



THIRD QUARTER REPORT
SEPTEMBER 30, 2015

TORONTO HYDRO CORPORATION

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GLOSSARY

<p>CDM – Conservation and demand management</p> <p>CIR – Custom Incentive Rate</p> <p>City – City of Toronto</p> <p>Copeland Station – The Clare R. Copeland transformer station, formerly called “Bremner Station”.</p> <p>Corporation – Toronto Hydro Corporation</p> <p>Electricity Act – <i>Electricity Act, 1998</i> (Ontario)</p> <p>ERM – Enterprise risk management</p> <p>GAAP – Generally Accepted Accounting Principles</p> <p>GWh – Gigawatt hour</p> <p>Green Energy Act – <i>Green Energy Act, 2009</i> (Ontario)</p> <p>IAS – International Accounting Standard</p> <p>IASB – International Accounting Standards Board</p> <p>Ice Storm – Refers to an extreme winter storm involving freezing rain, ice pellets and snow that impacted Toronto in December 2013.</p> <p>ICM – Incremental Capital Module</p> <p>IESO – Independent Electricity System Operator. The IESO and the OPA were merged under the name Independent Electricity System Operator on January 1, 2015.</p> <p>IFRIC – International Financial Reporting Interpretations Committee</p>	<p>IFRS – International Financial Reporting Standards</p> <p>IRM – Incentive Regulation Mechanism</p> <p>kW – Kilowatt</p> <p>kWh – Kilowatt hour</p> <p>LDC – Toronto Hydro-Electric System Limited</p> <p>MD&A – Management's Discussion and Analysis</p> <p>MW – Megawatt</p> <p>OCI – Other comprehensive income</p> <p>OEB – Ontario Energy Board</p> <p>OEB Act – <i>Ontario Energy Board Act, 1998</i> (Ontario)</p> <p>OMERS – Ontario Municipal Employees Retirement System</p> <p>OPA – Ontario Power Authority. The IESO and the OPA were merged under the name Independent Electricity System Operator on January 1, 2015.</p> <p>OSC – Ontario Securities Commission</p> <p>PILs – Payments in lieu of corporate taxes</p> <p>PP&E – Property, plant and equipment</p> <p>TH Energy – Toronto Hydro Energy Services Inc.</p> <p>US GAAP – United States Generally Accepted Accounting Principles</p> <p>WMS – Wholesale Market Service</p>
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MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE INTERIM PERIODS ENDED
SEPTEMBER 30, 2015 AND 2014

Executive Summary

- Effective January 1, 2015, the Corporation adopted IFRS, including early adoption of IFRS 14, and the accompanying Interim Financial Statements are prepared in accordance with IFRS;
- net income after net movements in regulatory balances for the three months and nine months ended September 30, 2015 was \$20.0 million and \$52.4 million compared to \$35.1 million and \$87.9 million for the comparable periods in 2014;
- capital expenditures were primarily related to the renewal of the electricity infrastructure of LDC and were \$141.9 million and \$402.6 million for the three months and nine months ended September 30, 2015 compared to \$183.2 million and \$436.0 million for the comparable periods in 2014;
- on March 16, 2015, the Corporation issued \$200.0 million of 3.55% senior unsecured debentures due July 28, 2045 and on September 2, 2015, the Corporation re-opened the Series 9 offering and issued an additional \$45.0 million of 3.96% senior unsecured debentures due April 9, 2063; and
- on April 28, 2015, the OEB declared LDC's existing distribution rates interim as of May 1, 2015, pending the OEB's final decision on LDC's rate application filed on July 31, 2014.

Introduction

This MD&A should be read in conjunction with:

- the Corporation's unaudited condensed interim consolidated financial statements and accompanying notes as at and for the three months and nine months ended September 30, 2015 and 2014, which were prepared in accordance with IFRS (the "Interim Financial Statements");
- the Corporation's audited consolidated financial statements and accompanying notes as at and for the years ended December 31, 2014 and 2013, which were prepared in accordance with US GAAP, and IFRS accounting policies, transitional disclosures and selected annual disclosures included in notes 4, 23 and 24 of the Corporation's 2015 first unaudited condensed interim consolidated financial statements for the three months ended March 31, 2015 and 2014 ("First Interim Financial Statements"); and
- the Corporation's MD&A for the year ended December 31, 2014 (including the sections entitled "Electricity Distribution – Industry Overview", "Corporate Strategy", "Performance Measurement", "Capability to Deliver Results", "Transactions with Related Parties", and "Risk Management and Risk Factors", which remain substantially unchanged as at the date hereof, except as noted below or as updated by the Interim Financial Statements).

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

The Interim Financial Statements are presented in Canadian dollars, the Corporation's functional currency. Effective January 1, 2015, the Corporation adopted IFRS and its Interim Financial Statements have been prepared in accordance with IAS 34 *Interim Financial Reporting* and IFRS 1 *First-time Adoption of IFRS* ("IFRS 1") (see "Transition to IFRS" below). The Corporation has elected to early adopt IFRS 14 *Regulatory Deferral Accounts* ("IFRS 14") in its Interim Financial Statements under IFRS. The Corporation's first IFRS annual consolidated financial statements will be for the year ended December 31, 2015. The Corporation's annual and interim consolidated financial statements were prepared in accordance with US GAAP until December 31, 2014. All comparative figures for 2014 that were previously reported in accordance with US GAAP are now reported in accordance with IFRS.

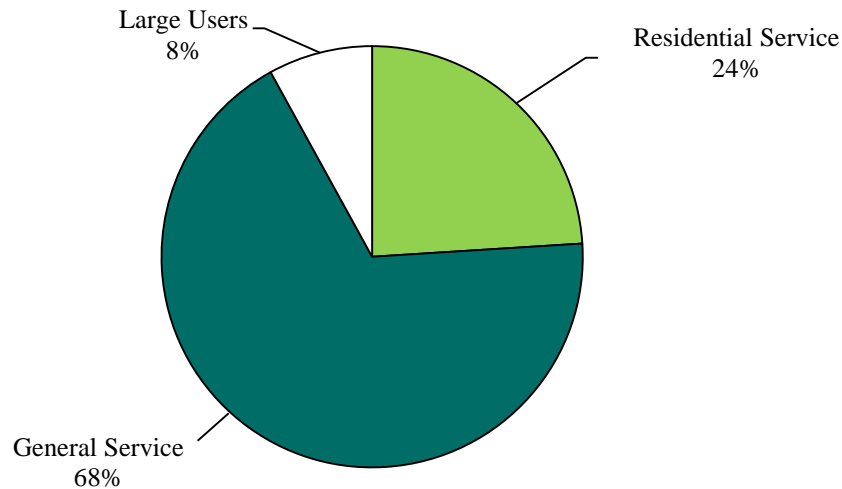
Business of Toronto Hydro Corporation

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

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

The principal business of the Corporation and its subsidiaries is the distribution of electricity by LDC. LDC owns and operates an electricity distribution system, delivering electricity to approximately 752,000 customers located in the City. The City is the sole shareholder of the Corporation. LDC is the largest municipal electricity distribution company in Canada and distributes approximately 19% of the electricity consumed in Ontario. The business of LDC is regulated by the OEB, which has broad powers relating to licensing, standards of conduct and service, and the regulation of electricity distribution rates charged by LDC and other electricity distributors in Ontario. For the nine months ended September 30, 2015, LDC earned energy sales and distribution revenues of \$2,641.0 million. As illustrated in the accompanying chart, 68% of the energy sales and distribution revenues were earned from general service users¹, 24% from residential service users², and 8% from large users³.

LDC Energy Sales and Distribution Revenues by Class
 Nine months ended September 30, 2015



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

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

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

Corporate Strategy

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

The Corporation is focused on the following four strategic pillars:

- **People** – to maintain an engaged, healthy, productive and safe workforce to meet changing business requirements;
- **Financial** – to meet the financial objectives of its shareholder;
- **Operations** – to improve reliability through sustainable system management; and
- **Customer** – to provide value to customers.

Selected Consolidated Financial Data

Condensed Interim Consolidated Statements of Income Three months ended September 30 (in millions of Canadian dollars, unaudited)

	2015 \$	2014 \$	Change \$
Revenues			
Energy sales	818.1	648.9	169.2
Distribution revenue	144.4	145.9	(1.5)
Other	15.1	13.6	1.5
	977.6	808.4	169.2
Expenses			
Energy purchases	775.2	668.1	(107.1)
Operating expenses	67.5	63.2	(4.3)
Depreciation and amortization	48.9	44.9	(4.0)
	891.6	776.2	(115.4)
Finance costs	18.1	15.3	(2.8)
Gain on disposals of PP&E	-	1.5	(1.5)
Income before income taxes	67.9	18.4	49.5
Income tax expense	5.1	6.9	1.8
Net income for the period	62.8	11.5	51.3
Net movements in regulatory balances, net of tax	(42.8)	23.6	(66.4)
Net income after net movements in regulatory balances	20.0	35.1	(15.1)

Condensed Interim Consolidated Statements of Income
Nine months ended September 30
(in millions of Canadian dollars, unaudited)

	2015 \$	2014 \$	Change \$
Revenues			
Energy sales	2,216.9	1,943.3	273.6
Distribution revenue	424.1	423.2	0.9
Other	43.6	41.5	2.1
	2,684.6	2,408.0	276.6
Expenses			
Energy purchases	2,190.1	1,997.3	(192.8)
Operating expenses	203.0	198.8	(4.2)
Depreciation and amortization	134.6	124.7	(9.9)
	2,527.7	2,320.8	(206.9)
Finance costs	52.7	45.1	(7.6)
Gain on disposals of PP&E	6.4	1.5	4.9
Income before income taxes	110.6	43.6	67.0
Income tax expense	16.0	18.1	2.1
Net income for the period	94.6	25.5	69.1
Net movements in regulatory balances, net of tax	(42.2)	62.4	(104.6)
Net income after net movements in regulatory balances	52.4	87.9	(35.5)

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

	As at September 30 2015 \$	As at December 31 2014 \$
Current assets	586.2	537.7
Non-current assets	3,849.7	3,593.5
Total assets	4,435.9	4,131.2
Regulatory balances	163.4	197.1
Total assets and regulatory balances	4,599.3	4,328.3
Current liabilities	861.1	870.8
Non-current liabilities	2,283.8	2,014.0
Total liabilities	3,144.9	2,884.8
Equity	1,272.9	1,270.5
Total liabilities and equity	4,417.8	4,155.3
Regulatory balances	181.5	173.0
Total liabilities, equity and regulatory balances	4,599.3	4,328.3

Results of Operations

Net Income after Net Movements in Regulatory Balances

Net income after net movements in regulatory balances for the three months and nine months ended September 30, 2015 was \$20.0 million and \$52.4 million compared to \$35.1 million and \$87.9 million for the comparable periods in 2014. The Corporation continues to apply interim rates as approved by the OEB in April 2015, pending the OEB decision on LDC's CIR application resulting in lower net income for 2015.

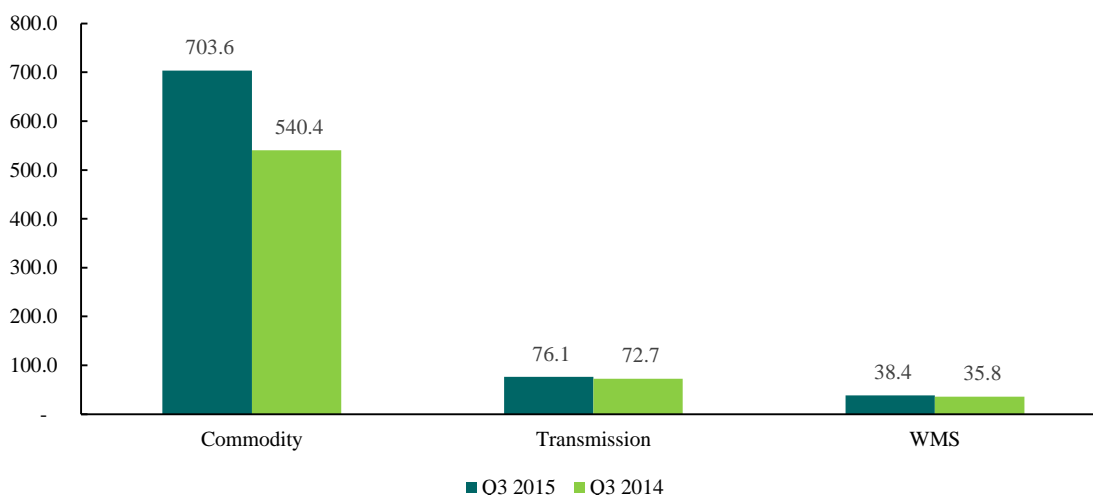
The decrease in net income after net movements in regulatory balances for the three months ended September 30, 2015 was primarily due to ICM income recognized in the third quarter of 2014 (\$6.0 million), higher operating expenses (\$4.3 million), higher depreciation and amortization expense (\$4.0 million), higher finance costs (\$2.8 million), and income recorded in 2014 related to the implementation of the smart meter incremental revenue requirement (\$2.4 million). These variances were partially offset by income related to higher electricity consumption in the third quarter of 2015 (\$5.7 million).

The decrease in net income after net movements in regulatory balances for the nine months ended September 30, 2015 was primarily due to ICM income recognized for the comparable period in 2014 (\$14.9 million), higher depreciation and amortization expense (\$9.9 million), higher finance costs (\$7.6 million), income recorded in 2014 related to the implementation of the smart meter incremental revenue requirement (\$7.2 million), and higher operating expenses (\$4.2 million). These variances were partially offset by income related to higher electricity consumption (\$4.9 million) and revenue recognition related to the IRM adjustment effective May 1, 2014 (\$1.9 million).

Energy Sales

LDC's energy sales arise from charges to customers for electricity consumed, based on regulated rates. Energy sales include commodity charges (which represent the market price of electricity consumed by customers and include a global adjustment), retail transmission charges (which represent costs incurred in respect of the transmission of electricity from generating stations to local distribution networks), and WMS charges (which represent various wholesale market support costs). These charges are passed through to customers over time and are considered revenue by LDC. During the same period, energy sales are 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. In accordance with IFRS 14, this settlement variance is presented within regulatory balances on the consolidated balance sheet and within net movements in regulatory balances, net of tax on the consolidated statement of income.

LDC Energy Sales
(\$ Millions)
Three months ended September 30, 2015



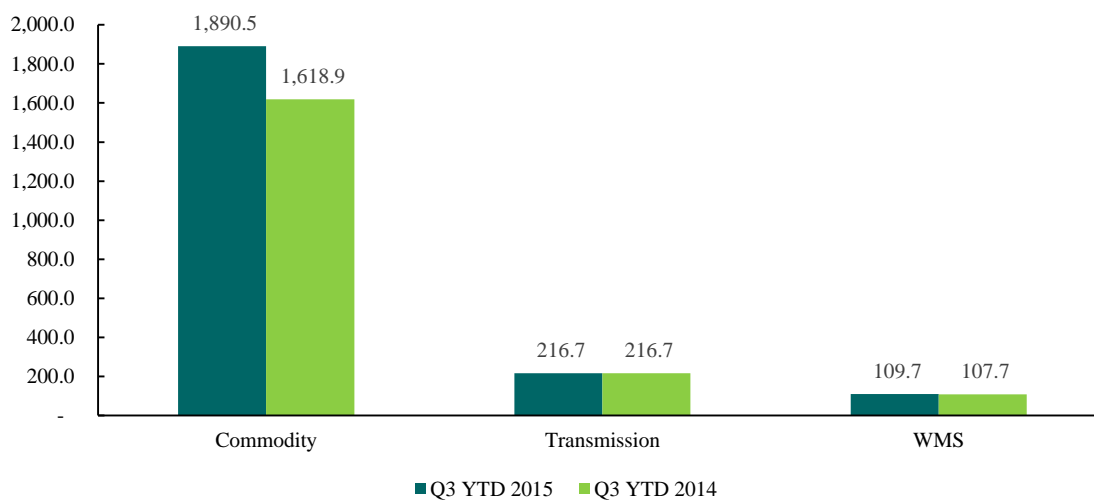
Energy sales for the three months ended September 30, 2015 were \$818.1 million compared to \$648.9 million for the comparable period in 2014. The increase was primarily due to higher commodity charges (\$163.2 million) and higher retail transmission charges (\$3.4 million).

