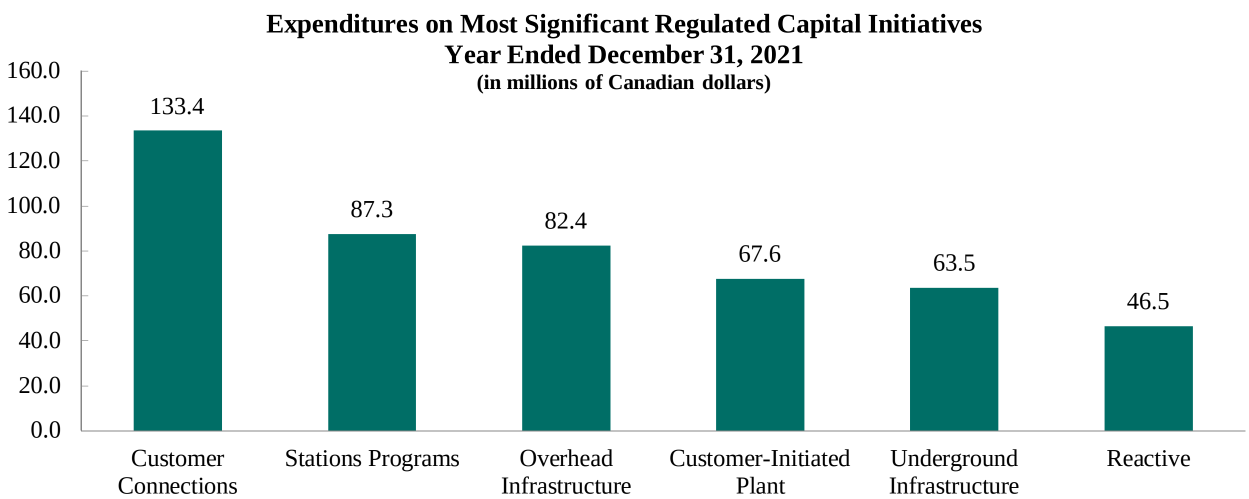
The delivery of customer connections includes spending related to new service and upgrades to existing service for specific commercial customers. For the year ended December 31, 2021, capital expenditures for the delivery of customer connections were $133.4 million.

The station programs focus on station renewal and station expansion. Station renewal targets the aging station infrastructure to reduce the risk of power outages and maximize useful life. Station expansion addresses medium to long-term system capacity needs on the distribution system. For the year ended December 31, 2021, capital expenditures for station programs were $87.3 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, 2021, capital expenditures for overhead and underground infrastructure were $82.4 million and $63.5 million, respectively.

Customer-initiated plant relocations and expansions include relocating infrastructure to accommodate construction by third parties. For the year ended December 31, 2021, capital expenditures for customer-initiated plant relocations and expansions were $67.6 million.



Financing Activities

Net cash provided by [used in] financing activities for the three months and year ended December 31, 2021 was $[67.1] million and $10.0 million, respectively, compared to $[50.4] million and $47.7 million for the comparable periods in 2020.

The increase in cash used in financing activities for the three months ended December 31, 2021 was primarily due to the repayment of the Series 7 debentures in November 2021, partially offset by higher issuances of debentures in the fourth quarter of 2021 compared to 2020 and lower commercial paper repayment, net of issuances in the fourth quarter of 2021.

The decrease in cash provided by financing activities for the year ended December 31, 2021 was primarily due to the repayment of the Series 7 debentures in November 2021, partially offset by higher issuances of debentures in 2021 compared to 2020 and higher net commercial paper issuances.

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 September 2, 2021, the maturity date of the Revolving Credit Facility was extended from October 10, 2024 to September 2, 2026. As at December 31, 2021, the Corporation was in compliance with all covenants included in its Revolving Credit Facility agreement.

The Corporation has a commercial paper program allowing up to $750.0 million of unsecured short-term promissory notes [“Commercial Paper Program”] to be issued in various maturities of no more than one year. 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, 2021, the average aggregate outstanding borrowings under the Corporation’s Revolving Credit Facility, Working Capital Facility and Commercial Paper Program were $219.0 million and $288.3 million, respectively, with a weighted average interest rate of 0.31% and 0.28% [compared to $247.1 million and $349.6 million, respectively, with a weighted average interest rate of 0.31% and 0.76% for the comparable periods in 2020].

Additionally, the Corporation is a party to a 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"]. On September 2, 2021, the amount which can be issued against the Prudential Facility was increased from $75.0 million to $100.0 million. As at December 31, 2021, letters of credit in the amount of $59.2 million were issued against the Prudential Facility, of which $26.2 million were issued on August 9, 2021 to support the plan amendments for post-employment benefit obligations [refer to note 13[a] to the 2021 Consolidated Financial Statements].

The Corporation filed a base shelf prospectus dated July 29, 2021 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 in an aggregate amount of up to $1.0 billion during the 25-month period following the date of the prospectus.

On October 18, 2021, the Corporation issued $350.0 million of senior unsecured debentures. The issuance consisted of $150.0 million of 2.47% senior unsecured debentures due on October 20, 2031 at a price of $999.73 per $1,000 principal amount ["Series 17"], and $200.0 million of 3.27% senior unsecured debentures due on October 18, 2051 at a price of $999.43 per $1,000 principal amount ["Series 18"]. The Series 17 and Series 18 debentures bear interest payable semi-annually in arrears. The net proceeds of both series have been 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 refinance the Corporation's outstanding debentures upon maturity, to finance the Corporation's capital expenditure program and for general corporate purposes. Debt issuance costs of $2.3 million relating to both Series were recorded against the carrying amount of the debentures in the fourth quarter of 2021 and are amortized to finance costs using the effective interest method.

The Corporation's Series 7 debentures matured and were repaid on November 18, 2021.

As at December 31, 2021, the Corporation had debentures outstanding in the principal amount of $2.4 billion. These debentures will mature between 2023 and 2063. As at December 31, 2021, 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, 2021

	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, 2021, the Board of Directors of the Corporation declared and paid dividends to the City totalling $70.3 million [2020 - $92.6 million].

On March 2, 2022, the Board of Directors of the Corporation declared a quarterly dividend in the amount of $21.2 million, payable to the City by March 31, 2022.

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, 2021
[in millions of Canadian dollars]

	Total $	2022 $	2023/2024 $	2025/2026 $	After 2026 $
Commercial paper [1]	275.0	275.0	—	—	—
Debentures – principal repayment	2,445.0	—	250.0	200.0	1,995.0
Debentures – interest payments	1,653.1	79.4	147.9	144.3	1,281.5
Capital projects [2] and other	42.7	32.6	6.5	3.6	—
Leases	0.2	—	0.1	0.1	—
Total contractual obligations and other commitments	4,416.0	387.0	404.5	348.0	3,276.5

[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

COVID-19 Pandemic Considerations

On March 11, 2020, the World Health Organization declared that the COVID-19 outbreak was a global pandemic. The COVID-19 pandemic has had, and as at the date of the Consolidated Financial Statements continues to have, a significant impact on the Corporation.

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 25, 2020, the OEB established the COVID-19 Emergency 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 orientation in the policy consultation. Based on this information, management believed that there was high uncertainty in regard to the recoverability of costs and lost revenues related to government and OEB-mandated customer relief actions and therefore a low probability of recovery. Consequently, the $17.7 million which was previously recorded in the COVID-19 Emergency Deferral Account for incremental bad debt expense was reversed in the fourth quarter of 2020, resulting in a net income impact of $17.7 million as at December 31, 2020. On June 17, 2021, the OEB issued the final report on the COVID-19 Emergency Deferral Account consultation. The assessment on the recoverability of costs and lost revenues associated with the pandemic remains unchanged. Consequently, no amounts have been recorded in the COVID-19 Emergency Deferral Account as at December 31, 2021.

On March 26, 2021, the Ontario Government committed $6.0 million from the 2020-2021 budget and a further $17.0 million from the 2021-2022 budget for CEAP and CEAP-SB, continuing financial support for residential and small business customers during the COVID-19 pandemic. Through successive announcements on March 26, April 19, and April 21, 2021, the OEB determined that LDC's additional collective allocation for CEAP and CEAP-SB was $0.9 million. The Ontario Government confirmed on June 17, 2021 that no additional funding would be provided for CEAP and CEAP-SB. As of July 26, 2021, LDC disbursed all of its allocated financial support funding and discontinued all CEAP and CEAP-SB related activities. There was no net income impact to the Corporation.

On April 21, 2021, the OEB extended the existing ban on disconnecting residential customers until May 19, 2021, which was further extended on May 14, 2021 until June 2, 2021, in light of the stay-at-home order issued by the Ontario Government under its State of Emergency declaration. The restriction also applied to the issuance of any post-dated disconnection notices during that period.

On November 15, 2021, the OEB's standard winter disconnection ban commenced and will remain in effect until May 1, 2022. The Corporation continues to voluntarily extend its ban on disconnecting residential and low volume customers, which has been in place since the beginning of the pandemic, until further notice.

On January 7, 2022, the Ontario Government announced further targeted relief measures setting both the TOU rates for on-peak, mid-peak, and off-peak and tiered rates at the TOU off-peak rate of 8.2 cents per kWh, 24 hours a day, seven days a week, effective January 18, 2022 until February 7, 2022.

City of Toronto Climate Objectives

At its meeting held on April 7 and 8, 2021, a resolution was passed by City Council concerning opportunities for Toronto Hydro for acceleration, investments, reporting and collaboration with City divisions and agencies to achieve outcomes in the following areas:

- electric vehicle-charging infrastructure;
- modernization of outdoor lighting, including street lighting;
- implementation and facilitation of renewable energy and energy storage; and
- attracting revenue through non-rate sources of capital funding, such as grants, funding and financing from governments and agencies, and revenues generated through unregulated affiliates.

Toronto Hydro submitted its report to the City Manager on September 30, 2021 concerning current work and an action plan, in accordance with the City Council resolution.

At its meeting held on December 15, 16, and 17, 2021, a resolution was passed by City Council concerning opportunities for Toronto Hydro in collaboration with City divisions and agencies with respect to:

- continuing a collaborative analysis of the Toronto Hydro climate action plan and relevant City strategies and programs to determine specific goals, outcomes, actions and timelines for enabling Toronto's net zero climate targets, having regard for recommendations referred to in the resolution;

- providing recommendations to the new business opportunities as outlined in the proposed Toronto Hydro climate action plan [climate advisory services and climate capital investments]; and

- collaborating with the City to refine TransformTO spatial and temporal study of climate actions to include probabilistic adoption scenarios [for example, electric vehicles and heat pumps], resulting in corresponding electricity consumption and demand profiles.

In its resolution, City Council directed the City Manager to report to City Council by the end of the second quarter of 2022 with respect to the analysis referred to above, and the consultation and climate adoption scenarios, including possible implementation plans, and any recommendations regarding new climate action mandates such as a shareholder direction for Toronto Hydro. City Council further requested Toronto Hydro to report to City Council during the first quarter of 2022 on the feasibility of providing on-demand water heaters or other similar energy efficient climate friendly products to Toronto Hydro customers.

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 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 2020-2024 CIR decision and rate order approved funding for capital and operating expenditures of approximately $3.8 billion for the 2020-2024 period. 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. 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].

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 August 20, 2021, LDC filed its 2022 rate application seeking the OEB's approval to finalize distribution rates and other charges for the period commencing on January 1, 2022 and ending on December 31, 2022. On December 9, 2021, the OEB issued a decision and rate order approving LDC's 2022 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 reimbursed from the IESO for 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 June 10, 2021, 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 June 30, 2021 to December 31, 2021, and on December 9, 2021, it was further extended to August 31, 2022. The directive also allows for the completion deadline to be further extended to December 31, 2022, if certain conditions are met. 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 and its subsidiaries are subject to various legal proceedings, actions and claims from customers, suppliers, regulators and other parties. As at the date hereof, the Corporation believes that none of these legal proceedings, actions and claims from customers, suppliers, regulators and other parties in which it is currently involved or has been involved since the beginning of the most recently completed financial year, would be expected to have a material adverse effect on the Corporation. On an ongoing basis, the Corporation and its subsidiaries assess 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 liability or other insurance policies, to the extent applicable, subject to such claim not being disputed by the insurers.

Share Capital

Share capital consists of the following:

[in millions of Canadian dollars]	2021 $	2020 $
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	
	2021 **$**	**2020** **$**
Revenues	284.4	304.6
Operating expenses (recoveries) and capital expenditures (recoveries)	(1.5)	10.5
Dividends declared and paid	70.3	92.6

Summary of Amounts Due to/from Related Parties
[in millions of Canadian dollars]

	As at December 31	
	2021 **$**	**2020** **$**
Accounts receivable and unbilled revenue	52.2	41.6
Accounts payable and accrued liabilities	15.0	25.8
Customer deposits	12.8	12.6

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. Capital expense recoveries represent amounts reversed by the City for closed road cut repair accruals. 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.

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, 2021 and 2020. 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 [and several key component risks] to ensure that such risks are being monitored through qualitative and quantitative risk indicators and that short interval controls and medium to 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 and the key components of such risk. Additionally, Toronto Hydro's risk governance structure includes internal coordination efforts to align outreach to key external stakeholders, both from a strategic and consistency perspective, 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, augment other risks or curtail opportunities. 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, 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 Board also reviews Toronto Hydro's risk philosophy on an annual basis and is responsible for approving any new enterprise risk areas.