Energy Sales, Settlement Variances and Energy Purchases
Three months ended September 30, 2015
(in millions of Canadian dollars, unaudited)

	Energy Sales \$	Settlement Variances \$	Energy Purchases \$
Commodity Charges	703.6	(46.8)	656.8
Retail Transmission Charges	76.1	8.4	84.5
WMS Charges	38.4	(4.5)	33.9
Total	818.1	(42.9)	775.2

For the three months ended September 30, 2015, LDC recognized \$818.1 million in energy sales to customers and was billed \$775.2 million for energy purchases from the IESO. The difference between energy sales (\$818.1 million) and energy purchases (\$775.2 million) represents a \$42.9 million settlement variance, which is expected to reduce future electricity distribution rates for customers. As such, the settlement variance was recorded as a decrease to the regulatory debit balance (\$42.7 million including carrying charges) on the consolidated balance sheet, and presented within net movements in regulatory balances, net of tax on the consolidated statement of income.

LDC Energy Sales
(\$ Millions)
Nine months ended September 30, 2015



Energy sales for the nine months ended September 30, 2015 were \$2,216.9 million compared to \$1,943.3 million for the comparable period in 2014. The increase was primarily due to higher commodity charges (\$271.6 million).

Energy Sales, Settlement Variances and Energy Purchases
Nine months ended September 30, 2015
(in millions of Canadian dollars, unaudited)

	Energy Sales \$	Settlement Variances \$	Energy Purchases \$
Commodity Charges	1,890.5	(18.5)	1,872.0
Retail Transmission Charges	216.7	14.2	230.9
WMS Charges	109.7	(22.5)	87.2
Total	2,216.9	(26.8)	2,190.1

For the nine months ended September 30, 2015, LDC recognized \$2,216.9 million in energy sales to customers and was billed \$2,190.1 million for energy purchases from the IESO. The difference between energy sales (\$2,216.9 million) and energy purchases (\$2,190.1 million) represents a \$26.8 million settlement variance, which is expected to reduce future electricity distribution rates for customers. As such, the settlement variance was recorded as a decrease to the regulatory debit balance (\$26.3 million including carrying charges) on the consolidated balance sheet, and presented within net movements in regulatory balances, net of tax on the consolidated statement of income.

Distribution Revenue

Distribution revenue is recorded based on OEB-approved distribution rates to recover the costs incurred by LDC in delivering electricity to customers, which includes revenue related to the collection of OEB-approved rate riders. Distribution revenue for the three months and nine months ended September 30, 2015 was \$144.4 million and \$424.1 million compared to \$145.9 million and \$423.2 million for the comparable periods in 2014.

The decrease in distribution revenue for the three months ended September 30, 2015 was primarily due to revenue earned from the ICM rate riders recorded in 2014 (\$5.4 million) and lower revenue related to smart meter recoveries recorded in the third quarter of 2015 (\$2.5 million). These variances were partially offset by higher electricity consumption in the third quarter of 2015 (\$5.7 million).

The increase in distribution revenue for the nine months ended September 30, 2015 was primarily due to higher electricity consumption (\$4.9 million), a reduction to distribution revenue recorded in 2014 for the disposition of regulatory liabilities approved by the OEB (\$2.6 million) mainly related to PILs variances, and revenue recognition related to the IRM adjustment effective May 1, 2014 (\$1.9 million). These variances were partially offset by lower revenue earned from the ICM rate riders (\$8.9 million).

Other Revenue

Other revenue includes revenue from services ancillary to the distribution of electricity, revenue from the delivery of street lighting services, revenue from demand billable activities, amortized capital contributions from customers on capital projects, and CDM cost efficiency incentives. Other revenue for the three months and nine months ended September 30, 2015 was \$15.1 million and \$43.6 million compared to \$13.6 million and \$41.5 million for the comparable periods in 2014.

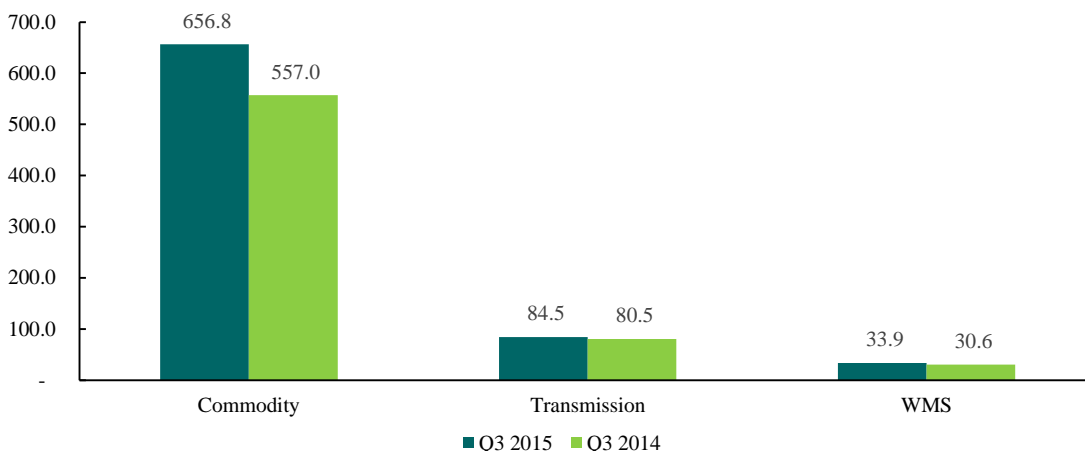
The increase in other revenue for the three months ended September 30, 2015 was primarily due to higher demand billable work and higher recognition of capital contribution revenue received from customers for specific projects.

The increase in other revenue for the nine months ended September 30, 2015 was primarily due to higher demand billable work.

Energy purchases

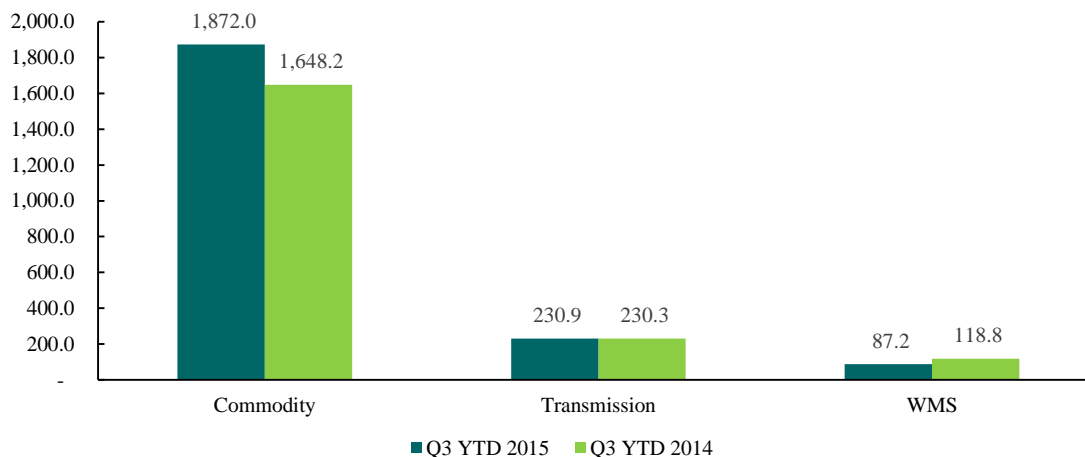
LDC’s energy purchases consist of actual charges for electricity generated by third parties, which are passed through to customers over time in the form of energy sales. Energy purchases are billed monthly by the IESO and include commodity charges, retail transmission charges and WMS charges, consistent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

LDC Energy Purchases
(\$ Millions)
Three months ended September 30, 2015



Energy purchases for the three months ended September 30, 2015 were \$775.2 million compared to \$668.1 million for the comparable period in 2014. The increase was primarily due to higher commodity charges (\$99.8 million) and higher retail transmission charges (\$4.0 million).

LDC Energy Purchases
(\$ Millions)
Nine months ended September 30, 2015



Energy purchases for the nine months ended September 30, 2015 were \$2,190.1 million compared to \$1,997.3 million for the comparable period in 2014. The increase was primarily due to higher commodity charges (\$223.8 million), partially offset by lower WMS charges (\$31.6 million) related to a reduced price of various wholesale market support costs.

Operating expenses

Operating expenses for the three months and nine months ended September 30, 2015 were \$67.5 million and \$203.0 million compared to \$63.2 million and \$198.8 million for the comparable periods in 2014.

The increase in operating expenses for the three months ended September 30, 2015 was primarily due to costs related to the 2015 emergency management and special event programs (\$2.0 million) and higher system maintenance costs (\$1.9 million) in the third quarter of 2015.

The increase in operating expenses for the nine months ended September 30, 2015 was primarily due to higher system maintenance costs (\$7.1 million) and costs related to the 2015 emergency management and special event programs (\$2.2 million). These variances were partially reduced by the repair costs for the electricity distribution infrastructure incurred in the first quarter of 2014 related to the Ice Storm that adversely affected the City at the end of December 2013 (\$3.4 million).

Depreciation and amortization

Depreciation and amortization expense for the three months and nine months ended September 30, 2015 was \$48.9 million and \$134.6 million compared to \$44.9 million and \$124.7 million for the comparable periods in 2014.

The increase in depreciation and amortization expense for the three months and nine months ended September 30, 2015 was primarily due to new in-service asset additions stemming from the increase in capital expenditures, partially offset by certain assets being fully depreciated or derecognized.

Finance Costs

Finance costs for the three months and nine months ended September 30, 2015 were \$18.1 million and \$52.7 million compared to \$15.3 million and \$45.1 million for the comparable periods in 2014.

The increase in finance costs for the three months and nine months ended September 30, 2015 was primarily due to the interest expense related to two separate \$200.0 million senior unsecured debentures issued in the third quarter of 2014 and the first quarter of 2015 (see "Liquidity and Capital Resources" below), partially offset by higher capitalized borrowing costs.

Gain on Disposals of PP&E

Gain on disposals of PP&E for the three months and nine months ended September 30, 2015 was \$nil and \$6.4 million compared to \$1.5 million for the three months and nine months ended September 30, 2014.

The variance in gain on disposals of PP&E for the three months ended September 30, 2015 was due to gains realized in connection with the disposals of surplus properties by LDC during the third quarter of 2014.

The gain on disposals of PP&E for the nine months ended September 30, 2015 was primarily due to a gain realized on disposal of a surplus property by LDC in the first quarter of 2015 under the facilities consolidation program (see "Liquidity and Capital Resources" below). The pre-tax gain recorded on the surplus property (\$5.9 million) was subsequently recorded as a regulatory credit balance on the consolidated balance sheet to reduce future electricity distribution rates for customers, with a corresponding offset in net movements in regulatory balances, net of tax.

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 nine months ended September 30, 2015 were \$3.1 million and \$8.1 million compared to \$3.7 million and \$10.1 million for the comparable periods in 2014 (see "Net Movements in Regulatory Balances, Net of Tax" below).

The favourable variances in income tax expense and income tax recorded in net movements in regulatory balances for the three months and nine months ended September 30, 2015 were primarily due to lower earnings before taxes offset by lower deductions for permanent and temporary differences between accounting and tax treatments.

Net Movements in Regulatory Balances, Net of Tax

In accordance with IFRS 14, the Corporation is required to separately present regulatory balances and related movements on the consolidated balance sheets and consolidated statements of income. The changes in the regulatory debit (\$33.7 million) and credit (\$8.5 million) balances for the period equal the net movements in regulatory balances, net of tax (\$42.2 million) for the nine months ended September 30, 2015 (see “Financial Position” below). Under IFRS 14, all regulatory related transactions impacting the consolidated statement of income are first recorded in accordance with other IFRS and then presented in the net movements in regulatory balances, net of tax caption. The tables below provide a breakdown of the net movements in regulatory balances, net of tax for the three months and nine months ended September 30, 2015 and the consolidated statement of income captions impacted.

Net Movements in Regulatory Balances, Net of Tax
Three months ended September 30
(in millions of Canadian dollars, unaudited)

	2015 \$	2014 \$	Increase (Decrease) \$	Statement of Income Captions Impacted
Movements related to regulatory debit balances				
Settlement variances ¹	(42.7)	19.3	(62.0)	Energy sales
IFRS transitional adjustments	-	3.4	(3.4)	Depreciation and amortization
Stranded meters	-	(0.7)	0.7	Depreciation and amortization
Post-employment benefits	-	(0.2)	0.2	Operating expenses
Smart meters	(2.0)	(2.0)	-	Distribution revenue
Other	-	0.5	(0.5)	Operating expenses
Movements related to regulatory credit balances				
Deferred taxes	2.0	3.2	(1.2)	Income tax expense
ICM	-	0.7	(0.7)	Distribution revenue
Tax-related variances	(0.1)	(0.4)	0.3	Distribution revenue
Other	-	(0.2)	0.2	Distribution revenue
Net movements in regulatory balances, net of tax	(42.8)	23.6	(66.4)	

¹ Settlement variances are recorded as a debit or credit balance depending on the net balance as at the balance sheet date, but can change from period to period.

Net movements in regulatory balances, net of tax for the three months ended September 30, 2015 were \$(42.8) million compared to \$23.6 million for the comparable period in 2014.

The variance in net movements in regulatory balances, net of tax for the three months ended September 30, 2015 was primarily due to changes in the movements of the settlement variance balances (\$62.0 million) and IFRS transitional adjustments (\$3.4 million).

The changes in the movements of settlement variance balances (\$62.0 million) were primarily due to changes in commodity charges. The IFRS transition adjustments in 2014 (\$3.4 million) represented the differences arising from accounting policy changes for PP&E and intangible assets due to the transition from US GAAP to IFRS in 2014.

Net Movements in Regulatory Balances, Net of Tax
Nine months ended September 30
(in millions of Canadian dollars, unaudited)

	2015 \$	2014 \$	Increase (Decrease) \$	Statement of Income Captions Impacted
Movements related to regulatory debit balances				
Settlement variances ¹	(26.3)	54.2	(80.5)	Energy sales
Smart meters	(9.0)	(2.3)	(6.7)	Distribution revenue
IFRS transitional adjustments	-	5.2	(5.2)	Depreciation and amortization and finance costs
Stranded meters	-	(1.9)	1.9	Depreciation and amortization
Post-employment benefits	-	(1.4)	1.4	Operating expenses
Other	1.6	1.2	0.4	Operating expenses
Movements related to regulatory credit balances				
Gain on disposal	(8.0)	-	(8.0)	Gain on disposals of PP&E
ICM	(7.3)	(1.1)	(6.2)	Distribution revenue
Tax-related variances	(1.1)	0.6	(1.7)	Distribution revenue
Deferred taxes	7.9	8.0	(0.1)	Income tax expense
Other	-	(0.1)	0.1	Distribution revenue
Net movements in regulatory balances, net of tax	(42.2)	62.4	(104.6)	

¹ Settlement variances are recorded as a debit or credit balance depending on the net balance as at the balance sheet date, but can change from period to period.