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 are among those that 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 team 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 cybersecurity, safety, 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, application of regulatory principles, 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 approve and permit recovery through rates of past and future expenditures incurred by LDC in preparing for or expanding electricity distribution service to meet increased electricity demand or other requirements resulting from net zero GHG emission policies;

- the OEB will adopt other rate-setting principles, formulae, inputs and cost recovery methodologies in a manner consistent with well-established regulatory principles 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.

Toronto Hydro 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 support or 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. The global COVID-19 pandemic resulted in governments worldwide, including the governments of Canada, Ontario and the City, enacting emergency and ongoing measures to combat the spread of COVID-19. 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 legal right to be the sole provider of electricity distribution and connection services in the city of Toronto [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 of Toronto.

Other regulated and unregulated entities have and continue to compete 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, solar photovoltaic, grid-supplied electricity, behind-the-meter generation, district energy], climate change policy, technology development [e.g., energy storage, energy efficiency, demand response], 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, from the transition to net zero GHG emissions or otherwise, 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. In particular, the clean energy transition to net zero GHG emitting energy sources may create both risks and opportunities and there can be no guarantee that Toronto Hydro has the correct strategic direction to capitalize on the associated policy changes or technological advancements or that it will be able to effectively mitigate losses from these developments.

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 views 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 damage 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 as compared to utility-based electricity distribution.

Toronto Hydro is 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, prepare for increased electricity demand from net zero GHG emission policies, 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 considers 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, who respond to issues raised by large commercial, industrial and institutional customers and assist 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 GHG emissions and adaptation to climate change as part of initiatives such as the City's TransformTO. In this respect, in response to resolutions passed by City Council in 2021, Toronto Hydro has proposed a climate action plan to assist the City in meeting its 2040 net zero GHG emission objective [refer to "City of Toronto Climate Objectives" above]. There is no guarantee that the City will accept this proposal, or provide mandates to Toronto Hydro in accordance with the plan. The City may require Toronto Hydro to make additional investments in infrastructure and/or undertake activities which necessitate additional time, money and effort to be expended related to compliance with the City's TransformTO that are inconsistent with Toronto Hydro's proposed climate action plan. 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, the City may also empower certain of its agencies to investigate or audit Toronto Hydro, which could lead to significant reputational, operational 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. 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 or amend the Shareholder Direction principles, or create new governing objectives and 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.

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, customer 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, data corruption, and/or loss of 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 comprehensive updates on the cybersecurity environment and the organization's cybersecurity program and responses.

Toronto Hydro 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 mitigate against wider systemic risk to 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 may only be 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 or employees, from a cyber-attack or the effects therefrom.

As a consequence of the COVID-19 pandemic and instructions from public health officials, the Corporation 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 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 [e.g., ransomware]. Although Toronto Hydro has altered its systems and processes in response to the 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.

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.

Potential and existing health and safety risks related to worksites and tasks being performed by Toronto Hydro are regularly assessed where identified hazards are removed and/or mitigated to continually improve health and safety for Toronto Hydro employees, customers and members of the public. The most serious workplace incidents arising from workplace hazards can cause and/or contribute to critical injuries, fatal injuries, and occupational illnesses, as defined by provincial health and safety legislation.

The nature of the work performed at electrical utilities operations requires that employees receive extensive training on health and safety, including on personal protective equipment and the implementation of workplace safety procedures and protocols. This is due to the hazards inherent to electrical utilities work, which, depending on the required task, can include electrical contact, working in confined spaces, fires or explosions, slips, trips and falls, motor vehicle incidents, occupational illnesses, and biological hazards such as COVID-19. On occasion, hazards can result in personal injury, operational interruptions, and loss or damage to equipment, property, or information technology systems. In an active and ongoing manner, Toronto Hydro further mitigates health and safety risks to employees, customers and members of the public 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 employee, customer, and public health and safety.

Toronto Hydro is subject to compliance with provincial health and safety legislation. Toronto Hydro's management approach to occupational health and safety is to meet, and where safe and appropriate, 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 every workplace party 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 health and safety.

Toronto Hydro also has in place an infectious disease 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 health and safety exposures to employees, members of the public, and the communities serviced by Toronto Hydro. 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.

In 2013, LDC received OHSAS 18001 certification which was 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 and was subsequently re-certified in 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 on February 4, 2025.

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 macroeconomic and local market forces, which could have material 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 ongoing COVID-19 pandemic has caused material disruption to businesses globally and in Ontario resulting in economic challenges and uncertainties. Governments and central banks reacted to the pandemic with significant monetary and fiscal interventions designed to stabilize economic conditions. However, some of these policies have been discontinued or scaled back, and the efficacy of future government and central bank actions in response to the COVID-19 pandemic and macroeconomic conditions is uncertain, as is the ability of governments and central banks to enact further policies. As a consequence of COVID-19, governmental policies, instructions from public health officials and uncertainties in the recovery of economic and market conditions, LDC remains exposed to inflationary pressures, indeterminate levels of customer consumption, credit risk with respect to customer non-payment of electricity bills and increased supply chain, operating and infrastructure development costs. Toronto Hydro utilizes its procurement processes and a diverse supplier and contractor base to mitigate against supply chain risks and costs. Increases in outstanding receivables due to reduced or delayed customer payments as a result of economic conditions 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, uncertain economic climate affected by factors including but not limited to macroeconomic conditions and 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 plans 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. In respect of bad-debt expenses incurred in connection with the COVID-19 pandemic, and on the basis of the OEB's final report on the COVID-19 Emergency Deferral Account consultation, no amounts have been recorded by Toronto Hydro in the COVID-19 Emergency Deferral Account as at December 31, 2021 [refer to "COVID-19 Pandemic Considerations" above]. 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, including accessing further debt under, or increasing limits in, any of its MTN Program, Commercial Paper Program, or its credit facilities, or by 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 to finance its capital plans, including those related to meeting increased electricity demand resulting from net zero GHG emission policies [such as the City's TransformTO]. Toronto Hydro relies on debt financing through the Corporation's MTN Program, Commercial Paper 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, macroeconomic factors, changes in the target for the Bank of Canada's overnight rate, 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 Commercial Paper 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 Commercial Paper 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 is the sole shareholder of the Corporation, it is dependent on the City for new equity which may not be available, even to meet City objectives such as the TransformTO. 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, 2021, by $46.0 million, and a 1% [100 basis point] decrease in the discount rate would increase the accrued benefit obligation, as at December 31, 2021, by $59.0 million.

Toronto Hydro is also exposed to short-term interest rate risk on the short-term borrowings under its Commercial Paper 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 $0.9 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, 2021 was not material.

Toronto Hydro's financial health and performance may also be adversely affected by events or measures, as well as changes in economic, policy, customer preference or technological conditions, 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. A reduction in demand for grid-supplied electricity distribution may also arise from conservation measures and programs related to net-zero GHG emissions policies due to the presence of fossil-fuels, such as natural gas, in the production of electricity at generating stations in Ontario. Additionally, the adoption by customers of new technologies in the electricity industry, including those related to self-generation, could reduce customer demand for grid-supplied electricity distribution. Toronto Hydro is focused on investing in its infrastructure to modernize the grid to drive resiliency, reliability, customer effectiveness and efficiency.

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 and, as a result, its strategic activities and business objectives. This risk could be heightened in economic conditions where inflation rates are rising as this may result in pressure on wages and salaries, and where employee expectations are evolving. Furthermore, Toronto Hydro expects that labour force availability for certain positions will continue to tighten, resulting in increased competition and turnover for certain skilled employees, which may negatively impact knowledge management and business continuity at Toronto Hydro.

Development and retention of talent to meet the evolving needs of the business, particularly those related to technologies central to the clean energy transition and other needs of a modernized distribution grid requires Toronto Hydro to focus on a series of proactive activities and programs to mitigate these risks, such as strategic workforce planning, promotion of apprenticeship programs, diversity and inclusiveness awareness and training, investments in colleges and universities, succession planning, knowledge transfer and a robust training program.

Constraints on executive compensation may hinder Toronto Hydro's ability to attract and retain executive level talent. Failure to attract and retain executive level talent that have the skills and experience necessary to help Toronto Hydro achieve its strategic goals could have a material adverse effect on Toronto Hydro's business and operations.

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. There can also be no assurance that Toronto Hydro will be able to secure collective agreements without work stoppages by its unionized work forces.

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 minimizing any disruption that may be caused by the COVID-19 pandemic or other factors. 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 2027]. 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, including distributed energy resources; 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, provincial government and the Government of Canada implement policies and programs to respond and adapt to climate change, including greater electrification through the adoption of electric vehicles, distributed energy resources, building retrofits and energy efficiency/demand management technologies, the pressures on Toronto Hydro's system are expected to increase. 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, higher power quality requirements and multi-directional flows. As Toronto Hydro adopts novel technologies or equipment to enhance the capabilities of its electricity distribution grid, despite system contingency, there can be no guarantee that these technologies or equipment will be effective or that they will not increase the incidence or duration of outages.

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. Additionally, Toronto Hydro's ability to operate effectively is in part dependent upon timely access to equipment, materials and service suppliers. Loss or delay of key equipment, materials and service suppliers and the reputational and financial risk exposures of key vendors could affect the Corporation's operations and execution of capital projects.

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. Toronto Hydro continues to align its asset management system to the ISO 55001: Asset Management standard and has commenced a formal process which is expected to lead to certification under the standard and to cause the lifecycle of assets to be managed more effectively, reduce system costs and improve system visibility and reliability. 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. Toronto Hydro also utilizes a diverse set of contractors and suppliers through its rigorous procurement practices and monitors market conditions closely. However, if LDC is unable to carry out these plans in a timely and optimal manner, becomes subject to significant unforeseen equipment failures, or is unable to access sufficient supplies or human resources, 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, including in response to government net zero GHG policies and public goals, 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. The wind-down and removal of these supports for customers may lead to negative customer sentiment toward Toronto Hydro. As a result of net zero GHG emissions policies, LDC may need to accelerate capital investments to accommodate increasing electrification. These system enhancements may lead to material customer bill increases and a more challenging customer relationship environment for Toronto Hydro, as well as customer backlash against the energy transition and related expenditures by Toronto Hydro.

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. LDC is also exposed to risks that informational and operational technology systems may not operate as anticipated and could result in sustained interruptions to key corporate systems that would have a substantial impact on continuing normal business operations. Costs and operational changes, associated with such business interruption 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 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, reviewing the load forecast impacts, 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 the COVID-19 pandemic, and major power outage events. 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 continued to place insurance which it considers to be consistent with industry practice, there is no guarantee that insurance will continue to be available at reasonable rates for certain types of coverage and policy limits. If Toronto Hydro 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. Operational changes associated with the COVID-19 pandemic 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. 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 Toronto Hydro's Incident Management Team. The Corporation has also undertaken significant health and safety actions including investing in support measures, supplies and proactive supply chain investments 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. The completion of planned mitigation actions, monitoring of compliance issue turnover rates, and a responsible employee attestation process assist with ensuring effective management of identified compliance risks. Despite these mitigations, 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 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 COVID-19 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, 2021 [see note 15[b] to the Consolidated Financial Statements]. The extent of the future impact of the COVID-19 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.

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 July 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 reviewed the proposals in the Exposure Draft and submitted its comments on July 30, 2021.

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 Presentation of Financial Statements ["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 reporting periods beginning on or after January 1, 2022, with early adoption permitted.

Definition of Accounting Estimates [Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors ["IAS 8"]]

In February 2021, the IASB issued amendments to IAS 8 to introduce a definition of "accounting estimates" and include other amendments to help entities distinguish changes in accounting estimates from changes in accounting policies. 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 prospectively.

Disclosure of Accounting Policies [Amendments to IAS 1]

In February 2021, the IASB issued amendments to IAS 1 requiring an entity to disclose its material accounting policies, rather than its significant accounting policies. Additional amendments were made to explain how an entity can identify a material accounting policy. The amendments are effective for annual reporting periods beginning on or after January 1, 2023, with early adoption permitted.

Deferred Tax related to Assets and Liabilities arising from a Single Transaction [Amendments to IAS 12 Income Taxes ["IAS 12"]]

In May 2021, the IASB issued amendments to IAS 12. The amendments clarify how companies should account for deferred tax on certain transactions such as leases and decommissioning obligations. The amendments narrow the scope of the initial recognition exemption, so that it does not apply to transactions that give rise to equal and offsetting temporary differences. As a result, companies will need to recognize both a deferred tax asset and a deferred tax liability when accounting for such transactions. The amendments are effective for annual reporting periods beginning on or after January 1, 2023, 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", "committed", "continue", "could", "estimates", "expects", “focus”, “forecasts”, “future”, “further-notice”, “impact”, “intends”, “may”, “once”, “plans”, “propose”, “projects”, “seek”, “should”, “trend”, “will”, “would”, “objective”, “ongoing”, “outlook”, or the negative or other variations of these words or other comparable words or phrases, are intended to identify forward-looking information, although not all forward-looking information contains these identifying words. The forward-looking information reflects the Corporation's current beliefs and is based on information currently available to the Corporation.