Net movements in regulatory balances, net of tax for the nine months ended September 30, 2015 were \$(42.2) million compared to \$62.4 million for the comparable period in 2014.

The variance in net movements in regulatory balances, net of tax for the nine months ended September 30, 2015 was primarily due to changes in the movement of the settlement variance balance (\$80.5 million), a gain on disposal (\$8.0 million), changes in the movements of the smart meters balance (\$6.7 million) and ICM balance (\$6.2 million), and IFRS transitional adjustments (\$5.2 million).

The changes in the movements of settlement variance balances (\$80.5 million) were primarily due to changes in commodity charges and WMS charges. The gain on disposal balance (\$8.0 million) is a result of the gain and related future tax savings on the disposal of a surplus property by LDC during the first quarter of 2015 in connection with the facilities consolidation program filed as part of LDC's CIR rate application. The changes in smart meter movements (\$6.7 million) were related to smart meter income recorded in 2014 and additional recoveries through the smart meter rate riders in 2015. The changes in ICM movements (\$6.2 million) were due to ICM income recorded in 2014 offset by lower revenue earned from the ICM rate riders in 2015. The IFRS transition adjustments in 2014 (\$5.2 million) represented differences arising from accounting policy changes for PP&E and intangible assets due to the transition from US GAAP to IFRS in 2014.

Quarterly Results of Operations

The table below presents the Corporation's unaudited results of operations for eight quarters including and immediately preceding September 30, 2015, which have been prepared in accordance with IFRS except for the 2013 financial information which was prepared in accordance with US GAAP. The number of issued and outstanding shares of the Corporation during the eight quarters noted below was 1,000.

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

	September 30 2015 \$	June 30 2015 \$	March 31 2015 \$	December 31 2014 \$
Revenues ¹	977.6	842.9	864.1	864.8
Net income after net movements in regulatory balances ¹	20.0	15.9	16.5	23.8
	September 30 2014 \$	June 30 2014 \$	March 31 2014 \$	December 31 2013 \$
Revenues ^{1,2}	808.4	702.5	897.1	819.6
Net income after net movements in regulatory balances ¹	35.1	31.2	21.6	NA
Net income ²	NA	NA	NA	29.3

¹ Quarterly financial information for 2015 has been extracted from the Interim Financial Statements, which have been prepared in accordance with IFRS. Quarterly financial information for 2014 that were previously reported in accordance with US GAAP are now reported in accordance with IFRS.

² Quarterly financial information for 2013 were prepared in accordance with US GAAP.

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

The Corporation's quarterly results are also impacted by fluctuations in electricity prices and the timing and recognition of regulatory decisions. This resulted in a variation from the trend noted above for the fourth quarter of 2014 due to higher commodity charges as a result of global adjustments.

Financial Position

The following table outlines the significant changes in the unaudited interim consolidated balance sheet as at September 30, 2015 as compared to the consolidated balance sheet as at December 31, 2014.

Condensed Interim Consolidated Balance Sheet Data
As at September 30, 2015 compared to December 31, 2014
(in millions of Canadian dollars, unaudited)

Balance Sheet Account	Increase (Decrease) \$	Explanation of Significant Change
Assets		
Accounts receivable and unbilled revenue	43.2	The increase was primarily due to higher pass-through electricity costs, partially offset by timing variances of billing and collection activities from electricity customers.

Condensed Interim Consolidated Balance Sheet Data
As at September 30, 2015 compared to December 31, 2014
(in millions of Canadian dollars, unaudited)

Balance Sheet Account	Increase (Decrease) \$	Explanation of Significant Change
PP&E and intangible assets	266.4	The increase was primarily due to capital expenditures, partially offset by depreciation during the period.
Deferred tax assets	(10.3)	The decrease was due to lower net deductible temporary differences between tax and accounting values of PP&E and intangible assets.
Liabilities and Equity		
Working capital facility	(6.1)	The decrease was due to timing of cash flow (see “Liquidity and Capital Resources” below).
Commercial paper	(17.0)	The decrease was primarily due to repayment using proceeds from the issuance of senior unsecured debentures in the first and third quarters of 2015, offset primarily by funds used for general corporate purposes (see “Liquidity and Capital Resources” below).
Deferred revenue	21.6	The increase was primarily due to capital contributions received in 2015.
Deferred conservation credit	18.1	The increase was primarily due to funding for the CDM programs (see “Corporate Developments” below).
Debentures	243.6	The increase was primarily due to the issuance of senior unsecured debentures in the first and third quarters of 2015 (see “Liquidity and Capital Resources” below).
Post-employment benefits	6.4	The increase was due to benefits earned by employees for services rendered in the current period, offset by payments made to settle obligations.
Regulatory Balances		
Regulatory debit balances ¹	(33.7)	The decrease was primarily due to the settlement variance between energy sales and energy purchases and recoveries through the smart meter rate riders in 2015 (see “Results of Operations” above).

Condensed Interim Consolidated Balance Sheet Data
As at September 30, 2015 compared to December 31, 2014
(in millions of Canadian dollars, unaudited)

Balance Sheet Account	Increase (Decrease) \$	Explanation of Significant Change
Regulatory credit balances ¹	8.5	The increase was primarily due to the gain and related future tax savings on disposal of a surplus property in connection with the facilities consolidation program filed as part of LDC's CIR rate application (see "Liquidity and Capital Resources" below) and revenue earned from the ICM rate riders, partially offset by the tax impact of movements in regulatory balances.

¹ The total of changes in the regulatory debit and credit balances reflects net movements in regulatory balances, net of tax (see "Results of Operations" above).

Liquidity and Capital Resources

The Corporation's current assets and current liabilities amounted to \$586.2 million and \$861.1 million, respectively, as at September 30, 2015, resulting in a working capital deficit of \$274.9 million. The deficit is attributable to the Corporation's preference for utilizing its Commercial Paper Program and Working Capital Facility (both defined below) before issuing additional debentures to fulfill the Corporation's ongoing liquidity requirements, including significant capital spending in the current year. The Corporation seeks to maintain an optimal mix of short-term and long-term debt in order to lower financing costs and enhance borrowing flexibility.

The Corporation's primary sources of liquidity and capital resources are cash provided by operating activities, issuances of commercial paper, amounts available to be drawn against its credit facilities, and borrowings from debt capital markets. The Corporation's liquidity and capital resource requirements are mainly for capital expenditures to maintain and improve the electricity distribution system of LDC, to purchase power, and to meet financing obligations. See "Liquidity Risk" under note 13 (b) to the Interim Financial Statements.

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

Condensed Interim Consolidated Statements of Cash Flow Data
(in millions of Canadian dollars, unaudited)

	Three months ended September 30		Nine months ended September 30	
	2015 \$	2014 \$	2015 \$	2014 \$
Working capital facility, beginning of period	(14.2)	(3.5)	(6.1)	(19.1)
Net cash provided by operating activities	139.9	66.4	303.7	246.1
Net cash used in investing activities	(148.9)	(153.0)	(423.9)	(401.5)
Net cash provided by financing activities	26.0	80.1	129.1	164.5
Cash and cash equivalents (working capital facility), end of period	2.8	(10.0)	2.8	(10.0)

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 September 30, 2015, no amount had been drawn under the Working Capital Facility compared to \$6.1 million as at December 31, 2014.

Operating Activities

Net cash provided by operating activities for the three months and nine months ended September 30, 2015 was \$139.9 million and \$303.7 million compared to \$66.4 million and \$246.1 million for the comparable periods in 2014.

The increase in net cash provided by operating activities for the three months ended September 30, 2015 was primarily due to net movements in regulatory balances (see “Net Movements in Regulatory Balances, Net of Tax” above), the movements in non-cash working capital balances (see note 19 to the Interim Financial Statements), and non-cash adjustments to net income related to depreciation and amortization. These variances were partially offset by lower net income after net movements in regulatory balances.

The increase in net cash provided by operating activities for the nine months ended September 30, 2015 was primarily due to net movements in regulatory balances (see “Net Movements in Regulatory Balances, Net of Tax” above), non-cash adjustments to net income related to depreciation and amortization and finance costs, and net change in other non-current assets and liabilities. These variances were partially offset by the movements in non-cash working capital balances (see note 19 to the Interim Financial Statements) and lower net income after net movements in regulatory balances.

Investing Activities

Net cash used in investing activities for the three months and nine months ended September 30, 2015 was \$148.9 million and \$423.9 million compared to \$153.0 million and \$401.5 million for the comparable periods in 2014.

The decrease in net cash used in investing activities for the three months ended September 30, 2015 was due to lower capital expenditures, offset by proceeds on disposals of surplus properties in 2014.

The increase in net cash used in investing activities for the nine months ended September 30, 2015 was due to higher cash spent on capital expenditures, offset by higher proceeds on disposals of surplus properties in 2015.

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

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

Capital Expenditures
(in millions of Canadian dollars, unaudited)

	Three months ended September 30		Nine months ended September 30	
	2015	2014 ¹	2015	2014 ¹
	\$	\$	\$	\$
Regulated LDC				
Distribution system				
Planned ²	107.5	120.1	303.9	275.9
Reactive	8.9	10.8	23.7	28.5
Copeland Station	5.4	26.6	18.5	56.2
Facilities consolidation	6.8	17.6	23.1	44.9
Technology assets	7.6	5.0	17.7	10.8
Other ³	4.7	2.6	12.7	17.6
Regulated capital expenditures	140.9	182.7	399.6	433.9
Unregulated capital expenditures ⁴	1.0	0.5	3.0	2.1
Total capital expenditures	141.9	183.2	402.6	436.0

¹ Capital expenditures for 2014 that were previously reported in accordance with US GAAP are now reported in accordance with IFRS.

² Includes, among other initiatives, the replacement of underground and overhead infrastructure, and the delivery of customer connections.

³ Includes fleet capital and buildings.

⁴ Primarily relates to TH Energy equipment.

The total regulated capital expenditures for the three months and nine months ended September 30, 2015 were \$140.9 million and \$399.6 million compared to \$182.7 million and \$433.9 million for the comparable periods in 2014.

For the nine months ended September 30, 2015, the decrease in regulated capital expenditures was primarily related to a decrease in spending on Copeland Station (\$37.7 million) and facilities consolidation program (\$21.8 million). These variances were partially offset by higher spending on underground infrastructure (\$10.1 million), equipment for increased load demand related to the growing population in the City (\$7.4 million), and overhead infrastructure (\$6.8 million).

The largest capital initiatives in 2015 include the replacement of underground infrastructure, the replacement of overhead infrastructure, the delivery of customer connections, the facilities consolidation program, and the construction of Copeland Station in response to the growing need for distribution options in the downtown core of the City.

The replacement of underground infrastructure includes replacing direct buried cables, transformer switches, handwells and other aging underground infrastructure. The replacement of overhead infrastructure includes replacing poles, overhead transformers, conductors, overhead switches and other aging overhead infrastructure and equipment. Both initiatives will allow LDC to continue to provide ongoing safe and reliable service to its customers. For the nine months ended September 30, 2015, capital expenditures for the underground and overhead infrastructures were \$87.3 million and \$86.5 million, respectively.

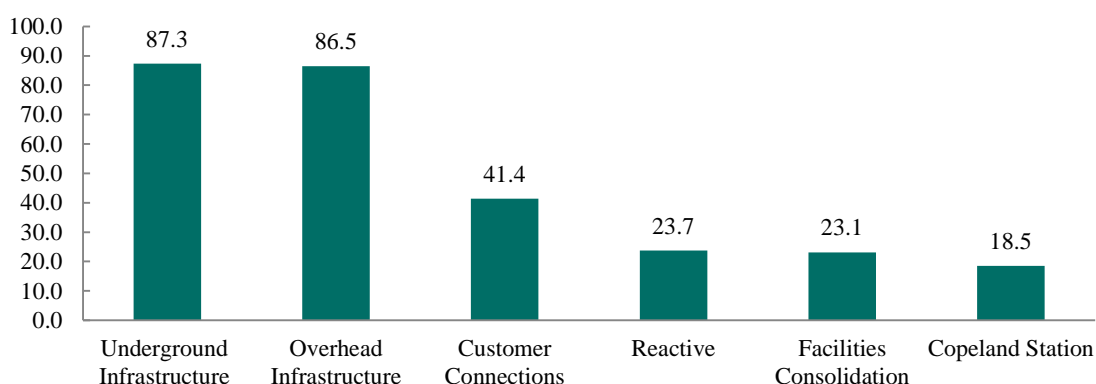
The delivery of customer connections includes spending related to new services and upgrades to existing services for specific commercial customers. For the nine months ended September 30, 2015, capital expenditures for the delivery of customer connections were \$41.4 million.

The facilities consolidation program relates to the consolidation of operating centres to lower operating centre costs and simplify long-term planning. In 2015, the Corporation continued relocating staff, equipment and operations as well as performing the required capital investment on specific properties and incurred costs of \$23.1 million for the nine months ended September 30, 2015. In 2014, the Corporation incurred \$70.8 million in costs for the facilities consolidation program, including the purchase of a property to be used as an operation centre for \$13.1 million. The

facilities consolidation program will reduce the total number of operating centres by two upon completion. Expected net proceeds on the sale of two surplus properties have been included in the rate application to mitigate electricity distribution rate increases. On March 3, 2015, the Corporation sold one of the related surplus properties owned by LDC for \$10.5 million. The pre-tax gain of \$5.9 million and related future tax savings of \$2.1 million are expected to reduce future electricity distribution rates for customers and as such, were recorded as a regulatory credit balance on the consolidated balance sheet.

Copeland Station is one of the most complex projects ever undertaken by the Corporation. It will be the first transformer station built in downtown Toronto since the 1960's and will be the second underground transformer station in Canada. When in service, it will provide electricity to buildings and neighbourhoods in the central-southwest region of Toronto. During the third quarter of 2015, the Corporation completed construction of the separate ventilation structure for the tunnel and commenced the placement of roof concrete and reconstruction of the machine shop on top of the underground transformer station. As at September 30, 2015, the cumulative capital expenditures on the Copeland Station project amounted to \$161.5 million, of which \$18.5 million was recorded in 2015. All capital expenditures related to Copeland Station are recorded to PP&E. As construction continues, Copeland Station is expected to be completed during 2016 and the total capital expenditures required to complete the project is approximately \$195.0 million, plus capitalized borrowing costs as applicable.

Most Significant Regulated Capital Initiatives
(\$ Millions)
Nine months ended September 30, 2015



Financing Activities

Net cash provided by financing activities for the three months and nine months ended September 30, 2015 was \$26.0 million and \$129.1 million compared to \$80.1 million and \$164.5 million for the comparable periods in 2014.

The Corporation is a party to a revolving credit facility expiring on October 10, 2020 (“Revolving Credit Facility”), pursuant to which it may borrow up to \$800.0 million, of which up to \$210.0 million was available in the form of letters of credit. On July 30, 2015, the borrowing capacity under the Revolving Credit Facility was increased by \$100.0 million from \$700.0 million to \$800.0 million and the expiry date extended by one year to October 10, 2020. As at September 30, 2015, 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 \$600.0 million of unsecured short-term promissory notes (“Commercial Paper Program”) to be issued in various maturities of no more than one year. On July 30, 2015, the amount the Corporation may issue under this program was increased by \$100.0 million from \$500.0 million to \$600.0 million. The Commercial Paper Program is supported by liquidity facilities available under the Revolving Credit Facility; hence, available borrowing under the Revolving Credit Facility is reduced by the amount of commercial paper outstanding at any point in time. Proceeds from the Commercial Paper Program are being used for general corporate purposes.