Specific forward-looking information in the MD&A includes, but is not limited to, the statements regarding the settlement variance and other regulatory balance variances as described in the section entitled “Results of Operations”; the 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 use of the gain on sale of property to reduce future electricity distribution rates for customers 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”; electricity distribution rates and rate applications as described in the section entitled “Corporate Developments”; the City’s climate-related objectives, including TransformTO, and the Corporation’s climate action plan and relevant City strategies and programs 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 expectation that none of the legal actions and claims as described further in the section entitled “Legal Proceedings” would have a material adverse effect on the Corporation and the ability to claim under applicable liability insurance policies and/or pay any damages with respect to legal actions and claims as described in the section entitled “Legal Proceedings”; 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 as described in the section entitled “Oversight Risk”; Toronto Hydro’s monitoring of external competitive factors as described in the section entitled “Franchise Risk”; 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 “Franchise Risk”; Toronto Hydro’s focus on increasing the intelligence, automation and interactive nature of its distribution system, and the incorporation of a greater level of technology and information systems into its infrastructure as described in the section entitled “Cyber Security Risk”; risk that serious workplace incidents arising from workplace hazards can cause and/or contribute to critical injuries, fatal injuries, and occupational illnesses as described in the section entitled “Safety Risk”; the Corporation’s reliance on debt financing through its MTN Program, CP Program or existing credit facilities to finance Toronto Hydro’s daily operations, repay existing indebtedness, and fund capital expenditures as described in the section entitled “Financial Risk”; the impact on Toronto Hydro’s operating results and financial position in the future, and the ultimate duration and magnitude of the impact on the economy and Toronto Hydro’s business, of COVID-19 as described in the section entitled “Financial Risk”; 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 “Financial Risk”; the success of monetary and fiscal interventions by Governments and central banks designed to stabilize economic conditions as a result of COVID-19 as described in the section entitled “Financial Risk”; the Corporation’s active monitoring of the COVID-19 situation and development of a response plan through its financial planning processes as described in the section entitled “Financial Risk”; the effect of changes in interest rates and discount rates on future revenue requirements and future post-employment benefit obligations, respectively, as described in the section entitled “Financial Risk”; risk that Toronto Hydro is unable to maintain necessary resource talent and skilled resources as described in the section entitled “Human Capital 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 as described in the section entitled “Operations Risk”; the estimation that over a quarter of Toronto Hydro’s electricity distribution assets have already exceeded or will reach the end of their expected operating lives over the next five years [i.e.., by 2027] as described in the section entitled “Operations Risk”; risk that Toronto Hydro does not meet its material compliance obligations under legal and regulatory instruments as described in the section entitled “Compliance Risk”; and the Corporation’s assessment of the impact on adoption of the amendments to IAS 1, IAS 8, IAS 12, 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, 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.

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, including to deliver a modernized grid and meet electrification requirements to achieve government net zero GHG emissions targets; 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 Toronto Hydro's information assets, including but not limited to the collection, use and disclosure of personal information; risks associated with the failure of critical IT systems; risk of external threats to LDC's facilities 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, 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 and the availability of financing; risk to Toronto Hydro's employees or the general public of serious/fatal injuries and illnesses relating to or impacting upon Toronto Hydro's activities; risks of municipal government activity, including the risk that the City could introduce rules, policies or directives, including those relating to net zero GHG emissions targets, that can potentially limit Toronto Hydro's ability to meet its business objectives as laid out in the Shareholder Direction principles; risks related to LDC's work force demographic, the available labour markets and the changing expectations of potential employees, and Toronto Hydro's potential inability to attract, train and retain skilled employees; risks of being unable to retain necessary qualified external contracting forces relating to its capital, maintenance and reactive infrastructure program; risks associated with possible labour disputes and LDC's ability to negotiate appropriate collective agreements; risk that Toronto Hydro 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 Toronto Hydro 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 related to the timing and extent of changes in prevailing interest rates and discount rates and their effect on future revenue requirements and future post-employment benefit obligations; risks arising from inflation, the course of the economy and other general macroeconomic factors; 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 2020 Annual MD&A. Please review the section "Risk Management and Risk Factors" in this MD&A and in the 2020 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 2020 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.

Selected Annual Information

The following table sets forth selected annual financial information for the three years ended December 31, 2021, 2020 and 2019. This information has been derived from the Corporation's consolidated financial statements.

Selected Annual Consolidated Financial Information
[in millions of Canadian dollars]

	2021 $	2020 $	2019 $
Year Ended December 31			
Total Revenues [1]	3,567.1	3,929.6	3,673.3
Net income after net movements in regulatory balances [1]	141.0	117.1	154.4
As at December 31			
Total assets and regulatory balances [2]	6,413.8	6,069.0	5,778.7
Total debentures [2,3]	2,430.7	2,382.2	2,183.0
Other non-current financial liabilities [4]	27.5	22.1	19.4
Total equity [2]	1,982.7	1,912.0	1,887.5
Dividends [5]	70.3	92.6	100.4

[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 2, 2022

CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

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 2, 2022.

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
333 Bay Street, Suite 4600
Toronto, ON M5H 2S5
Canada
Tel 416-777-8500
Fax 416-777-8818

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, 2021 and December 31, 2020
- 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, 2021 and December 31, 2020, 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.

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 2, 2022

CONSOLIDATED BALANCE SHEETS

[in millions of Canadian dollars]

As at December 31	***Note***	**2021 $**	2020 $
ASSETS			
Current			
Accounts receivable and unbilled revenue	*4, 15[b]*	**459.0**	469.2
Income tax receivable		**2.4**	12.4
Materials and supplies		**9.9**	9.8
Other assets	*5*	**19.0**	16.7
Total current assets		**490.3**	508.1
Property, plant and equipment	*6*	**5,377.2**	5,039.2
Intangible assets	*7*	**358.0**	343.1
Other assets	*5*	**6.9**	8.2
Total assets		**6,232.4**	5,898.6
Regulatory balances	*8*	**181.4**	170.4
Total assets and regulatory balances		**6,413.8**	6,069.0
LIABILITIES AND EQUITY			
Current			
Working capital facility	*9*	**8.8**	6.2
Commercial paper	*9*	**275.0**	160.0
Accounts payable and accrued liabilities	*10*	**425.3**	406.1
Customer deposits		**62.3**	44.9
Deferred revenue	*11*	**25.1**	18.1
Deferred conservation credit	*3[c]*	**11.7**	16.0
Debentures	*12*	**-**	299.8
Total current liabilities		**808.2**	951.1
Debentures	*12*	**2,430.7**	2,082.4
Customer deposits		**10.1**	18.7
Deferred revenue	*11*	**643.1**	538.2
Post-employment benefits	*13*	**306.6**	332.7
Deferred tax liabilities	*20*	**63.8**	47.1
Other liabilities		**17.4**	3.4
Total liabilities		**4,279.9**	3,973.6
Equity			
Share capital	*16*	**817.8**	817.8
Retained earnings		**1,164.9**	1,094.2
Total equity		**1,982.7**	1,912.0
Total liabilities and equity		**6,262.6**	5,885.6
Regulatory balances	*8*	**151.2**	183.4
Total liabilities, equity and regulatory balances		**6,413.8**	6,069.0

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.

CONSOLIDATED STATEMENTS OF INCOME

[in millions of Canadian dollars]

Year ended December 31	***Note***	**2021** **$**	2020 $
Revenues			
Energy sales	*17*	**2,702.4**	3,142.5
Distribution revenue	*17*	**759.1**	694.4
Other	*17*	**105.6**	92.7
		3,567.1	3,929.6
Expenses			
Energy purchases		**2,775.2**	3,150.5
Operating expenses	*18*	**323.0**	326.0
Depreciation and amortization	*6, 7*	**292.7**	274.3
		3,390.9	3,750.8
Finance costs	*19*	**(79.1)**	(77.1)
Gain on disposals of property, plant and equipment		**2.7**	-
Income before income taxes		**99.8**	101.7
Income tax expense	*20*	**(21.8)**	(28.6)
Net income		**78.0**	73.1
Net movements in regulatory balances	*8*	**54.1**	18.8
Net movements in regulatory balances arising from deferred taxes	*8*	**8.9**	25.2
Net income after net movements in regulatory balances		**141.0**	117.1

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

[in millions of Canadian dollars]

Year ended December 31	***Note***	**2021** **$**	2020 $
Net income after net movements in regulatory balances		**141.0**	117.1
Other comprehensive income			
Items that will not be reclassified to income or loss			
Remeasurements of post-employment benefits, net of tax [2021 - ($7.1), 2020 - ($1.3)]	*13*	**19.8**	3.8
Net movements in regulatory balances related to OCI, net of tax [2021 - ($7.1), 2020 - ($1.3)]	*8, 13*	**(19.8)**	(3.8)
Other comprehensive income, net of tax		**-**	-
Total comprehensive income		**141.0**	117.1

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

[in millions of Canadian dollars]

Year ended December 31	***Note***	**2021** **$**	2020 $
Share capital	*16*	**817.8**	817.8
Retained earnings, beginning of year		**1,094.2**	1,069.7
Net income after net movements in regulatory balances		**141.0**	117.1
Dividends	*16, 22*	**(70.3)**	(92.6)
Retained earnings, end of year		**1,164.9**	1,094.2
Total equity		**1,982.7**	1,912.0

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

[in millions of Canadian dollars]

Year ended December 31	*Note*	2021 $	2020 $
OPERATING ACTIVITIES			
Net income after net movements in regulatory balances		**141.0**	117.1
Net movements in regulatory balances	*8*	**(54.1)**	(18.8)
Net movements in regulatory balances arising from deferred taxes	*8*	**(8.9)**	(25.2)
Adjustments			
Depreciation and amortization	*6, 7*	**292.7**	274.3
Amortization of deferred revenue	*11*	**(12.3)**	(8.2)
Finance costs		**79.1**	77.1
Income tax expense		**21.8**	28.6
Post-employment benefits		**0.8**	2.9
Gain on disposals of property, plant and equipment		**(2.7)**	-
Other		**1.1**	0.3
Capital contributions received	*11*	**101.2**	138.7
Net change in other non-current assets and liabilities		**11.1**	0.7
Increase (decrease) in customer deposits		**8.8**	(4.4)
Changes in non-cash operating working capital balances	*21*	**8.4**	46.0
Income tax paid		**-**	(15.2)
Net cash provided by operating activities		**588.0**	613.9
INVESTING ACTIVITIES			
Purchase of property, plant and equipment	*21*	**(555.8)**	(626.5)
Purchase of intangible assets	*21*	**(47.6)**	(40.8)
Proceeds on disposals of property, plant and equipment		**2.8**	0.5
Net cash used in investing activities		**(600.6)**	(666.8)
FINANCING ACTIVITIES			
Increase in commercial paper, net of repayments	*9*	**115.0**	24.0
Dividends paid	*16*	**(70.3)**	(92.6)
Proceeds from issuance of debentures	*12*	**349.8**	199.7
Debt issuance costs paid	*12*	**(2.3)**	(1.4)
Repayment of debentures	*12*	**(300.0)**	-
Interest paid		**(82.2)**	(82.0)
Net cash provided by financing activities		**10.0**	47.7
Net change in cash and cash equivalents during the year		**(2.6)**	(5.2)
Working capital facility, beginning of year		**(6.2)**	(1.0)
Working capital facility, end of year		**(8.8)**	(6.2)

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, 2021 and 2020 ["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 measured at the present value of the post-employment benefit obligation.

The Corporation has evaluated the events and transactions occurring after the consolidated balance sheet date through March 2, 2022 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 set 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. The COVID-19 pandemic has had, and as at the date of the Consolidated Financial Statements continues to have, a significant impact on the Corporation.

On April 21, 2021, the OEB extended the existing ban on disconnecting residential customers until May 19, 2021, which was further extended on May 14, 2021 until June 2, 2021, in light of the stay-at-home order issued by the Ontario Government under its State of Emergency declaration. The restriction also applied to the issuance of any post-dated disconnection notices during that period.

On November 15, 2021, the OEB's standard winter disconnection ban commenced and will remain in effect until May 1, 2022. The Corporation continues to voluntarily extend its ban on disconnecting residential and low volume customers, which has been in place since the beginning of the pandemic, until further notice.

On January 7, 2022, the Ontario Government announced further targeted relief measures setting both the TOU rates for on-peak, mid-peak, and off-peak and tiered rates at the TOU off-peak rate of 8.2 cents per kWh, 24 hours a day, seven days a week, effective January 18, 2022 until February 7, 2022.

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 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. 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. 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]*.

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.

[All tabular amounts in millions of Canadian dollars]

On August 20, 2021, LDC filed its 2022 rate application seeking the OEB's approval to finalize distribution rates and other charges for the period commencing on January 1, 2022 and ending on December 31, 2022. On December 9, 2021, the OEB issued a decision and rate order approving LDC's 2022 rates and providing for other deferral and variance account dispositions.

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 reimbursed from the IESO for 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 June 10, 2021, 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 June 30, 2021 to December 31, 2021, and on December 9, 2021, it was further extended to August 31, 2022. The directive also allows for the completion deadline to be further extended to December 31, 2022, if certain conditions are met. 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:

	2021 **$**	**2020** **$**
Unbilled revenue	**212.1**	228.7
Trade receivables	**176.2**	183.9
Due from related parties *[note 22]*	**52.2**	41.6
Other	**18.5**	15.0
	459.0	469.2

[All tabular amounts in millions of Canadian dollars]

5. OTHER ASSETS

Other assets consist of the following:

	2021 $	2020 $
Prepaid expenses	**18.6**	15.4
Deferred financing costs	**1.4**	1.2
Other	**5.9**	8.3
Total other assets	**25.9**	24.9
Less: Current portion of other assets relating to:		
Prepaid expenses	**18.6**	15.4
Deferred financing costs	**0.4**	0.4
Other	**—**	0.9
Current portion of other assets	**19.0**	16.7
Non-current portion of other assets	**6.9**	8.2

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, 2020	4,465.1	426.9	331.1	481.2	5,704.3
Additions	—	—	—	577.4	577.4
Transfers into service	486.0	13.5	45.8	(545.3)	—
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
Additions	**—**	**—**	**—**	**594.1**	**594.1**
Transfers into service	**519.5**	**23.3**	**62.4**	**(605.2)**	**—**
Disposals and retirements	**(33.2)**	**(0.2)**	**(3.1)**	**—**	**(36.5)**
Balance as at December 31, 2021	**5,406.2**	**462.9**	**434.5**	**502.2**	**6,805.8**
Accumulated depreciation					
Balance as at January 1, 2020	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
Depreciation	**183.3**	**16.1**	**32.0**	**—**	**231.4**
Disposals and retirements	**(8.9)**	**(0.1)**	**(2.8)**	**—**	**(11.8)**
Balance as at December 31, 2021	**1,104.3**	**97.2**	**227.1**	**—**	**1,428.6**
Carrying amount					
Balance as at December 31, 2020	3,990.0	358.6	177.3	513.3	5,039.2
Balance as at December 31, 2021	**4,301.9**	**365.7**	**207.4**	**502.2**	**5,377.2**

[All tabular amounts in millions of Canadian dollars]

As at December 31, 2021, “Land and buildings” included right-of-use assets related to leases of land and office space with cost of $7.6 million [December 31, 2020 - $7.6 million], accumulated depreciation of $0.9 million [December 31, 2020 - $0.8 million], and carrying amount of $6.7 million [December 31, 2020 - $6.8 million]. For the year ended December 31, 2021, the Corporation recorded depreciation expense of $0.1 million [2020 - $0.2 million] related to the right-of-use assets.

For the year ended December 31, 2021, borrowing costs in the amount of $2.8 million [2020 - $2.9 million] were capitalized to PP&E with an average interest rate of 3.07% [2020 - 3.19%].

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, 2020	235.6	176.6	21.7	45.9	479.8
Additions	—	—	28.0	11.8	39.8
Transfers into service	29.1	(0.3)	(29.1)	0.3	—
Balance as at December 31, 2020	264.7	176.3	20.6	58.0	519.6
Additions	**—**	**—**	**32.3**	**21.0**	**53.3**
Transfers into service	**25.5**	**18.6**	**(25.5)**	**(18.6)**	**—**
Balance as at December 31, 2021	**290.2**	**194.9**	**27.4**	**60.4**	**572.9**
Accumulated amortization					
Balance as at January 1, 2020	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
Amortization	**30.7**	**7.7**	**—**	**—**	**38.4**
Balance as at December 31, 2021	**182.6**	**32.3**	**—**	**—**	**214.9**
Carrying amount					
Balance as at December 31, 2020	112.8	151.7	20.6	58.0	343.1
Balance as at December 31, 2021	**107.6**	**162.6**	**27.4**	**60.4**	**358.0**

For the year ended December 31, 2021, borrowing costs in the amount of $1.9 million [2020 - $1.7 million] were capitalized to intangible assets with an average interest rate of 3.07% [2020 - 3.19%].

“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 seven years. The remaining amortization period for contributions ranges from seven to 25 years.

[All tabular amounts in millions of Canadian dollars]

8. REGULATORY BALANCES

Debit balances consist of the following:

	January 1, 2021 $	Balances arising in the period $	Recovery/ reversal $	Other movements $	December 31, 2021 $	Remaining recovery/ reversal period (months)	Carrying charges applicable
Deferred taxes	**47.9**	**16.0**	**—**	**—**	**63.9**	note 8[a]	—
Settlement variances	**3.4**	**73.2**	**(18.1)**	**—**	**58.5**	note 8[b]	(1)
OPEB net actuarial loss	**75.5**	**(26.9)**	**(0.5)**	**—**	**48.1**	note 8[c]	—
LRAM	**33.2**	**0.1**	**(29.1)**	**—**	**4.2**	note 8[d]	(1)
Other	**10.4**	**(0.5)**	**(2.3)**	**(0.9)**	**6.7**	12	(1)
	170.4	**61.9**	**(50.0)**	**(0.9)**	**181.4**		

	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[c]	—
Deferred taxes	21.4	26.5	—	—	47.9	note 8[a]	—
LRAM	35.9	(1.8)	(0.9)	—	33.2	note 8[d]	(1)
Settlement variances	—	8.2	4.1	(8.9)	3.4	note 8[b]	(1)
OPEB cash versus accrual	7.1	—	(6.2)	—	0.9	note 8[k]	—
Foregone revenue	2.8	—	—	(2.8)	—	note 8[l]	—
IFRS transitional adjustments	—	—	0.8	(0.8)	—	—	—
Other	11.5	1.2	(3.2)	—	9.5	24	(1)
	165.0	29.0	(11.1)	(12.5)	170.4		

(1) Carrying charges were added to the regulatory balance in accordance with the OEB's direction, at a rate of 0.57% for January 1, 2021 to December 31, 2021 [January 1, 2020 to June 30, 2020 - 2.18%; July 1, 2020 to December 31, 2020 - 0.57%].

[All tabular amounts in millions of Canadian dollars]

Credit balances consist of the following:

	January 1, 2021 $	Balances arising in the period $	Recovery/ reversal $	Other movements $	December 31, 2021 $	Remaining recovery/ reversal period (months)	Carrying charges applicable
Capital-related revenue requirement	**77.9**	**0.4**	**—**	**—**	**78.3**	note 8[e]	(1)
Derecognition	**33.2**	**0.2**	**—**	**—**	**33.4**	note 8[f]	(1)
Development charges	**14.8**	**2.8**	**(2.4)**	**—**	**15.2**	note 8[g]	(1)
Tax-related variances	**11.2**	**—**	**—**	**—**	**11.2**	note 8[h]	(1)
Gain on disposal	**37.5**	**0.1**	**(32.9)**	**—**	**4.7**	note 8[i]	(1)
Accounts receivable credits	**3.5**	**0.1**	**(0.8)**	**—**	**2.8**	note 8[j]	(1)
Other	**5.3**	**2.3**	**(1.1)**	**(0.9)**	**5.6**	36	(1)
	183.4	**5.9**	**(37.2)**	**(0.9)**	**151.2**		

	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[e]	(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[f]	(1)
Development charges	10.9	3.9	—	—	14.8	note 8[g]	(1)
Tax-related variances	11.4	(0.2)	—	—	11.2	note 8[h]	(1)
Settlement variances	8.9	—	—	(8.9)	—	note 8[b]	(1)
Accounts receivable credits	3.4	0.1	—	—	3.5	note 8[j]	(1)
Foregone revenue	—	4.0	(0.3)	(2.8)	0.9	note 8[l]	—
IFRS transitional adjustments	0.8	—	—	(0.8)	—	—	—
Other	11.1	2.3	(9.0)	—	4.4	12-48	(1)
	218.2	12.1	(34.4)	(12.5)	183.4		

(1) Carrying charges were added to the regulatory balance in accordance with the OEB's direction, at a rate of 0.57% for January 1, 2021 to December 31, 2021 [January 1, 2020 to June 30, 2020 - 2.18%; July 1, 2020 to December 31, 2020 - 0.57%].

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, 2021.

[All tabular amounts in millions of Canadian dollars]

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:

	2021 $	2020 $
Total movements per regulatory debit balances table	**11.0**	5.4
Total movements per regulatory credit balances table	**32.2**	34.8
Total net movements	**43.2**	40.2
Net movements per financial statements:		
Net movements in regulatory balances	**54.1**	18.8
Net movements in regulatory balances arising from deferred taxes	**8.9**	25.2
Net movements in regulatory balances related to OCI, net of tax	**(19.8)**	(3.8)
Total net movements per financial statements	**43.2**	40.2

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) *Deferred taxes*

This regulatory balance relates to both deferred tax amounts recorded 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 recorded under IFRS 14 include the deferred tax asset related to regulatory balances of $15.5 million [debits] as at December 31, 2021 [December 31, 2020 - $8.3 million [debits]], and the recognition of a regulatory balance in respect of additional temporary differences for which a deferred tax amount was recognized of $17.5 million [credits] as at December 31, 2021 [December 31, 2020 - $14.3 million [credits]].

The deferred tax amount related to the expected future impact to electricity distribution rates was $65.9 million [debits] as at December 31, 2021 [December 31, 2020 - $53.9 million [debits]].

b) *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.

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. Settlement variances pertaining to 2020 did not exceed the disposition threshold in accordance with OEB policy and will be aggregated with 2021 settlement variances which are yet to be applied for disposition.

c) 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, 2021 of $26.9 million is related to the actuarial gain recorded for the year [2020 - $5.1 million actuarial gain] *[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.

d) 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.

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.

e) 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.

f) 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.

g) 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.

h) 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 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.

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 the sale of three significant LDC properties between 2015 and 2018.

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) 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.

k) 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 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.

l) Foregone revenue

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 disposition of 2020 foregone revenue over a 22-month period commencing on March 1, 2020.

m) COVID-19 emergency

On March 25, 2020, the OEB established the COVID-19 Emergency 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 orientation in the policy consultation. Based on this information, management believed that there was high uncertainty in regard to the recoverability of costs and lost revenues related to government and OEB-mandated customer relief actions and therefore a low probability of recovery. On June 17, 2021, the OEB issued the final report on the COVID-19 Emergency Deferral Account consultation. The assessment on the recoverability of costs and lost revenues associated with the pandemic remains unchanged. Consequently, no amounts have been recorded in the COVID-19 Emergency Deferral Account as at December 31, 2021.

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 September 2, 2021, the maturity date of the Revolving Credit Facility was extended from October 10, 2024 to September 2, 2026. 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 up to $750.0 million of unsecured short-term promissory notes to be issued in various maturities of no more than one year. 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 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"]. On September 2, 2021, the amount which can be issued against the Prudential Facility was increased from $75.0 million to $100.0 million.

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

[All tabular amounts in millions of Canadian dollars]

The amount available 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, 2021	**800.0**	—	**275.0**	**525.0**
December 31, 2020	800.0	—	160.0	640.0

For the year ended December 31, 2021, the average aggregate outstanding borrowings under the Corporation's Revolving Credit Facility, Working Capital Facility and Commercial Paper Program were $288.3 million [2020 - $349.6 million] with a weighted average interest rate of 0.28% [2020 - 0.76%].

As at December 31, 2021, $8.8 million had been drawn under the Working Capital Facility [December 31, 2020 - $6.2 million] and letters of credit in the amount of $59.2 million were issued against the Prudential Facility [December 31, 2020 - $32.9 million], of which $26.2 million were issued on August 9, 2021 to support the plan amendments for post-employment benefit obligations *[note 13[a]]*.

10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consist of the following:

	2021 $	2020 $
Trade payables	**263.5**	253.7
Accrued liabilities	**127.0**	107.6
Accrued interest	**18.1**	17.3
Due to related parties *[note 22]*	**15.0**	25.8
Other	**1.7**	1.7
	425.3	406.1

[All tabular amounts in millions of Canadian dollars]

11. DEFERRED REVENUE

Deferred revenue consists of the following:

	2021 $	2020 $
Capital contributions, beginning of year	**553.7**	410.4
Capital contributions received [(1)]	**123.1**	151.7
Amortization	**(12.3)**	(8.2)
Other	**(0.4)**	(0.2)
Capital contributions, end of year	**664.1**	553.7
Other deferred revenue, beginning of year	**2.6**	1.5
Other deferred revenue received	**17.1**	15.6
Revenue recognized	**(15.6)**	(14.5)
Other deferred revenue, end of year	**4.1**	2.6
Total deferred revenue	**668.2**	556.3
Less: Current portion of deferred revenue relating to:		
Capital contributions	**21.0**	15.5
Other deferred revenue	**4.1**	2.6
Current portion of deferred revenue	**25.1**	18.1
Non-current portion of deferred revenue	**643.1**	538.2

(1) Includes non-cash contributions of $21.9 million [2020 - $13.0 million].

[All tabular amounts in millions of Canadian dollars]

12. DEBENTURES

Debentures consist of the following:

	2021 $	2020 $
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
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**	200.0
Series 17 – 2.47% due October 20, 2031	**150.0**	—
Series 18 – 3.27% due October 18, 2051	**200.0**	—
Total debentures	**2,445.0**	2,395.0
Less: Unamortized debt issuance costs	**13.1**	11.7
Unamortized discount/premium	**1.2**	1.1
Current portion of debentures	**—**	299.8
Long-term portion of debentures	**2,430.7**	2,082.4

All debentures of the Corporation rank equally.

The Corporation filed a base shelf prospectus dated July 29, 2021 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 in an aggregate amount of up to $1.0 billion during the 25-month period following the date of the prospectus.

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.

On October 18, 2021, the Corporation issued $350.0 million of senior unsecured debentures. The issuance consisted of $150.0 million of 2.47% senior unsecured debentures due on October 20, 2031 at a price of $999.73 per $1,000 principal amount ["Series 17"], and $200.0 million of 3.27% senior unsecured debentures due on October 18, 2051 at a price of $999.43 per $1,000 principal amount ["Series 18"]. The Series 17 and Series 18 debentures bear interest payable semi-annually in arrears. Debt issuance costs of $2.3 million relating to both Series were recorded against the carrying amount of the debentures in the fourth quarter of 2021 and are amortized to finance costs using the effective interest method.