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

	Facility Limit	Revolving Credit Facility Borrowings	Commercial Paper Outstanding	Facility Availability
(in millions of Canadian dollars, unaudited)	\$	\$	\$	\$
September 30, 2015	800.0	—	291.0	509.0
December 31, 2014	700.0	—	308.0	392.0

For the three months and nine months ended September 30, 2015, the average outstanding borrowings under the Corporation's Revolving Credit Facility, Working Capital Facility and Commercial Paper Program were \$313.4 million and \$285.6 million with weighted average interest rates of 0.76 % and 0.94 %.

Additionally, the Corporation is a party to a \$75.0 million demand facility with a Canadian chartered bank for the purpose of issuing letters of credit mainly to support LDC's prudential requirements with the IESO ("Prudential Facility"). As at September 30, 2015, \$31.3 million of letters of credit had been issued against the Prudential Facility.

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

On March 16, 2015, the Corporation issued \$200.0 million of 3.55% senior unsecured debentures at a price of \$998.37 per \$1,000 principal amount due July 28, 2045 ("Series 11"). The Series 11 debentures bear interest payable semi-annually in arrears and contain covenants which, subject to certain exceptions, restrict the ability of the Corporation and LDC to create security interests, incur additional indebtedness or dispose of all or substantially all of their assets. The Corporation may redeem all or part of the Series 11 debentures 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 to the date fixed for redemption. The net proceeds of the debentures were used to repay certain existing indebtedness of the Corporation and for general corporate purposes. Debt issuance costs of \$1.4 million relating to the Series 11 debentures were recorded against the carrying amount of the debentures in the first quarter of 2015 and are amortized to finance costs using the effective interest method.

On September 2, 2015, the Corporation re-opened its Series 9 offering and issued an additional \$45.0 million of 3.96% senior unsecured debentures at a price of \$1,004.68 per \$1,000 principal amount due April 9, 2063, carrying the same terms and conditions as the original issuance. The Series 9 debentures bear interest payable semi-annually in arrears and contain covenants which, subject to certain exceptions, restrict the ability of the Corporation and LDC to create security interests, incur additional indebtedness or dispose of all or substantially all of their assets. The Corporation may redeem all or part of the Series 9 debentures 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 to the date fixed for redemption. The net proceeds of the debentures were used to repay certain existing indebtedness of the Corporation and for general corporate purposes. Debt issuance costs of \$0.5 million relating to the re-opening of the Series 9 debentures were recorded against the carrying amount of the debentures in the third quarter of 2015 and are amortized to finance costs using the effective interest method.

As at September 30, 2015, the Corporation had long-term debentures outstanding in the principal amount of \$1.9 billion. These debentures will mature between 2017 and 2063. The Corporation may issue up to \$755.0 million of additional debentures under the existing base shelf prospectus. As at September 30, 2015, the Corporation was in compliance with all covenants included in its trust indenture and supplemental trust indentures.

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

**Credit Ratings
As at September 30, 2015**

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

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

On March 5, 2015, the Board of Directors of the Corporation declared dividends in the amount of \$37.5 million. The dividends consisted of \$31.25 million with respect to net income under US GAAP for the year ended December 31, 2014, paid to the City on March 13, 2015, and \$6.25 million with respect to the first quarter of 2015, paid to the City on March 31, 2015.

On May 14, 2015, the Board of Directors of the Corporation declared a dividend in the amount of \$6.25 million with respect to the second quarter of 2015, paid to the City on June 30, 2015.

On August 20, 2015, the Board of Directors of the Corporation declared a dividend in the amount of \$6.25 million with respect to the third quarter of 2015, paid to the City on September 30, 2015.

On November 26, 2015, the Board of Directors of the Corporation declared a dividend in the amount of \$6.25 million with respect to the fourth quarter of 2015. The dividend is payable on December 31, 2015.

Summary of Contractual Obligations and Other Commitments

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

**Summary of Contractual Obligations and Other Commitments
As at September 30, 2015
(in millions of Canadian dollars, unaudited)**

	Total \$	2015 ¹ \$	2016/2017 \$	2018/2019 \$	After 2019 \$
Commercial paper ²	291.0	291.0	-	-	-
Debentures – principal repayment	1,895.0	-	250.0	250.0	1,395.0
Debentures – interest payments	1,402.3	31.4	156.0	130.4	1,084.5
Operating leases	12.6	1.6	8.7	0.9	1.4
Capital projects ³ and other	58.1	29.4	28.7	-	-
Capital leases	9.0	0.8	6.6	1.6	-
Total contractual obligations and other commitments	3,668.0	354.2	450.0	382.9	2,480.9

¹ The amounts disclosed represent the balances due over the period from October 1, 2015 to December 31, 2015.

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

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

Corporate Developments

Changes to the Corporation's Board of Directors

Effective February 10, 2015, the City, as the sole shareholder of the Corporation, appointed councillor Paul Ainslie to the Board of Directors. The appointment is effective for a term ending December 31, 2016, or until his successor is appointed.

Effective May 5, 2015, the City extended the term of office for all citizen directors of the Corporation to October 31, 2015, or until their successors are appointed. It is anticipated that the City will appoint eight successor citizen directors on December 9, 2015. The term of office for city councillor directors remains unchanged.

Electricity Distribution Rates

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

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

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

On July 31, 2014, LDC filed a rate application with the OEB under the CIR-setting mechanism, seeking approval of LDC's 2015 test year revenue requirement and corresponding electricity distribution rates effective May 1, 2015, and subsequent annual rate adjustments based on a custom index for the period commencing on January 1, 2016 and ending on December 31, 2019. The rate application included requests for approval of capital expenditures of approximately \$2.5 billion over the 2015-2019 period. The rate application also sought approval to include in LDC's rate base capital amounts that were prudently incurred prior to 2015, subject to review by the OEB. In addition, LDC sought approval to recover the net book value of stranded meters. LDC's revenue over the period will be based on the existing rate base, capital expenditures and operating expenses ultimately approved by the OEB in the rate application plus cost of capital allowed by the OEB.

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

On April 28, 2015, the OEB declared LDC's existing rates as interim rates, effective May 1, 2015, pending a final CIR decision and rate order. LDC will reconcile, at a later date, any variance between the interim rates and the approved rates over the interim period between May 1, 2015 and the effective date of the OEB decision. The current application is subject to an in-depth review by the OEB, and there can be no assurance that the OEB will allow for the amount of electricity distribution rates requested by LDC. The financial effect of the OEB decision will be reflected in the period it becomes known and could be material to the Corporation's financial performance.

CDM Activities

The IESO and the OPA were merged under the name IESO starting on January 1, 2015. The IESO supports CDM plans during their design and throughout their entire lifespan, including the sharing of best practices, offering of program delivery services, and the building of awareness in the marketplace through marketing and communication. The IESO provides centralized customer service and technical support, market research, program evaluation and measurement, and training.

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

Effective January 1, 2011, LDC entered into an agreement with the OPA in the amount of approximately \$50.0 million to deliver CDM programs extending from January 1, 2011 to December 31, 2014 to support achievement of the mandatory CDM targets described above. LDC applied to the OPA in March 2014 to revise the program administration budget to \$45.8 million for the delivery of CDM programs from 2011 to 2014. All programs delivered are fully funded and paid in advance by the OPA. Amounts received but not yet spent are presented under current liabilities as deferred conservation credit. Upon the expiration of the agreement, LDC is required to repay to the OPA any excess funding received for program administration less any cost efficiency incentives. As at December 31, 2014, LDC estimated that approximately \$5.7 million qualified as cost efficiency incentives, and approximately \$4.9 million was repayable to the OPA for the remaining program administration budget, included within accounts payable and accrued liabilities. On May 8, 2015, the IESO confirmed both the cost efficiency incentives of \$5.7 million and the amount payable by LDC of \$4.9 million plus applicable taxes, which was paid in July 2015.

On December 21, 2012, the Minister of Energy of Ontario issued a direction to the OPA under subsection 25.32(4.1) of the Electricity Act to extend the funding time period for OPA-contracted province-wide CDM initiatives under the Green Energy Act framework to December 31, 2015. Funding and respective targets for CDM programs approved pursuant to the 2011-2014 OPA agreement with in-service dates in 2015 will be allocated toward the 2011-2014 program. On March 18, 2015, LDC received approval from the IESO for separate funding of \$11.2 million relating to these transitional CDM programs for 2015. Funding was fully received as at September 30, 2015.

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

On November 13, 2014, LDC entered into an energy conservation agreement with the OPA for the delivery of these CDM programs over the 2015-2020 period with funding of approximately \$400.0 million, which includes participant incentives and LDC's program administration costs. LDC provided to the IESO its plan for achieving its CDM target and received conditional approval as of March 26, 2015. LDC also has the option to submit a joint CDM plan with one or more distribution companies.

On April 30, 2015, LDC submitted a joint CDM plan with Oakville Hydro Electricity Distribution Inc. to replace LDC's previous CDM plan for the delivery of CDM programs over the 2015-2020 period, and received approval from the IESO, with combined funding of approximately \$425.0 million and an energy savings target of approximately 1,668 GWh. The programs under the joint CDM plan for Oakville Hydro Electricity Distribution Inc. are expected to start on January 1, 2016. LDC received \$15.4 million as at September 30, 2015 and approximately \$1.0 million subsequent to September 30, 2015 from the IESO for the delivery of CDM programs under the energy conservation agreement. Amounts received but not yet spent are presented under current liabilities as deferred conservation credit.

LDC can choose between full cost recovery funding, pay-for-performance funding, or a combination of both, on a CDM program by program basis. Under the full cost recovery funding method, the IESO reimburses LDC for all adequately documented costs incurred, with an option to receive a portion of its funding in advance. Cost efficiency incentives may be awarded if LDC's electricity savings meet or exceed certain CDM plan targets for programs under the full cost recovery funding method, with a mid-term review to be performed by the IESO for the 2015-2017 period. Under the pay-for-performance funding method, LDC receives payment in arrears based on verified electricity savings achieved with various options for frequency of payment. The majority of the programs under the joint CDM plan are under the full cost recovery funding method.

Legal Proceedings

In the ordinary course of business, the Corporation is subject to various legal actions and claims from customers, suppliers, former employees and other parties. On an ongoing basis, the Corporation assesses the likelihood of any adverse judgments or outcomes as well as potential ranges of probable costs and losses. A determination of the provision required, if any, for these contingencies is made after an analysis of each individual issue. The provision may change in the future due to new developments in each matter or changes in approach, such as a change in settlement strategy. If damages were awarded under these actions, the Corporation and its subsidiaries would make a claim under any applicable liability insurance policies which the Corporation believes would cover any damages which may become payable by the Corporation and its subsidiaries in connection with these actions, subject to such claim not being disputed by the insurer. There have been no material changes in legal proceedings as disclosed in note 22 to the Interim Financial Statements.

Share Capital

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

Transactions with Related Parties

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

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

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

Controls and Procedures

For purposes of certain Canadian securities regulations, the Corporation is a "Venture Issuer". As such, it is exempt from certain requirements of National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings. Accordingly, the Chief Executive Officer and Chief Financial Officer have reviewed the Interim Financial Statements and the MD&A for the interim periods ended September 30, 2015 and 2014. Based on their knowledge and exercise of reasonable diligence, they have concluded that these documents fairly present in all material respects the financial condition, financial performance and cash flows of the Corporation as at the date of and for the period presented.

Critical Accounting Estimates

The preparation of the Corporation's Interim Financial Statements in accordance with IFRS requires management to make judgments, estimates and assumptions which affect the application of accounting policies, reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the Interim Financial

Statements, and the reported amounts of revenues and expenses for the period. The estimates are based on historical experience, current conditions and various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities as well as for identifying and assessing the accounting treatment with respect to commitments and contingencies. 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. A detailed discussion of significant accounting estimates is outlined in note 4 (c) to the Interim Financial Statements.

Transition to IFRS

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

The accounting policies as disclosed in note 4 of the Corporation's First Interim Financial Statements have been applied consistently in the preparation of the Interim Financial Statements. All comparative figures for 2014 that were previously reported in accordance with US GAAP are now reported in accordance with IFRS. The retrospective adjustment to the January 1, 2014 equity balance is \$0.9 million. An explanation of the significant transitional adjustments made by the Corporation as a result of the transition from US GAAP to IFRS, including IFRS 1 elections, on the Corporation's consolidated financial statements is provided in note 23 to the Interim Financial Statements and to the Corporation's First Interim Financial Statements.

The Corporation has completed the design and implementation phase of its IFRS conversion project. This included updating accounting policies and procedure manuals, preparing opening balance sheet, quarterly comparatives and disclosures in accordance with IFRS, and completing relevant training with affected finance and operational teams, management, and the Audit Committee of the Board of Directors. In addition, financial systems have been modified and controls have been implemented to address first-time IFRS adoption and ongoing accumulation of information in accordance with IFRS. The Corporation has determined that the transition to IFRS will have no significant impact to its debt covenants and the Corporation remains in compliance with its financial covenants using IFRS financial information.

Significant impacts of transition to IFRS

Regulatory Balances

The Corporation has elected to early adopt IFRS 14. IFRS 14 introduces new presentation requirements for rate regulated companies that isolates the impact of recognizing regulatory balances from the financial reporting requirements of other IFRS. The deferred tax asset or deferred tax liability and movement arising as a result of recognizing regulatory balances are presented with the related regulatory balance. This increases the transparency and enhances the comparability of IFRS 14 compliant financial statements with those of entities not applying IFRS 14.

For the Corporation, the impact of IFRS 14 was to reclassify regulatory balances and related deferred tax amounts recorded as assets and liabilities under US GAAP to a new and separate section of the consolidated balance sheet. As at December 31, 2014, the impact was to reclassify current regulatory assets of \$11.8 million, non-current regulatory assets of \$564.4 million, current regulatory liabilities of \$1.6 million, non-current regulatory liabilities of \$156.2 million, and the related deferred tax amounts to the respective regulatory debit and credit balances. IFRS 14 does not allow a current and non-current distinction for the regulatory balances and offsetting of regulatory balances is not permitted. In addition, ICM eligible in-service capital expenditures that are permitted to be recognized as PP&E under IAS 16 *Property, Plant and Equipment* were reclassified from regulatory assets to PP&E.

Similarly, the net income effect of all changes in regulatory balances are segregated in a new and separate section of the consolidated statement of income called net movements in regulatory balances, net of tax. The income and expenses recorded before net movements in regulatory balances, net of tax are recorded in accordance with other IFRS. For the year ended December 31, 2014, the most significant impact was that energy sales no longer equal energy purchases as it did under US GAAP. Under IFRS, energy sales reflect the amounts charged by LDC to

customers, based on regulated rates, and energy purchases record the corresponding cost of electricity and non-competitive electricity service costs incurred by LDC and charged by the IESO in accordance with other IFRS. This resulted in a \$45.4 million decrease to 2014 energy sales reported under IFRS compared to US GAAP with the corresponding offsetting adjustment to net movement in regulatory balances, net of tax.

The table below provides a breakdown of the adjustments to energy sales for settlement variances as a result of IFRS 14 for each quarter of 2014.

IFRS Adjustments to Energy Sales in 2014
Three months ended
(in millions of Canadian dollars, unaudited)

	March 31	June 30	September 30	December 31	Total
	\$	\$	\$	\$	
Commodity Charges	55.8	(68.5)	(16.6)	0.1	(29.2)
Retail Transmission Charges	(1.8)	(4.0)	(7.8)	(8.2)	(21.8)
WMS Charges	(20.5)	4.2	5.2	16.7	5.6
Total	33.5	(68.3)	(19.2)	8.6	(45.4)

Rate-regulated Deemed Cost

The Corporation elected to use the IFRS 1 deemed cost exemption allowing entities subject to rate regulation to use the previous GAAP carrying amount, net of accumulated depreciation, of PP&E and intangible assets at the transition date to IFRS as the deemed cost, except for construction in progress items for which capital contributions have been received. As at January 1, 2014, the impact of this change was to reduce both the cost and accumulated depreciation of PP&E by \$2,424.0 million and intangible assets by \$201.9 million. There is no net impact to the consolidated balance sheet as at January 1, 2014 or consolidated statement of income for the year ended December 31, 2014.