The Corporation's Series 7 debentures matured and were repaid on November 18, 2021.

[All tabular amounts in millions of Canadian dollars]

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, 2021, OMERS had disclosed that the plan was 97.0% funded [December 31, 2020 - 97.0%]. The Corporation is not able to assess the implications, if any, of OMERS' strategy to address the funding shortfall or of the withdrawal of other participating entities from the OMERS plan on its future contributions. For the year ended December 31, 2021, the Corporation's contributions were $16.2 million [2020 - $17.7 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 2022.

Post-employment benefits

a) Benefit obligation

	2021 $	2020 $
Balance, beginning of year	**332.7**	334.9
Current service cost	**3.3**	4.6
Interest cost	**8.3**	10.0
Benefits paid	**(12.7)**	(11.7)
Past service cost [(1)]	—	0.4
Experience loss (gain) [(2)]	**3.2**	(6.3)
Actuarial gain arising from changes in demographic assumptions [(2)]	—	(27.2)
Actuarial loss (gain) arising from changes in financial assumptions [(2)] [(3)]	**(28.2)**	28.0
Balance, end of year	**306.6**	332.7

[(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. On August 9, 2021, $26.2 million of letters of credit were issued to support the related obligations.
[(2)] Actuarial loss [gain] on accumulated sick leave credits of $1.9 million [2020 - ($0.4) million] is recognized in benefit cost *[note 13[c]]* and actuarial gain on medical, dental and life insurance benefits of $26.9 million [2020 - $5.1 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, 2021, the amount recognized in regulatory balances related to accumulated net actuarial loss was $48.1 million [December 31, 2020 - $75.5 million] *[note 8[c]]*.

[All tabular amounts in millions of Canadian dollars]

c) Benefit cost recognized

	2021 $	2020 $
Current service cost	**3.3**	4.6
Interest cost	**8.3**	10.0
Past service cost *[note 13[a]]*	**—**	0.4
Actuarial loss (gain) on other employee benefits *[note 13[a]]*	**1.9**	(0.4)
Benefit cost	**13.5**	14.6
Capitalized to PP&E and intangible assets	**5.5**	6.4
Charged to operating expenses	**8.0**	8.2

d) Amounts recognized in OCI

	2021 $	2020 $
Actuarial gain *[note 13[a]]*	**(26.9)**	(5.1)
Income tax expense in OCI *[note 20]*	**7.1**	1.3
Remeasurements of post-employment benefits, net of tax	**(19.8)**	(3.8)
Net movements in regulatory balances related to OCI, net of tax	**19.8**	3.8
OCI, net of tax	**—**	—

e) Significant assumptions

	2021 %	2020 %
Discount rate used in the calculation of:		
Benefit obligation as at December 31	**3.00**	2.50
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, 2021 was 16.5 [2020 - 17.0]. 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.

[All tabular amounts in millions of Canadian dollars]

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

	Change in assumption	2021 $	2020 $
Benefit obligation		**306.6**	332.7
Discount rate	1% ↑	**(46.0)**	(49.9)
	1% ↓	**59.0**	64.0
Medical and dental cost trend rate	1% ↑	**37.4**	40.6
	1% ↓	**(33.1)**	(35.9)

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, 2021, 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, 2020. As at December 31, 2021, equity amounted to $1,982.7 million [December 31, 2020 - $1,912.0 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 $2,714.7 million [December 31, 2020 - $2,548.7 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 its trust indenture. The Corporation's Revolving Credit Facility limits the debt to capitalization ratio to a maximum of 75%.

The Corporation's debt arrangements also include restrictive covenants such as limitations on designated subsidiary indebtedness, and restrictions on mergers and dispositions of designated subsidiaries. As at December 31, 2021 and December 31, 2020, the Corporation was in compliance with all covenants included in its trust indenture, supplemental trust indentures and Revolving Credit Facility agreement.

[All tabular amounts in millions of Canadian dollars]

15. FINANCIAL INSTRUMENTS

a) Fair value

As at December 31, 2021 and December 31, 2020, 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 amount taking into account interest accrued on the outstanding balance. Obligations under leases are measured based on a discounted cash flow analysis and fair values 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:

	2021 $		2020 $	
	Carrying amount	**Fair value [1]**	**Carrying amount**	**Fair value [1]**
Senior unsecured debentures				
Series 6 – 5.54% due May 21, 2040	**198.9**	**274.9**	198.8	293.2
Series 7 – 3.54% due November 18, 2021	**—**	**—**	299.8	308.2
Series 8 – 2.91% due April 10, 2023	**249.8**	**254.4**	249.6	262.2
Series 9 – 3.96% due April 9, 2063	**243.4**	**305.8**	243.4	334.0
Series 10 – 4.08% due September 16, 2044	**198.5**	**238.2**	198.5	255.6
Series 11 – 3.55% due July 28, 2045	**198.5**	**221.2**	198.5	238.1
Series 12 – 2.52% due August 25, 2026	**199.4**	**206.7**	199.2	216.9
Series 13 – 3.485% due February 28, 2048	**198.6**	**220.4**	198.6	238.4
Series 14 – 2.43% due December 11, 2029	**198.9**	**205.3**	198.8	218.4
Series 15 – 2.99% due December 10, 2049	**198.6**	**202.8**	198.6	220.1
Series 16 – 1.50% due October 15, 2030	**198.5**	**189.0**	198.4	200.8
Series 17 – 2.47% due October 20, 2031	**149.1**	**151.9**	—	—
Series 18 – 3.27% due October 18, 2051	**198.5**	**213.9**	—	—
	2,430.7	**2,684.5**	2,382.2	2,785.9

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

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 trends 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 for the year ended December 31, 2021, recorded an incremental provision of $1.2 million [2020 - $17.2 million] to its expected credit loss allowance as a result of the COVID-19 pandemic.

[All tabular amounts in millions of Canadian dollars]

LDC obtains security instruments from certain customers in accordance with direction provided by the OEB. As at December 31, 2021, LDC held security deposits in the amount of $72.4 million [December 31, 2020 - $63.6 million], of which $39.4 million [December 31, 2020 - $33.4 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, 2021, 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, 2021 and December 31, 2020.

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

	2021 $	2020 $
Accounts receivable, gross		
Outstanding for not more than 30 days	**190.1**	167.1
Outstanding for more than 30 days and not more than 120 days	**23.8**	51.4
Outstanding for more than 120 days	**37.7**	26.5
Total accounts receivable, gross	**251.6**	245.0
Unbilled revenue, gross	**240.9**	254.7
Credit loss allowance	**(33.5)**	(30.5)
Total accounts receivable and unbilled revenue	**459.0**	469.2

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, 2021 and December 31, 2020.

The Corporation has a broad base of customers. As at December 31, 2021 and December 31, 2020, the Corporation's accounts receivable for non-commercial customers and unbilled revenue which were not past due or impaired were assessed by management to have no significant collection risk. Accounts receivable balances related to commercial customers are assessed on a holistic basis and the entire billed balance, including amounts not past due, is assessed for significant collection risk.

[All tabular amounts in millions of Canadian dollars]

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

	2021 $	2020 $
Balance, beginning of year	**(30.5)**	(11.8)
Additional credit loss allowance	**(7.1)**	(23.4)
Write-offs	**4.3**	5.0
Recoveries of previously written-off balances	**(0.2)**	(0.3)
Balance, end of year	**(33.5)**	(30.5)

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, 2021, aside from the valuation of its post-employment benefit obligations, most of the Corporation's 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 $0.9 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.

[All tabular amounts in millions of Canadian dollars]

Liquidity risks associated with financial commitments are as follows:

2021	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	8.8	—	—	—	—	—
Commercial paper (1)	275.0	—	—	—	—	—
Accounts payable and accrued liabilities (2)	407.2	—	—	—	—	—
Obligations under leases	—	—	0.1	0.1	—	—
Senior unsecured debentures						
Series 6 – 5.54% due May 21, 2040	—	—	—	—	—	200.0
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
Series 17 – 2.47% due October 20, 2031	—	—	—	—	—	150.0
Series 18 – 3.27% due October 18, 2051	—	—	—	—	—	200.0
Interest payments on debentures	79.5	75.8	72.1	72.1	72.1	1,281.5
	770.5	325.8	72.2	72.2	272.1	3,276.5

(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 $18.1 million of accrued interest on debentures included within "Interest payments on debentures".

Foreign exchange risk

As at December 31, 2021, 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.

[All tabular amounts in millions of Canadian dollars]

16. SHARE CAPITAL

Share capital consists of the following:

	2021 $	2020 $
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, 2021, the Board of Directors of the Corporation declared and paid dividends to the City totalling $70.3 million [2020 - $92.6 million].

On March 2, 2022, the Board of Directors of the Corporation declared a dividend in the amount of $21.2 million, payable to the City by March 31, 2022.

[All tabular amounts in millions of Canadian dollars]

17. REVENUES

Revenues consist of the following:

	2021 $	2020 $
Revenue from contracts with customers		
Energy sales	**2,702.4**	3,142.5
Distribution revenue	**759.1**	694.4
Street lighting services	**24.0** [1]	18.1
Pole and duct rentals	**18.4**	20.4
Ancillary services revenue	**17.9**	14.9
Other regulatory service charges	**7.8**	7.5
Miscellaneous	**17.6**	14.1
Revenue from other sources		
Capital contributions	**12.3**	8.2
Other	**7.6**	9.5
	3,567.1	3,929.6

[1] Includes the recognition of $5.7 million in variable consideration that was previously constrained for performance obligations satisfied in previous periods. A corresponding amount has also been recognized in accounts receivable and unbilled revenue. No variable consideration related to performance obligations satisfied in 2021 has been recognized as it is not considered highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur.

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

	2021 $	2020 $
Residential service [1]	**1,000.5**	1,120.7
General service [2]	**2,270.6**	2,512.4
Large users [3]	**190.4**	203.8
Total energy sales and distribution revenue	**3,461.5**	3,836.9

[1] “Residential Service” means a service that is for domestic or household purposes, including single family or individually metered multi-family 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.

[All tabular amounts in millions of Canadian dollars]

18. OPERATING EXPENSES

Operating expenses consist of the following:

	2021 $	2020 $
Salaries and benefits	**207.1**	227.0
External services	**164.5**	143.9
Other support costs [1]	**31.4**	46.2
Materials and supplies	**27.0**	26.7
Less: Capitalized costs	**(107.0)**	(117.8)
	323.0	326.0

[1] Includes expected credit loss, taxes other than income taxes, utilities, rental, communication, insurance, and other general and administrative expenses.

For the year ended December 31, 2021, the Corporation recognized operating expenses of $17.6 million related to materials and supplies used to service electricity distribution assets [2020 - $16.3 million].

19. FINANCE COSTS

Finance costs consist of the following:

	2021 $	2020 $
Interest income	**(0.6)**	(1.3)
Interest expense		
Interest on long-term debt [1]	**81.5**	78.4
Interest on short-term debt	**2.6**	4.3
Other interest	**0.3**	0.3
Capitalized borrowing costs	**(4.7)**	(4.6)
	79.1	77.1

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

[All tabular amounts in millions of Canadian dollars]

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:

	2021 $	2020 $
Rate reconciliation before net movements in regulatory balances		
Income before income taxes	**99.8**	101.7
Statutory Canadian federal and provincial income tax rate	**26.5%**	26.5%
Expected income tax expense	**26.4**	27.0
Non-taxable amounts	**(5.5)**	(0.3)
Gain on disposals of PP&E	**0.1**	—
Other	**0.8**	1.9
Income tax expense	**21.8**	28.6
Effective tax rate	**21.8%**	28.1%
Rate reconciliation after net movements in regulatory balances		
Net income after net movements in regulatory balances, before income tax (1)	**153.9**	120.5
Statutory Canadian federal and provincial income tax rate	**26.5%**	26.5%
Expected income tax expense	**40.8**	31.9
Temporary differences recoverable in future rates	**(27.1)**	(29.4)
Gain on disposals of PP&E	**0.1**	—
Other	**(0.9)**	0.9
Income tax expense and income tax recorded in net movements in regulatory balances	**12.9**	3.4
Effective tax rate	**8.4%**	2.8%

(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:

	2021 $	2020 $
Income tax expense	**21.8**	28.6
Income tax recorded in net movements in regulatory balances	**(8.9)**	(25.2)
Income tax expense and income tax recorded in net movements in regulatory balances	**12.9**	3.4
Income tax expense in OCI *[note 13[d]]*	**7.1**	1.3
Income tax recovery in OCI recorded in net movements in regulatory balances	**(7.1)**	(1.3)
Income tax expense in OCI	**—**	—

[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:

	2021 $	2020 $
Current tax expense		
Current year	**12.3**	5.9
Deferred tax expense		
Origination and reversal of temporary differences	**0.6**	(2.5)
Income tax expense and income tax recorded in net movements in regulatory balances	**12.9**	3.4

Deferred tax assets [liabilities] consist of the following:

	Net balance January 1, 2021 $	Recognized in net income $	Recognized in OCI $	Net balance December 31, 2021 $
PP&E and intangible assets	**(114.0)**	**(29.6)**	**—**	**(143.6)**
Post-employment benefits	**88.1**	**0.3**	**(7.1)**	**81.3**
Tax credit carryforward	**2.5**	**(0.7)**	**—**	**1.8**
Other taxable temporary differences	**(23.7)**	**20.4**	**—**	**(3.3)**
	(47.1)	**(9.6)**	**(7.1)**	**(63.8)**

	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)

As at December 31, 2021, the Corporation had accumulated net capital losses of $18.7 million [December 31, 2020 - $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, 2021 and December 31, 2020.

[All tabular amounts in millions of Canadian dollars]

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.

	2021 $	2020 $
Deductible temporary differences	**6.9**	7.0
Net capital losses	**5.0**	5.0
	11.9	12.0

21. CONSOLIDATED STATEMENTS OF CASH FLOWS

Changes in non-cash operating working capital provided [used] cash as follows:

	2021 $	2020 $
Accounts receivable and unbilled revenue	**10.2**	72.1
Income tax receivable	**10.0**	(11.9)
Materials and supplies	**(0.1)**	(2.0)
Other current assets	**(2.3)**	(2.6)
Accounts payable and accrued liabilities	**(10.7)**	(20.6)
Deferred revenue	**5.6**	4.5
Deferred conservation credit	**(4.3)**	6.5
	8.4	46.0

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

	2021 $	2020 $
Purchase of PP&E, cash basis	**555.8**	626.5
Net change in accounts payable and accruals related to PP&E	**15.1**	(63.0)
Non-cash contributed assets [(1)]	**21.9**	13.0
Other	**1.3**	0.9
Total additions to PP&E	**594.1**	577.4
Purchase of intangible assets, cash basis	**47.6**	40.8
Net change in accounts payable and accruals related to intangible assets	**5.7**	(1.0)
Total additions to intangible assets	**53.3**	39.8

[(1)] Includes reclassification from amounts previously reported due to change in presentation of the consolidated statements of cash flows for amounts between purchase of PP&E and capital contributions received of $13.0 million for the year ended December 31, 2020.

[All tabular amounts in millions of Canadian dollars]

Summary of changes in liabilities arising from financing activities:

	2020 $	Cash flows [1] $	Non-cash changes $	2021 $
Year ended December 31				
Commercial paper	**160.0**	**115.0**	**—**	**275.0**
Dividends payable	**—**	**(70.3)**	**70.3**	**—**
Debentures *[note 12]*	**2,382.2**	**47.5**	**1.0**	**2,430.7**
Accrued interest [2]	**17.3**	**(82.2)**	**83.0**	**18.1**
Lease liability [3]	**0.3**	**—**	**(0.1)**	**0.2**
	2,559.8	**10.0**	**154.2**	**2,724.0**

	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

[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	2021 $	2020 $
Revenues	**284.4**	304.6
Operating expenses and capital expenditures (recoveries)	**(1.5)**	10.5
Dividends declared and paid	**70.3**	92.6

Summary of Amounts Due to/from Related Parties	2021 $	2020 $
Accounts receivable and unbilled revenue	**52.2**	41.6
Accounts payable and accrued liabilities	**15.0**	25.8
Customer deposits	**12.8**	12.6

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. Capital expense recoveries represent amounts reversed by the City for closed road cut repair accruals. Dividends are paid to the City *[note 16]*.

[All tabular amounts in millions of Canadian dollars]

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:

	2021 $	2020 $
Short-term employee benefits	**5.0**	5.3
Post-employment benefits	**5.0**	2.9
Termination benefits	**—**	2.6
	10.0	10.8

23. COMMITMENTS

As at December 31, 2021, the future minimum payments for capital projects and other commitments were as follows:

	Capital projects (1) and other $
Less than one year	**32.6**
Between one and five years	**10.1**
Total amount of future minimum payments (2)	**42.7**

(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 and its subsidiaries are subject to various legal proceedings, actions and claims from customers, suppliers, regulators and other parties. As at the date hereof, the Corporation believes that none of these legal proceedings, actions and claims from customers, suppliers, regulators and other parties in which it is currently involved or has been involved since the beginning of the most recently completed financial year, would be expected to have a material adverse effect on the Corporation. On an ongoing basis, the Corporation and its subsidiaries assess 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 liability or other insurance policies, to the extent applicable, 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), including the impact of the COVID-19 pandemic *[note 15[b]]*. 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.

[All tabular amounts in millions of Canadian dollars]

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.

Revenues from the delivery of street lighting services are recognized as the services are rendered. Periodically, the Corporation may be entitled to additional consideration for its delivery of street lighting services which is accounted for as variable consideration.

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 from the above-mentioned revenue generating activities. Variable consideration under a contract is recorded only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the associated uncertainty is subsequently resolved.

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) Lessor arrangements

When the Corporation acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Corporation makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease.

q) 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 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 COVID-19 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, 2021 *[note 15[b]]*. The extent of the future impact of the COVID-19 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.

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 Presentation of Financial Statements ["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 reporting periods beginning on or after January 1, 2022, with early adoption permitted.

Definition of Accounting Estimates [Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors ["IAS 8"]]

In February 2021, the IASB issued amendments to IAS 8 to introduce a definition of "accounting estimates" and include other amendments to help entities distinguish changes in accounting estimates from changes in accounting policies. 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 prospectively.

Disclosure of Accounting Policies [Amendments to IAS 1]

In February 2021, the IASB issued amendments to IAS 1 requiring an entity to disclose its material accounting policies, rather than its significant accounting policies. Additional amendments were made to explain how an entity can identify a material accounting policy. The amendments are effective for annual reporting periods beginning on or after January 1, 2023, with early adoption permitted.

Deferred Tax related to Assets and Liabilities arising from a Single Transaction [Amendments to IAS 12 Income Taxes ["IAS 12"]]

In May 2021, the IASB issued amendments to IAS 12. The amendments clarify how companies should account for deferred tax on certain transactions such as leases and decommissioning obligations. The amendments narrow the scope of the initial recognition exemption, so that it does not apply to transactions that give rise to equal and offsetting temporary differences. As a result, companies will need to recognize both a deferred tax asset and a deferred tax liability when accounting for such transactions. The amendments are effective for annual reporting periods beginning on or after January 1, 2023, with early adoption permitted.

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

TORONTO HYDRO Corporation

APPENDIX

B

OSC CERTIFICATES FROM

CEO AND CFO

TORONTO HYDRO CORPORATION

FORM 52-109FV1
CERTIFICATION OF ANNUAL FILINGS
VENTURE ISSUER BASIC CERTIFICATE

I, Anthony Haines, President and Chief Executive Officer of Toronto Hydro Corporation, certify the following:

1. ***Review:*** I have reviewed the AIF, if any, annual financial statements and annual MD&A, including, for greater certainty, all documents and information that are incorporated by reference in the AIF (together, the "annual filings") of Toronto Hydro Corporation (the "issuer") for the financial year ended December 31, 2021.

2. ***No misrepresentations:*** Based on my knowledge, having exercised reasonable diligence, the annual filings do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, for the period covered by the annual filings.

3. ***Fair presentation:*** Based on my knowledge, having exercised reasonable diligence, the annual financial statements together with the other financial information included in the annual filings fairly present in all material respects the financial condition, financial performance and cash flows of the issuer, as of the date of and for the periods presented in the annual filings.

Date: **March 2, 2022**

"Anthony Haines"
Anthony Haines
President and Chief Executive Officer

NOTE TO READER

In contrast to the certificate required for non-venture issuers under National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings* (NI 52-109), this Venture Issuer Basic Certificate does not include representations relating to the establishment and maintenance of disclosure controls and procedures (DC&P) and internal control over financial reporting (ICFR), as defined in NI 52-109. In particular, the certifying officers filing this certificate are not making any representations relating to the establishment and maintenance of:

i) controls and other procedures designed to provide reasonable assurance that information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation; and

ii) a process to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's GAAP.

The issuer's certifying officers are responsible for ensuring that processes are in place to provide them with sufficient knowledge to support the representations they are making in this certificate. Investors should be aware that inherent limitations on the ability of certifying officers of a venture issuer to design and implement on a cost effective basis DC&P and ICFR as defined in NI 52-109 may result in additional risks to the quality, reliability, transparency and timeliness of interim and annual filings and other reports provided under securities legislation.

TORONTO HYDRO CORPORATION

FORM 52-109FV1
CERTIFICATION OF ANNUAL FILINGS
VENTURE ISSUER BASIC CERTIFICATE

I, Aida Cipolla, Executive Vice-President and Chief Financial Officer of Toronto Hydro Corporation, certify the following:

1. ***Review:*** I have reviewed the AIF, if any, annual financial statements and annual MD&A, including, for greater certainty, all documents and information that are incorporated by reference in the AIF (together, the "annual filings") of Toronto Hydro Corporation (the "issuer") for the financial year ended December 31, 2021.

2. ***No misrepresentations:*** Based on my knowledge, having exercised reasonable diligence, the annual filings do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, for the period covered by the annual filings.

3. ***Fair presentation:*** Based on my knowledge, having exercised reasonable diligence, the annual financial statements together with the other financial information included in the annual filings fairly present in all material respects the financial condition, financial performance and cash flows of the issuer, as of the date of and for the periods presented in the annual filings.

Date: **March 2, 2022**

"Aida Cipolla"
Aida Cipolla
Executive Vice-President and Chief Financial Officer

NOTE TO READER

In contrast to the certificate required for non-venture issuers under National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings* (NI 52-109), this Venture Issuer Basic Certificate does not include representations relating to the establishment and maintenance of disclosure controls and procedures (DC&P) and internal control over financial reporting (ICFR), as defined in NI 52-109. In particular, the certifying officers filing this certificate are not making any representations relating to the establishment and maintenance of:

i) controls and other procedures designed to provide reasonable assurance that information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation; and

ii) a process to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's GAAP.

The issuer's certifying officers are responsible for ensuring that processes are in place to provide them with sufficient knowledge to support the representations they are making in this certificate. Investors should be aware that inherent limitations on the ability of certifying officers of a venture issuer to design and implement on a cost effective basis DC&P and ICFR as defined in NI 52-109 may result in additional risks to the quality, reliability, transparency and timeliness of interim and annual filings and other reports provided under securities legislation.

APPENDIX

C

CONSOLIDATED AND ENTITY LEVEL FINANCIAL STATEMENTS

Consolidated Financial Statements

Toronto Hydro Corporation

DECEMBER 31, 2021

Toronto Hydro Corporation

CONSOLIDATED BALANCE SHEETS

[in millions of Canadian dollars]

	As at December 31, 2021 Actual $	As at December 31, 2021 Budget $	As at December 31, 2021 Variance $	As at December 31, 2020 Actual $
ASSETS				
Current				
Accounts receivable and unbilled revenue	**459.0**	**614.8**	**(155.8)**	469.2
Income tax receivable	**2.4**	**7.3**	**(4.9)**	12.4
Materials and supplies	**9.9**	**9.3**	**0.6**	9.8
Other assets	**19.0**	**15.3**	**3.7**	16.7
Total current assets	**490.3**	**646.7**	**(156.4)**	508.1
Property, plant and equipment	**5,377.2**	**5,418.3**	**(41.1)**	5,039.2
Intangible assets	**358.0**	**355.0**	**3.0**	343.1
Other assets	**6.9**	**6.2**	**0.7**	8.2
Total assets	**6,232.4**	**6,426.2**	**(193.8)**	5,898.6
Regulatory balances	**181.4**	**189.2**	**(7.8)**	170.4
Total assets and regulatory balances	**6,413.8**	**6,615.4**	**(201.6)**	6,069.0
LIABILITIES AND EQUITY				
Current				
Working capital facility	**8.8**	**-**	**8.8**	6.2
Commercial paper	**275.0**	**361.5**	**(86.5)**	160.0
Accounts payable and accrued liabilities	**425.3**	**525.1**	**(99.8)**	406.1
Customer deposits	**62.3**	**47.1**	**15.2**	44.9
Deferred revenue	**25.1**	**21.3**	**3.8**	18.1
Deferred conservation credit	**11.7**	**15.4**	**(3.7)**	16.0
Debentures	**-**	**-**	**-**	299.8
Total current liabilities	**808.2**	**970.4**	**(162.2)**	951.1
Debentures	**2,430.7**	**2,381.3**	**49.4**	2,082.4
Customer deposits	**10.1**	**18.1**	**(8.0)**	18.7
Deferred revenue	**643.1**	**663.9**	**(20.8)**	538.2
Post-employment benefits	**306.6**	**345.3**	**(38.7)**	332.7
Deferred tax liabilities	**63.8**	**81.2**	**(17.4)**	47.1
Other liabilities	**17.4**	**0.2**	**17.2**	3.4
Total liabilities	**4,279.9**	**4,460.4**	**(180.5)**	3,973.6
Equity				
Share capital	**817.8**	**817.8**	**-**	817.8
Retained earnings	**1,164.9**	**1,170.0**	**(5.1)**	1,094.2
Total equity	**1,982.7**	**1,987.8**	**(5.1)**	1,912.0
Total liabilities and equity	**6,262.6**	**6,448.2**	**(185.6)**	5,885.6
Regulatory balances	**151.2**	**167.2**	**(16.0)**	183.4
Total liabilities, equity and regulatory balances	**6,413.8**	**6,615.4**	**(201.6)**	6,069.0

Toronto Hydro Corporation

CONSOLIDATED STATEMENTS OF INCOME

[in millions of Canadian dollars]