The accumulated depreciation for PP&E and intangible assets under IFRS no longer provides an indication of the aging of PP&E and intangible assets due to the deemed cost election. LDC estimates that approximately 26% of its electricity distribution assets have already exceeded or will reach their expected useful lives by the end of 2015.

Capital Contributions

Under US GAAP, capital contributions received and used to finance additions to PP&E were offset against the cost of the constructed asset and depreciated at the same rate as the related PP&E, as a reduction in depreciation expense. Under IFRIC 18 *Transfer from Customers* (“IFRIC 18”), capital contributions are treated as deferred revenue, resulting in a reclassification of \$50.5 million from PP&E and \$22.1 million from accounts payable and accrued liabilities to deferred revenue (\$1.2 million current and \$71.4 million non-current) as at December 31, 2014. Deferred revenue is recognized as revenue over the useful life of the related PP&E, resulting in a \$0.7 million reclassification from depreciation and amortization expense to other revenue for the year ended December 31, 2014.

Going forward, deferred revenue balances will continue to increase as contributions are received, offset by amortization of the deferred revenue. There will be no net impact to the consolidated statement of income for capital contributions.

PP&E Derecognition

Under the group depreciation policy adopted under US GAAP, assets in a group were not removed from the accounts on disposition and depreciation continued to be recorded until the asset group was fully depreciated. Under IFRS, the carrying amount of a replaced item of PP&E is derecognized and the related loss is recorded within depreciation and amortization expense. The differences arising as a result of this accounting policy change due to the transition from US GAAP to IFRS for the year of transition were recorded within IFRS transitional adjustments in regulatory debit

balance and net movements in regulatory balances, net of tax. For the three months and nine months ended September 30, 2014, the impact was to decrease PP&E and increase depreciation and amortization expense, regulatory debit balances, and net movements in regulatory balances, net of tax by \$4.1 million and \$7.3 million. For the year ended December 31, 2014, the impact was to decrease PP&E and increase depreciation and amortization expense, regulatory debit balances and net movements in regulatory balances, net of tax by \$26.5 million.

Future Accounting Pronouncements

A number of new standards, amendments and interpretations are not yet effective for the year ended December 31, 2015, and have not yet been applied in preparing these Interim Financial Statements. The Corporation continues to analyze these standards and has determined that the following could have an impact on its consolidated financial statements.

Rate-Regulated Accounting

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

Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15 *Revenue from Contracts with Customers* (“IFRS 15”), which replaces existing revenue recognition guidance including IAS 18 *Revenue* and IFRIC 18. IFRS 15 contains a single model that applies to contracts with customers with two approaches for recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether revenue should be recognized and the respective timing and amount. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. The new standard does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other IFRS. On July 22, 2015, the IASB confirmed a one-year deferral of the effective date of IFRS 15 to annual periods beginning on or after January 1, 2018. The Corporation is currently evaluating the impact of the new standard.

Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments* (“IFRS 9”), which replaces IAS 39 *Financial Instruments: Recognition and Measurement* (“IAS 39”). IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for measuring impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. The standard is effective for annual periods beginning on or after January 1, 2018, and will be applied retrospectively with some exceptions. The Corporation is currently evaluating the impact of the new standard.

Disclosure Initiative

In December 2014, the IASB issued Disclosure Initiative (Amendments to IAS 1 *Presentation of Financial Statements*). These amendments improve the existing presentation and disclosure requirements and encourage entities to apply professional judgment regarding disclosure and presentation in their financial statements. These amendments are effective for annual periods beginning on or after January 1, 2016. The Corporation expects these amendments will have no material impact on its consolidated financial statements.

Forward-Looking Information

The Corporation includes forward-looking information in its MD&A within the meaning of applicable securities laws in Canada. The purpose of the forward-looking information is to provide management’s expectations regarding the Corporation’s future results of operations, performance, business prospects and opportunities and may not be

appropriate for other purposes. All forward-looking information is given pursuant to the “safe harbour” provisions of applicable Canadian securities legislation. The words “anticipated”, “believes”, “can”, “could”, “estimates”, “expected”, “forecast”, “may”, “plans”, “seek”, “should”, “will”, “would” and similar expressions are often intended to identify forward-looking information, although not all forward-looking information contains these identifying words. The forward-looking information reflects management’s current beliefs and is based on information currently available to the Corporation’s management.

The forward-looking information in the MD&A includes, but is not limited to, statements regarding the Corporation’s conversion to IFRS as described in the section entitled “Introduction”, the effect of changes in energy consumption on future revenue as described in the section entitled “Quarterly Results of Operations”, the expected reduction of future electricity distribution rates related to settlement variances and the gain and related future tax savings on disposal of a surplus property as described in the sections entitled “Quarterly Results of Operations” and “Liquidity and Capital Resources”, the Corporation’s plans to finance the investment in LDC’s infrastructure and the Corporation’s available sources of liquidity and capital resources and the sufficiency thereof to satisfy working capital requirements for the next twelve months as described in the section entitled “Liquidity and Capital Resources”, the planned and proposed capital initiatives and the expected results of such initiatives as described in the section entitled “Liquidity and Capital Resources”, the anticipated capacity to be provided by Copeland Station, the expected capital expenditures required to complete Copeland Station, and the anticipated completion date for Copeland Station as described in the section entitled “Liquidity and Capital Resources”, the 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 City’s appointment of successor citizen directors, the outcomes regarding the current rate application under the CIR-setting mechanism, and plans to meet CDM targets as described in the section entitled “Corporate Developments”, the ability to pay any damages in connection with legal actions and claims as described in the section entitled “Legal Proceedings”, the Corporation’s conversion to IFRS, trending of balances as well as the expected useful life of the Corporation’s electricity distribution assets as described in the section entitled “Transition to IFRS”, and the impact on the Corporation’s consolidated financial statements in the section entitled “Future Accounting Pronouncements”. The statements that make up the forward-looking information are based on assumptions that include, but are not limited to, the future course of the economy and financial markets, the receipt of applicable regulatory approvals and requested rate orders, the receipt of favourable judgments, and the level of interest rates and the Corporation’s ability to borrow.

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

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

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

November 26, 2015



UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2015 AND 2014

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

CONDENSED INTERIM CONSOLIDATED BALANCE SHEETS

[in millions of Canadian dollars, unaudited]

	As at September 30, 2015 \$	As at December 31, 2014 \$
		<i>[note 23]</i>
ASSETS		
Current		
Cash and cash equivalents	2.8	-
Accounts receivable <i>[note 13[b]]</i>	239.4	206.9
Unbilled revenue <i>[note 13[b]]</i>	318.2	307.5
Income tax receivable	4.4	0.8
Materials and supplies	9.8	8.6
Other assets	11.6	9.9
Assets held for sale	-	4.0
Total current assets	586.2	537.7
Property, plant and equipment <i>[note 5]</i>	3,519.8	3,249.9
Intangible assets <i>[note 6]</i>	195.2	198.7
Deferred tax assets	133.4	143.7
Other assets	1.3	1.2
Total assets	4,435.9	4,131.2
Regulatory balances <i>[note 7]</i>	163.4	197.1
Total assets and regulatory balances	4,599.3	4,328.3
LIABILITIES AND EQUITY		
Current		
Working capital facility <i>[note 8]</i>	-	6.1
Commercial paper <i>[note 8]</i>	291.0	308.0
Accounts payable and accrued liabilities <i>[note 13[b]]</i>	506.8	512.7
Customer deposits	37.0	38.5
Deferred revenue <i>[note 9]</i>	5.1	2.9
Deferred conservation credit <i>[note 3[b]]</i>	18.1	-
Other liabilities <i>[note 21]</i>	3.1	2.6
Total current liabilities	861.1	870.8
Debentures <i>[note 10]</i>	1,884.9	1,641.3
Customer deposits	8.2	4.7
Deferred revenue <i>[note 9]</i>	90.8	71.4
Post-employment benefits <i>[note 11]</i>	293.8	287.4
Other liabilities <i>[note 21]</i>	6.1	9.2
Total liabilities	3,144.9	2,884.8
Commitments, contingencies and subsequent events <i>[notes 2, 21 and 22]</i>		
Equity		
Share capital <i>[note 14]</i>	567.8	567.8
Retained earnings	705.1	702.7
Total equity	1,272.9	1,270.5
Total liabilities and equity	4,417.8	4,155.3
Regulatory balances <i>[note 7]</i>	181.5	173.0
Total liabilities, equity and regulatory balances	4,599.3	4,328.3

See accompanying notes to the condensed interim consolidated financial statements.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF INCOME

[in millions of Canadian dollars, unaudited]

	Three months ended September 30,		Nine months ended September 30,	
	2015 \$	2014 \$	2015 \$	2014 \$
		[note 23]		[note 23]
Revenues				
Energy sales	818.1	648.9	2,216.9	1,943.3
Distribution revenue	144.4	145.9	424.1	423.2
Other [note 15]	15.1	13.6	43.6	41.5
	977.6	808.4	2,684.6	2,408.0
Expenses				
Energy purchases	775.2	668.1	2,190.1	1,997.3
Operating expenses [note 16]	67.5	63.2	203.0	198.8
Depreciation and amortization [notes 5 and 6]	48.9	44.9	134.6	124.7
	891.6	776.2	2,527.7	2,320.8
Finance costs [note 17]	18.1	15.3	52.7	45.1
Gain on disposals of property, plant and equipment	-	1.5	6.4	1.5
Income before income taxes	67.9	18.4	110.6	43.6
Income tax expense [note 18]	5.1	6.9	16.0	18.1
Net income for the period	62.8	11.5	94.6	25.5
Net movements in regulatory balances, net of tax [note 7]	(42.8)	23.6	(42.2)	62.4
Net income after net movements in regulatory balances	20.0	35.1	52.4	87.9

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

[in millions of Canadian dollars, unaudited]

	Three months ended September 30,		Nine months ended September 30,	
	2015 \$	2014 \$	2015 \$	2014 \$
		[note 23]		[note 23]
Net income after net movements in regulatory balances	20.0	35.1	52.4	87.9
Other comprehensive income				
Items that will not be reclassified to income or loss				
Remeasurements of post-employment benefits, net of tax	-	-	-	-
Net movements in regulatory balances related to OCI, net of tax	-	-	-	-
Other comprehensive income, net of tax	-	-	-	-
Total comprehensive income	20.0	35.1	52.4	87.9

See accompanying notes to the condensed interim consolidated financial statements.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

[in millions of Canadian dollars, unaudited]

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2015	2014	2015	2014
	\$	\$	\$	\$
Share capital <i>[note 14]</i>	567.8	<i>[note 23]</i> 567.8	567.8	<i>[note 23]</i> 567.8
Retained earnings, beginning of period	691.3	656.3	702.7	651.6
Net income after net movements in regulatory balances	20.0	35.1	52.4	87.9
Dividends <i>[notes 14 and 20]</i>	(6.2)	(6.3)	(50.0)	(54.4)
Retained earnings, end of period	705.1	685.1	705.1	685.1
Total equity	1,272.9	1,252.9	1,272.9	1,252.9

See accompanying notes to the condensed interim consolidated financial statements.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

[in millions of Canadian dollars, unaudited]

	Three months ended September 30,		Nine months ended September 30,	
	2015 \$	2014 \$	2015 \$	2014 \$
		[note 23]		[note 23]
OPERATING ACTIVITIES				
Net income after net movements in regulatory balances	20.0	35.1	52.4	87.9
Adjustments				
Depreciation and amortization [notes 5 and 6]	48.9	44.9	134.6	124.7
Amortization of deferred revenue [note 9]	(0.6)	(0.1)	(1.4)	(0.3)
Finance costs	18.1	15.3	52.7	45.1
Income tax expense	5.1	6.9	16.0	18.1
Post-employment benefits	2.2	2.2	6.4	3.6
Gain on disposals of property, plant and equipment	-	(1.5)	(6.4)	(1.5)
Other	0.3	1.2	0.6	0.4
Capital contributions received [note 9]	5.5	6.3	21.6	20.8
Net change in other non-current assets and liabilities	(0.1)	-	(1.8)	(7.8)
Increase (decrease) in customer deposits	1.3	-	2.0	(2.2)
Changes in non-cash working capital balances [note 19]	(2.0)	(16.9)	(8.9)	27.7
Income taxes paid	(1.6)	(3.4)	(6.3)	(8.0)
Net movements in regulatory balances [note 7]	42.8	(23.6)	42.2	(62.4)
Net cash provided by operating activities	139.9	66.4	303.7	246.1
INVESTING ACTIVITIES				
Purchase of property, plant and equipment [note 19]	(146.4)	(138.2)	(422.4)	(371.9)
Purchase of intangible assets [note 19]	(2.5)	(15.8)	(11.9)	(31.4)
Proceeds on disposals of property, plant and equipment	-	1.0	10.4	1.8
Net cash used in investing activities	(148.9)	(153.0)	(423.9)	(401.5)
FINANCING ACTIVITIES				
Increase (decrease) in commercial paper [note 8]	(4.0)	(110.0)	(17.0)	56.0
Dividends paid [notes 14 and 20]	(6.2)	(6.3)	(50.0)	(54.4)
Proceeds from debentures [note 10]	45.2	199.9	244.9	199.9
Debt issuance costs paid [note 10]	(0.5)	(1.6)	(1.9)	(1.6)
Repayment of finance lease liability	(0.7)	(0.5)	(2.2)	(1.6)
Interest paid	(7.8)	(1.4)	(44.7)	(33.8)
Net cash provided by financing activities	26.0	80.1	129.1	164.5
Net increase (decrease) in cash and cash equivalents (working capital facility) during the period	17.0	(6.5)	8.9	9.1
Working capital facility, beginning of period	(14.2)	(3.5)	(6.1)	(19.1)
Cash and cash equivalents (working capital facility), end of period	2.8	(10.0)	2.8	(10.0)

See accompanying notes to the condensed interim consolidated financial statements.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2015 and 2014

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

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 is a holding company which wholly owns two subsidiaries also incorporated under the *Business Corporations Act* (Ontario):

- [i] LDC (incorporated June 23, 1999) – distributes electricity to customers located in the City. Electricity distribution is the principal business of the Corporation, and is subject to rate regulation. LDC is also engaged in the delivery of CDM activities; and
- [ii] TH Energy (incorporated June 23, 1999) – provides street lighting services.

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

2. BASIS OF PRESENTATION

The Corporation's unaudited condensed interim consolidated financial statements ["Interim Financial Statements"] have been prepared in accordance with IAS 34 *Interim Financial Reporting* and IFRS 1 *First-time Adoption of IFRS* ["IFRS 1"], and applying the accounting policies that the Corporation expects to adopt in its first annual consolidated financial statements under IFRS as at and for the year ended December 31, 2015. The accounting policies are disclosed in note 4 of the Corporation's first IFRS Interim Financial Statements for the three months ended March 31, 2015 and 2014 and have been applied consistently in the preparation of these Interim Financial Statements. These Interim Financial Statements should be read in conjunction with the Corporation's annual consolidated financial statements for the year ended December 31, 2014 prepared in accordance with US GAAP, and IFRS transitional disclosures and selected annual disclosures included in notes 23 and 24 of the Corporation's first IFRS Interim Financial Statements for the three months ended March 31, 2015 and 2014.

The Corporation's date of transition to IFRS and its opening IFRS balance sheet is as at January 1, 2014 [the "transition date"].

The accounting policies applied in these Interim Financial Statements are based on IFRS issued and outstanding as of November 26, 2015, the date the Corporation's Board of Directors authorized the issuance of the Interim Financial Statements. Any subsequent changes to IFRS that are given effect in the Corporation's annual consolidated financial statements for the year ended December 31, 2015 could result in restatement of these Interim Financial Statements, including the adjustments recognized on transition to IFRS.

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

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

The Corporation has evaluated the events and transactions occurring after the condensed interim consolidated balance sheet date through November 26, 2015, when the Corporation's Interim Financial Statements were authorized for issue by the Corporation's Board of Directors, and identified the events and transactions which

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2015 and 2014

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

required recognition in the Interim Financial Statements and/or disclosure in the notes to the Interim Financial Statements [notes 3 and 14].

3. REGULATION

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

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

- *Commodity Charge* – The commodity charge represents the market price of electricity consumed by customers and is passed through the IESO to operators of generating stations. It includes the global adjustment, which represents the difference between the market price of electricity and the rates paid to regulated and contracted generators.
- *Retail Transmission Rate* – The retail transmission rate represents the costs incurred in respect of the transmission of electricity from generating stations to local distribution networks. Retail transmission rates are passed through to operators of transmission facilities.
- *WMS Charge* – The WMS charge represents various wholesale market support costs, such as the cost of the IESO to administer the wholesale electricity system, operate the electricity market, and maintain reliable operation of the provincial grid. Wholesale charges are passed through to the IESO.
- *Distribution Rate* – The distribution rate is designed to recover the costs incurred by LDC in delivering electricity to customers, including the OEB-allowed cost of capital. Distribution rates are regulated by the OEB and include fixed and variable (usage-based) components, based on a forecast of LDC's customers and load.

a) *Electricity Distribution Rates*

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

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

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

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2015 and 2014

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

On July 31, 2014, LDC filed a rate application with the OEB under the CIR-setting mechanism, seeking approval of LDC's 2015 test year revenue requirement and corresponding electricity distribution rates effective May 1, 2015, and subsequent annual rate adjustments based on a custom index for the period commencing on January 1, 2016 and ending on December 31, 2019. The rate application included requests for approval of capital expenditures of approximately \$2.5 billion over the 2015-2019 period. The rate application also sought approval to include in LDC's rate base capital amounts that were prudently incurred prior to 2015, subject to review by the OEB. In addition, LDC sought approval to recover the net book value of stranded meters [note 7[d]]. LDC's revenue over the period will be based on the existing rate base, capital expenditures and operating expenses ultimately approved by the OEB in the rate application plus cost of capital allowed by the OEB.

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

On April 28, 2015, the OEB declared LDC's existing rates as interim rates, effective May 1, 2015, pending a final CIR decision and rate order. LDC will reconcile, at a later date, any variance between the interim rates and the approved rates over the interim period between May 1, 2015 and the effective date of the OEB decision. The current application is subject to an in-depth review by the OEB and there can be no assurance that the OEB will allow for the amount of electricity distribution rates requested by LDC. The financial effect of the OEB decision will be reflected in the period it becomes known and could be material to the Corporation's financial performance.

b) CDM Activities

The IESO and the OPA were merged under the name IESO starting on January 1, 2015. The IESO supports CDM plans during their design and throughout their entire lifespan, including the sharing of best practices, offering of program delivery services, and the building of awareness in the marketplace through marketing and communication. The IESO provides centralized customer service and technical support, market research, program evaluation and measurement, and training.

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

Effective January 1, 2011, LDC entered into an agreement with the OPA in the amount of approximately \$50.0 million to deliver CDM programs extending from January 1, 2011 to December 31, 2014 to support achievement of the mandatory CDM targets described above. LDC applied to the OPA in March 2014 to revise the program administration budget to \$45.8 million for the delivery of CDM programs from 2011 to 2014. All programs delivered are fully funded and paid in advance by the OPA. Amounts received but not yet spent are presented under current liabilities as deferred conservation credit. Upon the expiration of the agreement, LDC is required to repay to the OPA any excess funding received for program administration less any cost efficiency incentives. As at December 31, 2014, LDC estimated that approximately \$5.7 million qualified as cost efficiency incentives, and approximately \$4.9 million was repayable to the OPA for the remaining program administration budget, included within accounts payable and accrued liabilities. On May 8, 2015, the IESO confirmed both the cost efficiency

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incentives of \$5.7 million and the amount payable by LDC of \$4.9 million plus applicable taxes, which was paid in July 2015.

On December 21, 2012, the Minister of Energy of Ontario issued a direction to the OPA under subsection 25.32(4.1) of the Electricity Act to extend the funding time period for OPA-contracted province-wide CDM initiatives under the Green Energy Act framework to December 31, 2015. Funding and respective targets for CDM programs approved pursuant to the 2011-2014 OPA agreement with in-service dates in 2015 will be allocated toward the 2011-2014 program. On March 18, 2015, LDC received approval from the IESO for separate funding of \$11.2 million relating to these transitional CDM programs for 2015. Funding was fully received as at September 30, 2015.

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

On November 13, 2014, LDC entered into an energy conservation agreement with the OPA for the delivery of these CDM programs over the 2015-2020 period with funding of approximately \$400.0 million, which includes participant incentives and LDC's program administration costs. LDC provided to the IESO its plan for achieving its CDM target and received conditional approval as of March 26, 2015. LDC also has the option to submit a joint CDM plan with one or more distribution companies.

On April 30, 2015, LDC submitted a joint CDM plan with Oakville Hydro Electricity Distribution Inc. to replace LDC's previous CDM plan for the delivery of CDM programs over the 2015-2020 period, and received approval from the IESO, with combined funding of approximately \$425.0 million and an energy savings target of approximately 1,668 GWh. The programs under the joint CDM plan for Oakville Hydro Electricity Distribution Inc. are expected to start on January 1, 2016. LDC received \$15.4 million as at September 30, 2015 and approximately \$1.0 million subsequent to September 30, 2015 from the IESO for the delivery of CDM programs under the energy conservation agreement. Amounts received but not yet spent are presented under current liabilities as deferred conservation credit.

LDC can choose between full cost recovery funding, pay-for-performance funding, or a combination of both, on a CDM program by program basis. Under the full cost recovery funding method, the IESO reimburses LDC for all adequately documented costs incurred, with an option to receive a portion of its funding in advance. Cost efficiency incentives may be awarded if LDC's electricity savings meet or exceed certain CDM plan targets for programs under the full cost recovery funding method, with a mid-term review to be performed by the IESO for the 2015-2017 period. Under the pay-for-performance funding method, LDC receives payment in arrears based on verified electricity savings achieved with various options for frequency of payment. The majority of the programs under the joint CDM plan are under the full cost recovery funding method.

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4. 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 Deferral Accounts* ["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 will remain in force until either repealed or replaced by permanent guidance on rate-regulated accounting from the IASB. The standard is effective for annual periods beginning on or after January 1, 2016. Early adoption is permitted. The Corporation has elected to early adopt IFRS 14.

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 and the accounting principles prescribed by the OEB in the "Accounting Procedures Handbook for Electricity Distributors". 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 judged to be probable. In the event that the disposition of these balances are assessed to no longer be probable based on management's judgment, the balances will be recorded in the Corporation's consolidated statements of income in the period when the assessment is made. Regulatory balances that do not meet the definition of an asset or liability under any other IFRS are segregated on the consolidated balance sheets, on the consolidated statements of income as net movements in regulatory balances, net of tax, and on the consolidated statements of comprehensive income as 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) Use of estimates

The preparation of the Corporation's Interim Financial Statements in accordance with IFRS requires management to make judgments, estimates and assumptions which affect the application of accounting policies, reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the Interim Financial Statements, and the reported amounts of revenues and expenses for the period. The estimates are based on historical experience, current conditions and various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities as well as for identifying and assessing the accounting treatment with respect to commitments and

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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.

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:

- Recognition and measurement of regulatory balances;
- Revenue recognition – measurement of unbilled revenue, determination of the CDM incentive;
- Determination of useful lives of depreciable assets;
- Measurement of post-employment benefits – key actuarial assumptions;
- Recognition of deferred tax assets – availability of future taxable income against which deductible temporary differences and tax loss carryforwards can be used; and
- Recognition and measurement of provisions and contingencies.

d) Future Accounting Pronouncements

A number of new standards, amendments and interpretations are not yet effective for the year ended December 31, 2015, and have not yet been applied in preparing these Interim Financial Statements. The Corporation continues to analyze these standards and has determined that the following could have an impact on its consolidated financial statements.

Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15 *Revenue from Contracts with Customers* [“IFRS 15”], which replaces existing revenue recognition guidance including IAS 18 *Revenue* and IFRIC 18 *Transfers of Assets from Customers* [“IFRIC 18”]. IFRS 15 contains a single model that applies to contracts with customers with two approaches for recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether revenue should be recognized and the respective timing and amount. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. The new standard does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other IFRS. On July 22, 2015, the IASB confirmed a one-year deferral of the effective date of IFRS 15 to annual periods beginning on or after January 1, 2018. The Corporation is currently evaluating the impact of the new standard.

Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments* [“IFRS 9”], which replaces IAS 39 *Financial Instruments: Recognition and Measurement* [“IAS 39”]. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for measuring impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. The standard is effective for annual periods beginning on or after January 1, 2018, and will be applied retrospectively with some exceptions. The Corporation is currently evaluating the impact of the new standard.

Disclosure Initiative

In December 2014, the IASB issued Disclosure Initiative (Amendments to IAS 1 *Presentation of Financial Statements*). These amendments improve the existing presentation and disclosure requirements and encourage entities to apply professional judgment regarding disclosure and presentation in their financial statements. These

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amendments are effective for annual periods beginning on or after January 1, 2016. The Corporation expects these amendments will have no material impact on its consolidated financial statements.

5. PROPERTY, PLANT AND EQUIPMENT

PP&E consist of the following:

	Distribution assets \$	Land and buildings \$	Equipment and other \$	Construction in progress \$	Total \$
Cost or deemed cost					
Balance as at January 1, 2014	2,284.6	111.7	140.3	337.2	2,873.8
Additions	428.4	34.3	20.9	95.6	579.2
Disposals and retirements	(27.3)	(3.6)	(0.1)	—	(31.0)
Transfers to assets held for sale	—	(4.8)	—	—	(4.8)
Balance as at December 31, 2014	2,685.7	137.6	161.1	432.8	3,417.2
Additions	207.1	26.8	5.9	150.9	390.7
Disposals and retirements	(9.3)	(0.8)	—	—	(10.1)
Balance as at September 30, 2015	2,883.5	163.6	167.0	583.7	3,797.8
Accumulated depreciation					
Balance as at January 1, 2014	—	—	28.7	—	28.7
Depreciation	107.2	7.9	25.6	—	140.7
Disposals and retirements	(1.1)	(0.1)	(0.1)	—	(1.3)
Transfers to assets held for sale	—	(0.8)	—	—	(0.8)
Balance as at December 31, 2014	106.1	7.0	54.2	—	167.3
Depreciation	87.7	5.9	17.9	—	111.5
Disposals and retirements	(0.8)	—	—	—	(0.8)
Balance as at September 30, 2015	193.0	12.9	72.1	—	278.0
Carrying amount					
Balance as at December 31, 2014	2,579.6	130.6	106.9	432.8	3,249.9
Balance as at September 30, 2015	2,690.5	150.7	94.9	583.7	3,519.8

As at September 30, 2015, Equipment and other included assets under finance lease with cost of \$18.2 million [December 31, 2014 - \$18.2 million] and accumulated depreciation of \$5.5 million [December 31, 2014 - \$3.8 million]. For the three months and the nine months ended September 30, 2015, the Corporation recorded depreciation expense of \$0.6 million and \$1.7 million [three months and nine months ended September 30, 2014 - \$2.2 million and \$3.2 million] related to assets under finance lease.

For the three months and the nine months ended September 30, 2015, borrowing costs in the amount of \$1.7 million and \$4.8 million [three months and nine months ended September 30, 2014 - \$1.5 million and \$3.3 million] were capitalized to PP&E and credited to finance costs, with an average capitalization rate of 3.67% and 3.75% [three months and nine months ended September 30, 2014 - 3.72% and 3.85%].

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

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6. INTANGIBLE ASSETS

Intangible assets consist of the following:

	Computer software	Contributions	Software in development	Contributions for work in progress	Total
	\$	\$	\$	\$	\$
Cost or deemed cost					
Balance as at January 1, 2014	69.6	19.0	11.7	71.2	171.5
Additions	17.1	0.9	1.5	27.3	46.8
Balance as at December 31, 2014	86.7	19.9	13.2	98.5	218.3
Additions	3.7	—	3.7	4.5	11.9
Balance as at September 30, 2015	90.4	19.9	16.9	103.0	230.2
Accumulated amortization					
Balance as at January 1, 2014	—	—	—	—	—
Amortization	18.7	0.9	—	—	19.6
Balance as at December 31, 2014	18.7	0.9	—	—	19.6
Amortization	14.6	0.8	—	—	15.4
Balance as at September 30, 2015	33.3	1.7	—	—	35.0
Carrying amount					
Balance as at December 31, 2014	68.0	19.0	13.2	98.5	198.7
Balance as at September 30, 2015	57.1	18.2	16.9	103.0	195.2

For the three months and the nine months ended September 30, 2015, borrowing costs in the amount of \$1.0 million and \$2.9 million [three months and nine months ended September 30, 2014 - \$0.8 million and \$2.3 million] were capitalized to intangible assets and credited to finance costs, with an average capitalization rate of 3.67% and 3.75% [three months and nine months ended September 30, 2014 - 3.72% and 3.85%]. Software in development and contributions for work in progress additions are net of transfers to other intangible asset categories.

Computer software is externally acquired. The remaining amortization periods for computer software and contributions range from less than 1 to 7 years, and from 14 to 24 years, respectively.

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7. REGULATORY BALANCES

Debit balances consist of the following:

	January 1, 2015	Balances arising in the period	Recovery/ reversal	Other movements	September 30, 2015	Remaining recovery/ reversal period (years)
	\$	\$	\$	\$	\$	
Post-employment benefits	81.2	—	—	—	81.2	Note 1
Settlement variances	51.7	(26.3)	—	—	25.4	Note 2
IFRS transitional adjustments	24.2	—	—	—	24.2	4 ⁽³⁾
Smart meters	20.9	—	(9.0)	—	11.9	1.6
Stranded meters	14.4	—	—	—	14.4	5 ⁽³⁾
Other	4.7	1.6	—	—	6.3	1-5 ⁽³⁾
	197.1	(24.7)	(9.0)	—	163.4	

	January 1, 2014	Balances arising in the period	Recovery/ reversal	Other movements	December 31, 2014	Remaining recovery/ reversal period (years)
	\$	\$	\$	\$	\$	
Post-employment benefits	36.9	45.3	(1.0)	—	81.2	Note 1
Settlement variances	5.8	45.9	—	—	51.7	Note 2
IFRS transitional adjustments	0.9	23.3	—	—	24.2	4 ⁽³⁾
Smart meters	25.2	9.5	(13.8)	—	20.9	2
Stranded meters	16.9	—	(2.5)	—	14.4	5 ⁽³⁾
Other	2.6	2.5	(0.2)	(0.2)	4.7	1-5 ⁽³⁾
	88.3	126.5	(17.5)	(0.2)	197.1	

⁽¹⁾ LDC did not seek recovery in the current application to the OEB as changes in underlying assumptions may reduce the balance in the account. LDC expects that this regulatory balance will be recovered as per OEB direction when recovery is sought.