	Year ended December 31, 2021 Actual $	2021 Budget $	2021 Variance $	Year ended December 31, 2020 Actual $
Revenues				
Energy sales	**2,702.4**	**3,556.1**	**(853.7)**	3,142.5
Distribution revenue	**759.1**	**777.9**	**(18.8)**	694.4
Other	**105.6**	**92.0**	**13.6**	92.7
	3,567.1	**4,426.0**	**(858.9)**	3,929.6
Expenses				
Energy purchases	**2,775.2**	**3,556.1**	**780.9**	3,150.5
Operating expenses	**323.0**	**316.9**	**(6.1)**	326.0
Depreciation and amortization	**292.7**	**294.9**	**2.2**	274.3
	3,390.9	**4,167.9**	**777.0**	3,750.8
Finance costs	**(79.1)**	**(80.3)**	**1.2**	(77.1)
Gain on disposals of property, plant and equipment	**2.7**	**1.0**	**1.7**	-
Income before income taxes	**99.8**	**178.8**	**(79.0)**	101.7
Income tax expense	**(21.8)**	**(46.7)**	**24.9**	(28.6)
Net income	**78.0**	**132.1**	**(54.1)**	73.1
Net movements in regulatory balances	**54.1**	**(21.6)**	**75.7**	18.8
Net movements in regulatory balances arising from deferred taxes	**8.9**	**29.7**	**(20.8)**	25.2
Net income after net movements in regulatory balances	**141.0**	**140.2**	**0.8**	117.1

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

[in millions of Canadian dollars]

	Year ended December 31, 2021 Actual $	2021 Budget $	2021 Variance $	Year ended December 31, 2020 Actual $
Net income after net movements in regulatory balances	**141.0**	**140.2**	**0.8**	117.1
Other comprehensive income				
Items that will not be reclassified to income or loss				
Remeasurements of post-employment benefits, net of tax [2021 - ($7.1), 2020 - ($1.3)]	**19.8**	**-**	**19.8**	3.8
Net movements in regulatory balances related to OCI, net of tax [2021 - ($7.1), 2020 - ($1.3)]	**(19.8)**	**-**	**(19.8)**	(3.8)
Other comprehensive income, net of tax	**-**	**-**	**-**	-
Total comprehensive income	**141.0**	**140.2**	**0.8**	117.1

Toronto Hydro Corporation

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

[in millions of Canadian dollars]

	Year ended December 31,			Year ended December 31,
	2021 Actual $	**2021 Budget $**	**2021 Variance $**	2020 Actual $
Share capital	**817.8**	**817.8**	**-**	817.8
Retained earnings, beginning of year	**1,094.2**	**1,109.0**	**(14.8)**	1,069.7
Net income after net movements in regulatory balances	**141.0**	**140.2**	**0.8**	117.1
Dividends	**(70.3)**	**(79.2)**	**8.9**	(92.6)
Retained earnings, end of year	**1,164.9**	**1,170.0**	**(5.1)**	1,094.2
Total equity	**1,982.7**	**1,987.8**	**(5.1)**	1,912.0

Toronto Hydro Corporation

CONSOLIDATED STATEMENTS OF CASH FLOWS

[in millions of Canadian dollars]

	Year ended December 31,			Year ended December 31,
	2021 Actual $	**2021 Budget $**	**2021 Variance $**	2020 Actual $
OPERATING ACTIVITIES				
Net income after net movements in regulatory balances	**141.0**	**140.2**	**0.8**	117.1
Net movements in regulatory balances	**(54.1)**	**21.6**	**(75.7)**	(18.8)
Net movements in regulatory balances arising from deferred taxes	**(8.9)**	**(29.7)**	**20.8**	(25.2)
Adjustments				
Depreciation and amortization	**292.7**	**294.9**	**(2.2)**	274.3
Amortization of deferred revenue	**(12.3)**	**(15.3)**	**3.0**	(8.2)
Finance costs	**79.1**	**80.3**	**(1.2)**	77.1
Income tax expense	**21.8**	**46.7**	**(24.9)**	28.6
Post-employment benefits	**0.8**	**5.1**	**(4.3)**	2.9
Gain on disposals of property, plant and equipment	**(2.7)**	**(1.0)**	**(1.7)**	-
Other	**1.1**	**0.9**	**0.2**	0.3
Capital contributions received	**101.2**	**129.1**	**(27.9)**	138.7
Net change in other non-current assets and liabilities	**11.1**	**(0.7)**	**11.8**	0.7
Increase (decrease) in customer deposits	**8.8**	**1.6**	**7.2**	(4.4)
Changes in non-cash operating working capital balances	**8.4**	**(52.2)**	**60.6**	46.0
Income tax paid	**-**	**-**	**-**	(15.2)
Net cash provided by operating activities	**588.0**	**621.5**	**(33.5)**	613.9
INVESTING ACTIVITIES				
Purchase of property, plant and equipment	**(555.8)**	**(608.0)**	**52.2**	(626.5)
Purchase of intangible assets	**(47.6)**	**(48.2)**	**0.6**	(40.8)
Proceeds on disposals of property, plant and equipment	**2.8**	**1.0**	**1.8**	0.5
Net cash used in investing activities	**(600.6)**	**(655.2)**	**54.6**	(666.8)
FINANCING ACTIVITIES				
Increase in commercial paper, net of repayments	**115.0**	**198.7**	**(83.7)**	24.0
Dividends paid	**(70.3)**	**(79.2)**	**8.9**	(92.6)
Proceeds from issuance of debentures	**349.8**	**300.0**	**49.8**	199.7
Debt issuance costs paid	**(2.3)**	**(1.9)**	**(0.4)**	(1.4)
Repayment of debentures	**(300.0)**	**(300.0)**	**-**	-
Interest paid	**(82.2)**	**(83.9)**	**1.7**	(82.0)
Net cash provided by financing activities	**10.0**	**33.7**	**(23.7)**	47.7
Net change in cash and cash equivalents during the year	**(2.6)**	**-**	**(2.6)**	(5.2)
Working capital facility, beginning of year	**(6.2)**	**-**	**(6.2)**	(1.0)
Working capital facility, end of year	**(8.8)**	**-**	**(8.8)**	(6.2)

Financial Statements

Toronto Hydro-Electric System Limited

DECEMBER 31, 2021

Toronto Hydro-Electric System Limited

BALANCE SHEETS

[in millions of Canadian dollars]

	As at December 31, 2021 Actual $	As at December 31, 2021 Budget $	As at December 31, 2021 Variance $	As at December 31, 2020 Actual $
ASSETS				
Current				
Cash and cash equivalents	**102.6**	**36.9**	**65.7**	142.0
Accounts receivable and unbilled revenue	**445.4**	**608.9**	**(163.5)**	464.7
Income tax receivable	**3.0**	**7.1**	**(4.1)**	11.7
Materials and supplies	**9.9**	**9.3**	**0.6**	9.8
Other assets	**18.8**	**15.3**	**3.5**	16.5
Total current assets	**579.7**	**677.5**	**(97.8)**	644.7
Property, plant and equipment	**5,322.6**	**5,363.6**	**(41.0)**	4,987.5
Intangible assets	**358.0**	**354.6**	**3.4**	343.1
Other assets	**6.9**	**6.2**	**0.7**	8.2
Total assets	**6,267.2**	**6,401.9**	**(134.7)**	5,983.5
Regulatory balances	**181.4**	**189.2**	**(7.8)**	170.4
Total assets and regulatory balances	**6,448.6**	**6,591.1**	**(142.5)**	6,153.9
LIABILITIES AND EQUITY				
Current				
Accounts payable and accrued liabilities	**422.9**	**524.3**	**(101.4)**	401.5
Customer deposits	**62.3**	**47.1**	**15.2**	44.9
Deferred revenue	**24.4**	**20.9**	**3.5**	17.8
Deferred conservation credit	**11.7**	**15.4**	**(3.7)**	16.0
Notes payable to related party	**60.0**	**60.0**	**-**	359.8
Total current liabilities	**581.3**	**667.7**	**(86.4)**	840.0
Notes payable to related party	**2,432.0**	**2,382.6**	**49.4**	2,083.6
Customer deposits	**10.1**	**18.1**	**(8.0)**	18.7
Deferred revenue	**642.8**	**663.5**	**(20.7)**	537.9
Post-employment benefits	**306.6**	**345.3**	**(38.7)**	332.7
Deferred tax liabilities	**63.8**	**81.2**	**(17.4)**	47.1
Other liabilities	**17.4**	**0.2**	**17.2**	3.4
Total liabilities	**4,054.0**	**4,158.6**	**(104.6)**	3,863.4
Equity				
Share capital	**556.3**	**556.3**	**-**	556.3
Retained earnings	**1,674.3**	**1,696.2**	**(21.9)**	1,538.0
Contributed surplus	**12.8**	**12.8**	**-**	12.8
Total equity	**2,243.4**	**2,265.3**	**(21.9)**	2,107.1
Total liabilities and equity	**6,297.4**	**6,423.9**	**(126.5)**	5,970.5
Regulatory balances	**151.2**	**167.2**	**(16.0)**	183.4
Total liabilities, equity and regulatory balances	**6,448.6**	**6,591.1**	**(142.5)**	6,153.9

Toronto Hydro-Electric System Limited

STATEMENTS OF INCOME

[in millions of Canadian dollars]

	Year ended December 31,			Year ended December 31,
	2021 Actual $	**2021 Budget $**	**2021 Variance $**	2020 Actual $
Revenues				
Energy sales	**2,702.4**	**3,556.1**	**(853.7)**	3,142.5
Distribution revenue	**759.1**	**777.9**	**(18.8)**	694.4
Other	**88.1**	**77.8**	**10.3**	79.8
	3,549.6	**4,411.8**	**(862.2)**	3,916.7
Expenses				
Energy purchases	**2,775.2**	**3,556.1**	**780.9**	3,150.5
Operating expenses	**310.7**	**304.3**	**(6.4)**	313.9
Depreciation and amortization	**289.3**	**291.3**	**2.0**	271.2
	3,375.2	**4,151.7**	**776.5**	3,735.6
Finance costs	**(82.8)**	**(81.9)**	**(0.9)**	(80.4)
Gain on disposals of property, plant and equipment	**2.7**	**1.0**	**1.7**	-
Income before income taxes	**94.3**	**179.2**	**(84.9)**	100.7
Income tax expense	**(20.4)**	**(46.7)**	**26.3**	(28.5)
Net income	**73.9**	**132.5**	**(58.6)**	72.2
Net movements in regulatory balances	**54.1**	**(21.6)**	**75.7**	18.8
Net movements in regulatory balances arising from deferred taxes	**8.9**	**29.7**	**(20.8)**	25.2
Net income after net movements in regulatory balances	**136.9**	**140.6**	**(3.7)**	116.2

STATEMENTS OF COMPREHENSIVE INCOME

[in millions of Canadian dollars]

	Year ended December 31,			Year ended December 31,
	2021 Actual $	**2021 Budget $**	**2021 Variance $**	2020 Actual $
Net income after net movements in regulatory balances	**136.9**	**140.6**	**(3.7)**	116.2
Other comprehensive income				
Items that will not be reclassified to income or loss				
Remeasurements of post-employment benefits, net of tax [2021 - ($7.1), 2020 - ($1.3)]	**19.8**	**-**	**19.8**	3.8
Net movements in regulatory balances related to OCI, net of tax [2021 - ($7.1), 2020 - ($1.3)]	**(19.8)**	**-**	**(19.8)**	(3.8)
Other comprehensive income, net of tax	**-**	**-**	**-**	-
Total comprehensive income	**136.9**	**140.6**	**(3.7)**	116.2

Toronto Hydro-Electric System Limited

STATEMENTS OF CHANGES IN EQUITY

[in millions of Canadian dollars]

		Year ended December 31,		Year ended December 31,
	2021 Actual $	**2021 Budget $**	**2021 Variance $**	2020 Actual $
Share capital	**556.3**	**556.3**	**-**	556.3
Retained earnings, beginning of year	**1,538.0**	**1,555.6**	**(17.6)**	1,422.5
Net income after net movements in regulatory balances	**136.9**	**140.6**	**(3.7)**	116.2
Dividends	**(0.6)**	**-**	**(0.6)**	(0.7)
Retained earnings, end of year	**1,674.3**	**1,696.2**	**(21.9)**	1,538.0
Contributed surplus	**12.8**	**12.8**	**-**	12.8
Total equity	**2,243.4**	**2,265.3**	**(21.9)**	2,107.1

Toronto Hydro-Electric System Limited

STATEMENTS OF CASH FLOWS

[in millions of Canadian dollars]