⁽²⁾ LDC expects to apply for disposition of these account balances at or before the rate order for 2016 distribution rates.

⁽³⁾ Disposition period is based on current application to the OEB, which has not yet been approved.

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Credit balances consist of the following:

	January 1, 2015	Balances arising in the period	Recovery/ reversal	Other movements	September 30, 2015	Remaining recovery/ reversal period (years)
	\$	\$	\$	\$	\$	
Deferred taxes	143.4	(7.9)	—	—	135.5	Note 1
Tax-related variances	25.3	1.1	—	—	26.4	1-3 ⁽²⁾
ICM	2.3	—	7.3	—	9.6	Note 4
Gain on disposal	—	8.0	—	—	8.0	1 ⁽³⁾
Other	2.0	—	—	—	2.0	1 ⁽³⁾
	173.0	1.2	7.3	—	181.5	

	January 1, 2014	Balances arising in the period	Recovery/ reversal	Other movements	December 31, 2014	Remaining recovery/ reversal period (years)
	\$	\$	\$	\$	\$	
Deferred taxes	132.0	11.4	—	—	143.4	Note 1
Tax-related variances	25.2	2.9	(2.8)	—	25.3	1-3 ⁽²⁾
ICM	6.0	(25.1)	21.4	—	2.3	Note 4
Other	1.8	0.2	0.2	(0.2)	2.0	1 ⁽³⁾
	165.0	(10.6)	18.8	(0.2)	173.0	

⁽¹⁾ LDC will not apply for disposition of the balance since it will be reversed through timing differences in the recognition of deferred tax assets.

⁽²⁾ LDC applied for disposition of the revision of prior year tax position account over three years and the income tax variance account over one year commencing on May 1, 2015 in the current application to the OEB, which has not yet been approved.

⁽³⁾ Disposition period is based on current application to the OEB, which has not yet been approved.

⁽⁴⁾ LDC intends to apply for disposition of the balance following the OEB process, for which timing is currently unknown.

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 collected through rate riders or transactions reversing an existing regulatory balance. The “Other movements” column consists of impairment (if the OEB disallowed certain amounts) and reclassification between the regulatory debit and credit balances. There was no impairment recorded for the nine months ended September 30, 2015 and year ended December 31, 2014.

Refer to Regulatory Developments and Electricity Consumption paragraphs in the Risk Management and Risk Factors section of the December 31, 2014 MD&A for a discussion of the risks and uncertainties that affect the future recovery of the regulatory balances.

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The regulatory balances of the Corporation consist of the following:

a) Post-Employment Benefits

This regulatory balance accumulates the actuarial gains and losses arising from changes in actuarial assumptions and experience adjustments. The balance arising during the year ended December 31, 2014 primarily related to the actuarial loss recorded for the year. As at September 30, 2015, the regulatory balance did not include carrying charges.

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. The settlement variances relate primarily to service charges, non-competitive electricity charges and the global adjustment. Accordingly, LDC has deferred the variances between the costs incurred and the related recoveries in accordance with the criteria set out in the accounting principles prescribed by the OEB. Carrying charges were added to the regulatory balance in accordance with the OEB's direction at a rate of 1.47% for the period from January 1, 2015 to March 31, 2015 and 1.10% for the period from April 1, 2015 to September 30, 2015 [January 1, 2014 – December 31, 2014 - 1.47%].

c) IFRS Transitional Adjustments

This regulatory balance relates to the differences arising from accounting policy changes for PP&E and intangible assets due to the transition from US GAAP to IFRS in 2014, primarily related to derecognition of assets and additional capitalized borrowing costs. As at September 30, 2015, the regulatory balance did not include carrying charges.

d) Smart Meters and Stranded Meters

These regulatory balances relate to the provincial government's decision to install smart meters throughout Ontario. As at September 30, 2015, the regulatory balances did not include carrying charges.

On January 16, 2014, the OEB approved LDC's request for incremental revenue and disposition of the smart meter regulatory balances [note 3[a]]. The OEB ruling on smart meters also permitted the recovery in principle of LDC's allowed cost of capital on smart meters since 2008, with a rate order issued to this effect. This allows LDC to recover the incremental revenue requirement associated with these assets for the period during which they remained outside of rate base. Accordingly, a new regulatory balance of \$25.2 million was recorded as at December 31, 2013 to reflect the future amount to be recovered through rates over a 36-month period commencing on May 1, 2014 and ending on April 30, 2017. LDC recognized \$9.5 million of smart meter incremental revenue within net movements in regulatory balances, net of tax during 2014. LDC recognized distribution revenue of \$9.0 million and \$13.8 million from the collection of OEB-approved rate riders for the nine months ended September 30, 2015 and the year ended December 31, 2014, respectively.

In addition, the net book value of stranded meters related to the deployment of smart meters was reclassified from PP&E to a new regulatory balance as at December 31, 2013. Depreciation expense on the stranded meters of \$2.5 million was recorded within net movements in regulatory balances, net of tax until the end of 2014. Included in the 2015-2019 rate application is the recovery of the forecasted net book value of the stranded meters as at December 31, 2014 [note 3[a]].

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e) Deferred Taxes

This regulatory credit balance relates to both deferred tax amounts reclassified under IFRS 14 [note 4[b]] and to the expected future electricity distribution rate reduction for customers arising from timing differences in the recognition of deferred tax assets. As at September 30, 2015, the regulatory balance did not include carrying charges.

The amounts reclassified under IFRS 14 include the deferred tax liability related to regulatory balances of \$34.3 million as at September 30, 2015 [December 31, 2014 - \$32.7 million], offset by the recognition of a regulatory balance in respect of additional temporary differences for which a deferred tax amount was recognized of \$36.4 million as at September 30, 2015 [December 31, 2014 - \$39.9 million].

The deferred tax amount related to the expected future electricity distribution rate reduction for customers was \$137.6 million as at September 30, 2015 [December 31, 2014 - \$150.6 million].

f) Tax-related Variance Accounts

This regulatory balance includes the revision of prior year tax positions based on reassessments received and in process and income tax variances resulting from legislative or regulatory changes.

The revision of prior year tax position regulatory balance related to changes to certain prior year tax positions based on reassessments received and in process, not reflected in electricity distribution rates charged to customers, in the amount of \$23.4 million as at September 30, 2015 [December 31, 2014 - \$22.3 million]. An amount of \$1.1 million and \$2.9 million was recorded to reflect new additions to the regulatory balance for the nine months ended September 30, 2015 and the year ended December 31, 2014, respectively. Carrying charges were added to the regulatory balance in accordance with the OEB's direction at a rate of 1.47% for the period from January 1, 2015 to March 31, 2015 and 1.10% for the period from April 1, 2015 to September 30, 2015 [January 1, 2014 - December 31, 2014 - 1.47%].

The income tax variance regulatory balance related to differences resulting from a legislative or regulatory change to the tax rates or rules assumed in applications for electricity distribution rates in the amount of \$3.0 million as at September 30, 2015 [December 31, 2014 - \$3.0 million]. These differences have been deferred by LDC in accordance with the criteria set out in the accounting principles prescribed by the OEB. Carrying charges were added to the regulatory balance in accordance with the OEB's direction at a rate of 1.47% for the period from January 1, 2015 to March 31, 2015 and 1.10% for the period from April 1, 2015 to September 30, 2015 [January 1, 2014 - December 31, 2014 - 1.47%].

On April 2, 2013, the OEB approved the disposition of \$7.1 million of PILs regulatory variance accounts, over an 11-month period commencing on June 1, 2013 and ending on April 30, 2014. For the year ended December 31, 2014, electricity distribution rates charged to customers were reduced by \$2.8 million.

g) Incremental Capital Module

This regulatory balance relates to the ICM application approved by the OEB and the associated rate riders, which became effective June 1, 2013 [note 3[a]]. This account included the amount collected through the ICM rate riders of \$7.3 million and \$21.4 million for the nine months ended September 30, 2015 and the year ended December 31, 2014, respectively, offset by the revenue recorded within net movements in regulatory balances, net of tax as it related to the eligible in-service capital expenditures of \$25.1 million for the year ended December 31, 2014. Carrying charges were added to the regulatory balance in accordance with the OEB's direction at a rate of 1.47% for the period from January 1, 2015 to March 31, 2015 and 1.10% for the period from April 1, 2015 to September 30, 2015 [January 1, 2014 - December 31, 2014 - 1.47%].

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h) Gain on Disposal

This regulatory balance relates to the realized gain of \$5.9 million and the future tax savings in connection with the disposal of a surplus property by LDC in the first quarter of 2015 under the facilities consolidation program. This balance is expected to reduce future electricity distribution rates for customers. As at September 30, 2015, the regulatory balance did not include carrying charges.

8. SHORT-TERM BORROWINGS

The Corporation is a party to a revolving credit facility expiring on October 10, 2020 [“Revolving Credit Facility”], pursuant to which it may borrow up to \$800.0 million, of which up to \$210.0 million was available in the form of letters of credit. On July 30, 2015, the borrowing capacity under the Revolving Credit Facility was increased by \$100.0 million from \$700.0 million to \$800.0 million and the expiry date extended by one year to October 10, 2020.

The Corporation has a commercial paper program allowing up to \$600.0 million of unsecured short-term promissory notes [“Commercial Paper Program”] to be issued in various maturities of no more than one year. On July 30, 2015, the amount the Corporation may issue under this program was increased by \$100.0 million from \$500.0 million to \$600.0 million. The Commercial Paper Program is supported by liquidity facilities available under the Revolving Credit Facility; hence, available borrowing under the Revolving Credit Facility is reduced by the amount of commercial paper outstanding at any point in time.

Additionally, the Corporation is a party to:

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

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

	Facility Limit	Revolving Credit Facility Borrowings	Commercial Paper Outstanding	Facility Availability
	\$	\$	\$	\$
September 30, 2015	800.0	—	291.0	509.0
December 31, 2014	700.0	—	308.0	392.0

For the three months and the nine months ended September 30, 2015, the average outstanding borrowings under the Corporation’s Revolving Credit Facility, Working Capital Facility and Commercial Paper Program were \$313.4 million and \$285.6 million [three months and nine months ended September 30, 2014 - \$325.9 million and \$245.0 million] with weighted average interest rates of 0.76% and 0.94% [three months and nine months ended September 30, 2014 - 1.18% and 1.18%].

As at September 30, 2015, no amount had been drawn under the Working Capital Facility [December 31, 2014 - \$6.1 million] and \$31.3 million of letters of credit had been issued against the Prudential Facility [December 31, 2014 - \$29.7 million].



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9. DEFERRED REVENUE

Deferred revenue consists of capital contributions received from electricity customers to construct or acquire PP&E, which has not yet been recognized into other revenue, and revenue not yet recognized from demand billable activities.

	September 30 2015 \$	December 31 2014 \$
Capital contributions	92.9	72.6
Other	3.0	1.7
Total deferred revenue	95.9	74.3
Less: Current portion of deferred revenue relating to:		
Capital contributions	(2.2)	(1.2)
Other	(2.9)	(1.7)
Non-current portion of deferred revenue	90.8	71.4

The reconciliation between the opening and closing capital contribution balances is as follows:

	September 30 2015 \$	December 31 2014 \$
Balance, beginning of period	72.6	45.7
Receipt of capital contributions	21.6	28.2
Amortization	(1.4)	(0.7)
Other	0.1	(0.6)
Balance, end of period	92.9	72.6

10. DEBENTURES

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

On March 16, 2015, the Corporation issued \$200.0 million of 3.55% senior unsecured debentures at a price of \$998.37 per \$1,000 principal amount due July 28, 2045 ["Series 11"]. The Series 11 debentures bear interest payable semi-annually in arrears and contain covenants which, subject to certain exceptions, restrict the ability of the Corporation and LDC to create security interests, incur additional indebtedness or dispose of all or substantially all of their assets. The Corporation may redeem all or part of the Series 11 debentures 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 to the date fixed for redemption. The net proceeds of the debentures were used to repay certain existing indebtedness of the Corporation and for general corporate purposes. Debt issuance costs of \$1.4 million relating to the Series 11 debentures were recorded against the carrying amount of the debentures in the first quarter of 2015 and are amortized to finance costs using the effective interest method.

On September 2, 2015, the Corporation re-opened its Series 9 offering and issued an additional \$45.0 million of 3.96% senior unsecured debentures at a price of \$1,004.68 per \$1,000 principal amount due April 9, 2063, carrying

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the same terms and conditions as the original issuance. The Series 9 debentures bear interest payable semi-annually in arrears and contain covenants which, subject to certain exceptions, restrict the ability of the Corporation and LDC to create security interests, incur additional indebtedness or dispose of all or substantially all of their assets. The Corporation may redeem all or part of the Series 9 debentures 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 to the date fixed for redemption. The net proceeds of the debentures were used to repay certain existing indebtedness of the Corporation and for general corporate purposes. Debt issuance costs of \$0.5 million relating to the re-opening of the Series 9 debentures were recorded against the carrying amount of the debentures in the third quarter of 2015 and are amortized to finance costs using the effective interest method.

The Corporation may issue up to \$755.0 million of additional debentures under the existing base shelf prospectus.

11. EMPLOYEE FUTURE BENEFITS

a) Pension

The Corporation's eligible employees participate in a pension plan through OMERS. For the three months and the nine months ended September 30, 2015, the Corporation's contributions to the plan were \$4.4 million and \$13.2 million [three months and nine months ended September 30, 2014 - \$4.4 million and \$13.8 million].

b) Post-employment benefits other than pension

The components of benefit cost are:

	Three months ended September 30		Nine months ended September 30	
	2015 \$	2014 \$	2015 \$	2014 \$
Current service cost	1.5	1.3	4.5	4.0
Interest cost	2.9	2.8	8.7	8.4
Benefit cost	4.4	4.1	13.2	12.4
Capitalized to PP&E and intangible assets	1.9	1.7	5.4	4.7
Charged to statement of income	2.5	2.4	7.8	7.7

12. 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, investments 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.

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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 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 September 30, 2015, the Corporation's definition of capital included borrowings under its Working Capital Facility, Commercial Paper Program and Revolving Credit Facility, long-term debt and obligations under finance leases, including the current portion thereof, and equity, and had remained unchanged from December 31, 2014. As at September 30, 2015, equity amounted to \$1,272.9 million [December 31, 2014 - \$1,270.5 million], and borrowings under its Working Capital Facility, Commercial Paper Program and Revolving Credit Facility, and long-term debt and obligations under finance leases, including the current portion thereof, amounted to \$2,184.3 million [December 31, 2014 - \$1,964.8 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. The Corporation's Revolving Credit Facility limits the debt to capitalization ratio to a maximum of 75%.

The Corporation's debt agreements also include negative covenants such as limitations on designated subsidiary indebtedness and restrictions on mergers and dispositions of designated subsidiaries. As at September 30, 2015 and December 31, 2014, the Corporation was in compliance with all covenants included in its trust indenture, supplemental trust indentures and Revolving Credit Facility agreement.

13. FINANCIAL INSTRUMENTS

a) Recognition and measurement

As at September 30, 2015 and December 31, 2014, the fair values of cash and cash equivalents, accounts receivable, unbilled revenue, Working Capital Facility, commercial paper, and accounts payable and accrued liabilities approximated their carrying values due to the short maturity of these instruments. The fair values of customer deposits approximate their carrying values taking into account interest accrued on the outstanding balance. Obligations under finance leases are measured based on a discounted cash flow analysis and approximate the carrying value as management believes that the fixed interest rates are representative of current market rates.