	Year ended December 31,			Year ended December 31,
	2021 Actual $	**2021 Budget $**	**2021 Variance $**	2020 Actual $
OPERATING ACTIVITIES				
Net income after net movements in regulatory balances	**136.9**	**140.6**	**(3.7)**	116.2
Net movements in regulatory balances	**(54.1)**	**21.6**	**(75.7)**	(18.8)
Net movements in regulatory balances arising from deferred taxes	**(8.9)**	**(29.7)**	**20.8**	(25.2)
Adjustments				
Depreciation and amortization	**289.3**	**291.3**	**(2.0)**	271.2
Amortization of deferred revenue	**(12.3)**	**(15.3)**	**3.0**	(8.2)
Finance costs	**82.8**	**81.9**	**0.9**	80.4
Income tax expense	**20.4**	**46.7**	**(26.3)**	28.5
Post-employment benefits	**0.8**	**5.1**	**(4.3)**	2.9
Gain on disposals of property, plant and equipment	**(2.7)**	**(1.0)**	**(1.7)**	-
Other	**1.0**	**0.9**	**0.1**	0.3
Capital contributions received	**101.2**	**129.1**	**(27.9)**	138.7
Net change in other non-current assets and liabilities	**11.1**	**(0.7)**	**11.8**	0.8
Increase (decrease) in customer deposits	**8.8**	**1.6**	**7.2**	(4.4)
Changes in non-cash operating working capital balances	**17.4**	**(51.2)**	**68.6**	46.0
Income tax paid	**-**	**-**	**-**	(15.0)
Net cash provided by operating activities	**591.7**	**620.9**	**(29.2)**	613.4
INVESTING ACTIVITIES				
Purchase of property, plant and equipment	**(548.0)**	**(602.0)**	**54.0**	(620.5)
Purchase of intangible assets	**(47.6)**	**(48.2)**	**0.6**	(40.8)
Proceeds on disposals of property, plant and equipment	**2.8**	**1.0**	**1.8**	0.5
Net cash used in investing activities	**(592.8)**	**(649.2)**	**56.4**	(660.8)
FINANCING ACTIVITIES				
Issuance of notes payable to related party	**347.7**	**298.1**	**49.6**	198.6
Repayment of notes payable to related party	**(300.0)**	**(300.0)**	**-**	-
Dividends paid	**(0.6)**	**-**	**(0.6)**	(0.7)
Interest received	**0.9**	**0.6**	**0.3**	0.7
Interest paid	**(86.3)**	**(84.8)**	**(1.5)**	(84.6)
Net cash provided by (used in) financing activities	**(38.3)**	**(86.1)**	**47.8**	114.0
Net change in cash and cash equivalents during the year	**(39.4)**	**(114.4)**	**75.0**	66.6
Cash and cash equivalents, beginning of year	**142.0**	**151.3**	**(9.3)**	75.4
Cash and cash equivalents, end of year	**102.6**	**36.9**	**65.7**	142.0

Financial Statements

Toronto Hydro Energy Services Inc.

DECEMBER 31, 2021

Toronto Hydro Energy Services Inc.

BALANCE SHEETS

[in thousands of Canadian dollars]

	As at December 31, 2021 Actual $	As at December 31, 2021 Budget $	2021 Variance $	As at December 31, 2020 Actual $
ASSETS				
Current				
Accounts receivable and unbilled revenue	**13,645**	**6,798**	**6,847**	4,577
Income tax receivable	**-**	**-**	**-**	463
Other assets	**30**	**-**	**30**	-
Total current assets	**13,675**	**6,798**	**6,877**	5,040
Property, plant and equipment	**54,635**	**54,717**	**(82)**	51,700
Intangible assets	**-**	**464**	**(464)**	-
Total assets	**68,310**	**61,979**	**6,331**	56,740
LIABILITIES AND EQUITY				
Current				
Bank indebtedness	**27,156**	**26,174**	**982**	19,897
Accounts payable and accrued liabilities	**4,138**	**3,065**	**1,073**	4,926
Income tax payable	**740**	**-**	**740**	-
Deferred revenue	**735**	**458**	**277**	347
Total current liabilities	**32,769**	**29,697**	**3,072**	25,170
Deferred revenue	**313**	**333**	**(20)**	333
Total liabilities	**33,082**	**30,030**	**3,052**	25,503
Equity				
Share capital	**20,001**	**20,001**	**-**	20,001
Retained earnings	**15,227**	**11,948**	**3,279**	11,236
Total equity	**35,228**	**31,949**	**3,279**	31,237
Total liabilities and equity	**68,310**	**61,979**	**6,331**	56,740

Toronto Hydro Energy Services Inc.

STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

[in thousands of Canadian dollars]

	Year ended December 31, 2021 Actual $	Year ended December 31, 2021 Budget $	Year ended December 31, 2021 Variance $	Year ended December 31, 2020 Actual $
Revenues	**25,370**	**20,459**	**4,911**	19,925
Expenses				
Operating expenses	**16,671**	**15,621**	**(1,050)**	16,441
Depreciation and amortization	**3,352**	**3,615**	**263**	3,138
	20,023	**19,236**	**(787)**	19,579
Finance costs	**(153)**	**(160)**	**7**	(172)
Income before income taxes	**5,194**	**1,063**	**4,131**	174
Income tax (expense) recovery	**(1,203)**	**(197)**	**(1,006)**	131
Net income	**3,991**	**866**	**3,125**	305
Other comprehensive income	**-**	**-**	**-**	-
Total comprehensive income	**3,991**	**866**	**3,125**	305

STATEMENTS OF CHANGES IN EQUITY

[in thousands of Canadian dollars]

	Year ended December 31, 2021 Actual $	Year ended December 31, 2021 Budget $	Year ended December 31, 2021 Variance $	Year ended December 31, 2020 Actual $
Share capital	**20,001**	**20,001**	**-**	20,001
Retained earnings, beginning of year	**11,236**	**11,082**	**154**	10,931
Net income	**3,991**	**866**	**3,125**	305
Retained earnings, end of year	**15,227**	**11,948**	**3,279**	11,236
Total equity	**35,228**	**31,949**	**3,279**	31,237

Toronto Hydro Energy Services Inc.

STATEMENTS OF CASH FLOWS

[in thousands of Canadian dollars]

	Year ended December 31,			Year ended December 31,
	2021 Actual $	**2021 Budget $**	**2021 Variance $**	2020 Actual $
OPERATING ACTIVITIES				
Net income	**3,991**	**866**	**3,125**	305
Adjustments				
Depreciation and amortization	**3,352**	**3,615**	**(263)**	3,138
Finance costs	**153**	**160**	**(7)**	172
Income tax expense (recovery)	**1,203**	**197**	**1,006**	(131)
Amortization of deferred revenue	**(20)**	**-**	**(20)**	(20)
Changes in non-cash operating working capital balances	**(7,969)**	**(1,643)**	**(6,326)**	(2,847)
Income tax paid	**-**	**-**	**-**	(111)
Net cash provided by operating activities	**710**	**3,195**	**(2,485)**	506
INVESTING ACTIVITIES				
Purchase of property, plant and equipment	**(7,818)**	**(6,050)**	**(1,768)**	(6,015)
Net cash used in investing activities	**(7,818)**	**(6,050)**	**(1,768)**	(6,015)
FINANCING ACTIVITIES				
Interest paid	**(151)**	**(160)**	**9**	(189)
Net cash used in financing activities	**(151)**	**(160)**	**9**	(189)
Net change in cash and cash equivalents during the year	**(7,259)**	**(3,015)**	**(4,244)**	(5,698)
Bank indebtedness, beginning of year	**(19,897)**	**(23,159)**	**3,262**	(14,199)
Bank indebtedness, end of year	**(27,156)**	**(26,174)**	**(982)**	(19,897)

Non-consolidated Financial Statements

Toronto Hydro Corporation

DECEMBER 31, 2021

Toronto Hydro Corporation

NON-CONSOLIDATED BALANCE SHEETS

[in millions of Canadian dollars, unaudited]

	As at December 31,			As at December 31,
	2021	**2021**	**2021**	2020
	Actual	**Budget**	**Variance**	Actual
	$	**$**	**$**	$
ASSETS				
Current				
Interest and other receivables	**21.7**	**21.6**	**0.1**	19.5
Income tax receivable	**0.1**	**0.2**	**(0.1)**	0.2
Other assets	**0.2**	**-**	**0.2**	0.2
Notes receivable from related party	**60.0**	**60.0**	**-**	359.8
Total current assets	**82.0**	**81.8**	**0.2**	379.7
Long-term investments				
Investment in Toronto Hydro-Electric System Limited	**2,230.5**	**2,252.7**	**(22.2)**	2,094.3
Investment in Toronto Hydro Energy Services Inc.	**39.1**	**35.8**	**3.3**	35.1
Total long-term investments	**2,269.6**	**2,288.5**	**(18.9)**	2,129.4
Notes receivable from related party	**2,432.0**	**2,382.6**	**49.4**	2,083.6
Total assets	**4,783.6**	**4,752.9**	**30.7**	4,592.7
LIABILITIES AND EQUITY				
Current				
Bank indebtedness	**84.2**	**10.7**	**73.5**	128.3
Commercial paper	**275.0**	**361.5**	**(86.5)**	160.0
Interest and other payables	**19.6**	**20.2**	**(0.6)**	18.8
Debentures	**-**	**-**	**-**	299.8
Total current liabilities	**378.8**	**392.4**	**(13.6)**	606.9
Debentures	**2,430.7**	**2,381.3**	**49.4**	2,082.4
Total liabilities	**2,809.5**	**2,773.7**	**35.8**	2,689.3
Equity				
Share capital	**817.8**	**817.8**	**-**	817.8
Retained earnings	**1,156.3**	**1,161.4**	**(5.1)**	1,085.6
Total equity	**1,974.1**	**1,979.2**	**(5.1)**	1,903.4
Total liabilities and equity	**4,783.6**	**4,752.9**	**30.7**	4,592.7

Toronto Hydro Corporation

NON-CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

[in millions of Canadian dollars, unaudited]

	Year ended December 31,			Year ended December 31,
	2021 Actual $	**2021 Budget $**	**2021 Variance $**	2020 Actual $
Revenues				
Investment income from subsidiaries	**140.8**	**141.5**	**(0.7)**	116.5
	140.8	**141.5**	**(0.7)**	116.5
Operating expenses	**3.5**	**3.3**	**(0.2)**	2.7
Finance income	**86.3**	**85.0**	**1.3**	84.2
Finance costs	**(82.4)**	**(83.2)**	**0.8**	(80.7)
Income before income taxes	**141.2**	**140.0**	**1.2**	117.3
Income tax (expense) recovery	**(0.2)**	**0.2**	**(0.4)**	(0.2)
Net income	**141.0**	**140.2**	**0.8**	117.1
Other comprehensive income	**-**	**-**	**-**	-
Total comprehensive income	**141.0**	**140.2**	**0.8**	117.1

NON-CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

[in millions of Canadian dollars, unaudited]

	Year ended December 31,			Year ended December 31,
	2021 Actual $	**2021 Budget $**	**2021 Variance $**	2020 Actual $
Share capital	**817.8**	**817.8**	**-**	817.8
Retained earnings, beginning of year	**1,085.6**	**1,100.4**	**(14.8)**	1,061.1
Net income	**141.0**	**140.2**	**0.8**	117.1
Dividends	**(70.3)**	**(79.2)**	**8.9**	(92.6)
Retained earnings, end of year	**1,156.3**	**1,161.4**	**(5.1)**	1,085.6
Total equity	**1,974.1**	**1,979.2**	**(5.1)**	1,903.4

Toronto Hydro Corporation

NON-CONSOLIDATED STATEMENTS OF CASH FLOWS

[in millions of Canadian dollars, unaudited]

	Year ended December 31,			Year ended December 31,
	2021 Actual $	**2021 Budget $**	**2021 Variance $**	2020 Actual $
OPERATING ACTIVITIES				
Net income	**141.0**	**140.2**	**0.8**	117.1
Adjustments				
Investment income from subsidiaries	**(140.8)**	**(141.5)**	**0.7**	(116.5)
Finance income	**(86.3)**	**(85.0)**	**(1.3)**	(84.2)
Finance costs	**82.4**	**83.2**	**(0.8)**	80.7
Income tax expense (recovery)	**0.2**	**(0.2)**	**0.4**	0.2
Dividends from subsidiary	**0.6**	**-**	**0.6**	0.7
Other	**0.1**	**0.1**	**-**	-
Changes in non-cash operating working capital balances	**(0.6)**	**-**	**(0.6)**	(0.2)
Income tax paid	**-**	**-**	**-**	(0.1)
Net cash used in operating activities	**(3.4)**	**(3.2)**	**(0.2)**	(2.3)
INVESTING ACTIVITIES				
Issuance of notes receivable from related party	**(347.7)**	**(298.1)**	**(49.6)**	(198.6)
Repayment of notes receivable from related party	**300.0**	**300.0**	**-**	-
Net cash provided by (used in) investing activities	**(47.7)**	**1.9**	**(49.6)**	(198.6)
FINANCING ACTIVITIES				
Increase in commercial paper, net of repayments	**115.0**	**198.7**	**(83.7)**	24.0
Dividends paid	**(70.3)**	**(79.2)**	**8.9**	(92.6)
Proceeds from issuance of debentures	**349.8**	**300.0**	**49.8**	199.7
Debt issuance costs paid	**(2.3)**	**(1.9)**	**(0.4)**	(1.4)
Repayment of debentures	**(300.0)**	**(300.0)**	**-**	-
Interest received	**85.1**	**83.1**	**2.0**	86.7
Interest paid	**(82.1)**	**(82.0)**	**(0.1)**	(81.6)
Net cash provided by financing activities	**95.2**	**118.7**	**(23.5)**	134.8
Net change in cash and cash equivalents during the year	**44.1**	**117.4**	**(73.3)**	(66.1)
Bank indebtedness, beginning of year	**(128.3)**	**(128.1)**	**(0.2)**	(62.2)
Bank indebtedness, end of year	**(84.2)**	**(10.7)**	**(73.5)**	(128.3)