The fair values of the debentures are based on the present value of contractual cash flows, discounted at the Corporation's current borrowing rate for similar debt instruments, and are included in Level 2 of the fair value hierarchy. As at September 30, 2015, the total fair value of the Corporation's debentures (including the current portion) was determined to be approximately \$2,009.6 million [December 31, 2014 - \$1,792.0 million], with a total carrying value of \$1,884.9 million [December 31, 2014 - \$1,641.3 million].

b) Financial Risks

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

Credit risk

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



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The Corporation's credit risk associated with accounts receivable is primarily related to electricity bill payments from LDC customers. As at September 30, 2015, LDC had approximately 752,000 customers. LDC obtains security instruments from certain customers in accordance with direction provided by the OEB. As at September 30, 2015, LDC held security deposits in the amount of \$45.2 million [December 31, 2014 - \$43.2 million], of which \$23.7 million [December 31, 2014 - \$19.8 million] were related to security deposits on Offers to Connect to guarantee the payment of additional costs related to expansion projects. As at September 30, 2015, there were no significant concentrations of credit risk with respect to any customer. The credit risk and mitigation strategies with respect to unbilled receivable are the same as for accounts receivable.

The Corporation did not have any single customer that generated more than 10% of total consolidated revenue for the nine months ended September 30, 2015 and September 30, 2014.

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

	September 30 2015 \$	December 31 2014 \$
Unbilled revenue	318.2	307.5
Accounts receivable		
Outstanding for not more than 30 days	211.1	180.7
Outstanding for more than 30 days and not more than 120 days	27.1	23.4
Outstanding for more than 120 days	12.2	14.7
Less: Allowance for doubtful accounts	(11.0)	(11.9)
Total accounts receivable	239.4	206.9
Total accounts receivable and unbilled revenue	557.6	514.4

Unbilled revenue represents amounts for which the Corporation has a contractual right to receive cash through future billings and are unbilled at period-end. Unbilled revenue is considered current and no allowance for doubtful accounts was provided as at September 30, 2015 and December 31, 2014.

Interest rate risk

The Corporation is exposed to short-term interest rate risk on the net of cash and cash equivalents, short-term borrowings under its Revolving Credit Facility, Working Capital Facility and Commercial Paper Program [note 8] and 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 September 30, 2015, aside from the valuation of its post-employment benefit obligations, the Corporation was exposed to interest rate risk predominately from short-term borrowings under its Commercial Paper Program and customer deposits, while most of its remaining obligations were either non-interest bearing or bear fixed interest rates, and its financial assets were predominately short-term in nature and mostly non-interest bearing. The Corporation estimates that a 100 basis point increase (decrease) in short-term interest rates, with all other variables held constant, would result in an increase (decrease) of approximately \$3.3 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

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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.

Liquidity risks associated with financial commitments are as follows:

September 30, 2015						
	Due within 1 year	Due within 2 years	Due within 3 years	Due within 4 years	Due within 5 years	Due after 5 years
	\$	\$	\$	\$	\$	\$
Commercial paper ⁽¹⁾	291.0	—	—	—	—	—
Accounts payable and accrued liabilities ⁽²⁾	480.0	—	—	—	—	—
Obligations under finance leases	3.4	3.2	2.4	—	—	—
Senior unsecured debentures						
Series 2 – 5.15% due November 14, 2017	—	—	250.0	—	—	—
Series 3 – 4.49% due November 12, 2019	—	—	—	—	250.0	—
Series 6 – 5.54% due May 21, 2040	—	—	—	—	—	200.0
Series 7 – 3.54% due November 18, 2021	—	—	—	—	—	300.0
Series 8 – 2.91% due April 10, 2023	—	—	—	—	—	250.0
Series 9 – 3.96% due April 9, 2063 ⁽³⁾	—	—	—	—	—	245.0
Series 10 – 4.08% due September 16, 2044	—	—	—	—	—	200.0
Series 11 – 3.55% due July 28, 2045	—	—	—	—	—	200.0
Interest payments on debentures	78.0	78.0	71.6	65.2	59.5	1,050.0
	852.4	81.2	324.0	65.2	309.5	2,445.0

⁽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 \$26.8 million of accrued interest on debentures included within "Interest payments on debentures".

⁽³⁾ Re-opened on September 2, 2015 for an additional issuance of \$45.0 million [note 10].

Foreign exchange risk

As at September 30, 2015, the Corporation had limited exposure to the changing values of foreign currencies. While the Corporation purchases goods and services which are payable in US dollars, and purchases US currency to meet the related commitments when required, the impact of these transactions is not material to the Interim Financial Statements.



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14. SHARE CAPITAL

Share capital consists of the following:

	September 30 2015 \$	December 31 2014 \$
Authorized The authorized share capital of the Corporation consists of an unlimited number of common shares without par value.		
Issued and outstanding 1,000 common shares, of which all were fully paid.	567.8	567.8

Dividends

On March 5, 2015, the Board of Directors of the Corporation declared dividends in the amount of \$37.5 million. The dividends consisted of \$31.25 million with respect to net income under US GAAP for the year ended December 31, 2014, paid to the City on March 13, 2015, and \$6.25 million with respect to the first quarter of 2015, paid to the City on March 31, 2015.

On May 14, 2015, the Board of Directors of the Corporation declared a dividend in the amount of \$6.25 million with respect to the second quarter of 2015, paid to the City on June 30, 2015.

On August 20, 2015, the Board of Directors of the Corporation declared a dividend in the amount of \$6.25 million with respect to the third quarter of 2015, paid to the City on September 30, 2015.

On November 26, 2015, the Board of Directors of the Corporation declared a dividend in the amount of \$6.25 million with respect to the fourth quarter of 2015. The dividend is payable on December 31, 2015.

15. OTHER REVENUE

Other revenue consists of the following:

	Three months ended September 30		Nine months ended September 30	
	2015 \$	2014 \$	2015 \$	2014 \$
City street lighting service fee	4.0	4.0	12.2	12.0
Other regulatory service charges	3.5	3.5	10.2	10.0
Ancillary services revenue	2.5	2.7	8.0	6.1
Pole and duct rentals	3.0	2.3	7.7	6.9
Amortization of deferred revenue	0.6	0.1	1.4	0.3
Miscellaneous	1.5	1.0	4.1	6.2
	15.1	13.6	43.6	41.5

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16. OPERATING EXPENSES

Operating expenses consist of the following:

	Three months ended September 30		Nine months ended September 30	
	2015 \$	2014 \$	2015 \$	2014 \$
Salaries and benefits	54.5	54.7	171.1	173.0
External services	27.2	23.1	76.5	64.8
Materials and supplies	4.0	3.4	12.2	12.9
Other support costs ⁽¹⁾	9.0	8.8	25.9	26.8
Less: capitalized costs	(27.2)	(26.8)	(82.7)	(78.7)
	67.5	63.2	203.0	198.8

⁽¹⁾ Includes taxes other than income taxes, utilities, rental, communication, insurance, and other general and administrative expenses.

17. FINANCE COSTS

Finance costs consist of the following:

	Three months ended September 30		Nine months ended September 30	
	2015 \$	2014 \$	2015 \$	2014 \$
Interest income	—	(0.1)	(0.1)	(0.1)
Interest expense				
Interest on long-term debt ⁽¹⁾	19.4	15.7	56.4	46.5
Other interest	1.4	2.0	4.1	4.3
Capitalized borrowing costs	(2.7)	(2.3)	(7.7)	(5.6)
	18.1	15.3	52.7	45.1

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

18. INCOME TAXES

The Corporation's effective tax rate after net movements in regulatory balances for the three months and the nine months ended September 30, 2015 was 13.2% and 13.3% [three months and nine months ended September 30, 2014 – 9.6% and 10.3%]. The effective tax rate for the three months and the nine months ended September 30, 2015 was higher than the three months and the nine months ended September 30, 2014 primarily due to changes in permanent and temporary differences between accounting and tax treatments.



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19. CONSOLIDATED STATEMENTS OF CASH FLOWS

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

	Three months ended September 30		Nine months ended September 30	
	2015 \$	2014 \$	2015 \$	2014 \$
Accounts receivable	(2.7)	(35.0)	(32.5)	(20.6)
Unbilled revenue	(39.2)	24.1	(10.7)	46.9
Income tax receivable	0.7	0.1	(3.6)	(1.6)
Materials and supplies	(0.5)	0.2	(1.2)	0.3
Other current assets	3.8	(0.8)	(1.7)	(1.3)
Accounts payable and accrued liabilities	18.1	(1.6)	20.0	5.9
Deferred conservation credit	18.0	(3.8)	18.1	(6.5)
Deferred revenue	(0.4)	(0.2)	2.2	4.4
Other current liabilities	0.2	0.1	0.5	0.2
	(2.0)	(16.9)	(8.9)	27.7

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

	Three months ended September 30		Nine months ended September 30	
	2015 \$	2014 \$	2015 \$	2014 \$
Purchase of PP&E, cash basis	146.4	138.2	422.4	371.9
Net change in accruals related to PP&E	(7.2)	26.6	(33.1)	28.8
Other	0.2	2.6	1.4	3.9
Total additions to PP&E	139.4	167.4	390.7	404.6
Purchase of intangible assets, cash basis	2.5	15.8	11.9	31.4
Total additions to PP&E and intangible assets	141.9	183.2	402.6	436.0

20. RELATED PARTY TRANSACTIONS

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

Revenues include amounts charged to the City primarily for electricity, street lighting and ancillary services. Operating expenses and capital expenditures include amounts charged by the City for purchased road cut repairs, property taxes and other services. Dividends are paid to the City [note 14].

Accounts receivable includes receivables from the City primarily for electricity, street lighting and ancillary services. Unbilled revenue includes receivables from the City related mainly to electricity provided and not yet billed. Accounts payable and accrued liabilities include amounts payable to the City related to road cut repairs and

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other services. Deferred revenue includes amounts received from the City for the construction of electricity distribution assets. Customer deposits include amounts received from the City for future expansion projects.

21. COMMITMENTS

Operating leases and capital projects

As at September 30, 2015, the future minimum payments under property operating leases, capital projects and other commitments were as follows:

	Operating leases \$	Capital projects ⁽⁵⁾ and other \$
Less than one year ⁽¹⁾	1.6	29.4
Between one and five years ⁽²⁾	9.6	28.7
More than five years ⁽³⁾	1.4	—
Total amount of future minimum payments ⁽⁴⁾	12.6	58.1

⁽¹⁾ Represents the balance due over the period from October 1, 2015 to December 31, 2015.

⁽²⁾ Represents the balance due over the period from January 1, 2016 to December 31, 2019.

⁽³⁾ Represents the balance due from January 1, 2020 and beyond.

⁽⁴⁾ Refer to note 13 for future cash outflows excluded from the table above.

⁽⁵⁾ Reflects capital project commitments for construction services and estimated capital contributions, with the majority related to Copeland Station.

Finance leases

As at September 30, 2015 and December 31, 2014, reconciliation between the future minimum lease payments and their present value was as follows:

	September 30 2015 \$			December 31 2014 \$		
	Future minimum lease payments	Interest	Present value of minimum lease payments	Future minimum lease payments	Interest	Present value of minimum lease payments
Less than one year	3.4	0.3	3.1	3.0	0.4	2.6
Between one and five years	5.6	0.3	5.3	7.2	0.4	6.8
More than five years	—	—	—	—	—	—
	9.0	0.6	8.4	10.2	0.8	9.4
Less: Current portion included in Other liabilities			3.1			2.6
Non-current portion included in Other liabilities			5.3			6.8

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22. CONTINGENCIES

Legal Proceedings

In the ordinary course of business, the Corporation is subject to various legal actions and claims from customers, suppliers, former employees and other parties. On an ongoing basis, the Corporation assesses the likelihood of any adverse judgments or outcomes as well as potential ranges of probable costs and losses. A determination of the provision required, if any, for these contingencies is made after an analysis of each individual issue. The provision may change in the future due to new developments in each matter or changes in approach, such as a change in settlement strategy. If damages were awarded under these actions, the Corporation and its subsidiaries would make a claim under any applicable liability insurance policies which the Corporation believes would cover any damages which may become payable by the Corporation and its subsidiaries in connection with these actions, subject to such claim not being disputed by the insurer. There have been no material changes in legal proceedings as disclosed in note 22 to the Corporation's annual consolidated financial statements for the year ended December 31, 2014.

23. IFRS TRANSITION

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

IFRS 1 sets out the transitional requirements that the Corporation must apply in preparing its first IFRS financial statements. The accounting policies set out in notes 2 and 4 have been applied in preparing the Interim Financial Statements as at and for the three months and the nine months ended September 30, 2015, the comparative information as at and for the three months and the nine months ended September 30, 2014, as at and for the year ended December 31, 2014, and the opening IFRS consolidated balance sheet as at January 1, 2014, the Corporation's date of transition to IFRS. All comparative figures for 2014 that were previously reported in accordance with US GAAP are now reported in accordance with IFRS. An explanation of the significant transitional adjustments made by the Corporation as a result of the transition from US GAAP to IFRS on the Corporation's financial position, financial performance and cash flows is set out in the following tables and accompanying notes. An explanation of the transition from US GAAP to IFRS on January 1, 2014 and as at and for the year ended December 31, 2014 is included in note 23 of the Corporation's first IFRS Interim Financial Statements for the three months ended March 31, 2015 and 2014.

IFRS 1 requires retrospective application of IFRS in place as at the reporting date. However, IFRS 1 contains certain mandatory exceptions and optional exemptions from the general requirement for retrospective application. The Corporation has applied the following mandatory exceptions and optional exemptions in the opening IFRS consolidated balance sheet:

Mandatory exceptions

IFRS 1 states that estimates made in accordance with IFRS at the date of transition should be consistent with estimates made under previous GAAP. Accordingly, estimates previously made under US GAAP were not revised at the date of transition except where necessary to reflect changes in accounting policies.

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Optional exemptions

a) Rate-regulated deemed cost

Entities with operations subject to rate regulation may hold items of PP&E or intangible assets where the carrying amount of such items might include amounts that were determined under previous GAAP but do not qualify for capitalization under IFRS. In such cases, a first-time adopter may deem the previous GAAP carrying amount of such items at the date of transition as the new IFRS cost basis. Under US GAAP, the carrying amount of the Corporation's PP&E and intangible assets used in rate-regulated activities was based on historical cost but included certain amounts that would not qualify for capitalization under IFRS.

The Corporation qualifies for the IFRS 1 exemption as LDC is subject to rate regulation. Accordingly, the Corporation elected to use the deemed cost exemption for LDC's PP&E and intangible assets, except for construction in progress items for which capital contributions were received. The accumulated depreciation recognized under US GAAP prior to the transition date was included as part of the deemed cost such that the carrying amounts were not affected. The impact of this change was a decrease to both the cost and accumulated depreciation of PP&E by \$2,424.0 million and to both the cost and accumulated amortization of intangible assets by \$201.9 million, as at January 1, 2014.

The Corporation tested for asset impairment under this exemption and no impairment was recorded.

b) Borrowing costs

IAS 23 *Borrowing Costs* ["IAS 23"] specifies detailed methodology for capitalizing borrowing costs. Under US GAAP, an allowance for funds used during construction was applied and capitalized as part of the cost of PP&E and intangible assets, where applicable. Under an optional exemption in IFRS 1, an entity would be exempted from determining the applicable borrowing costs under IFRS for items reconstructed under IFRS. The Corporation elected this exemption and used the borrowing costs determined under US GAAP at the date of transition and applied IAS 23 prospectively to borrowing costs for qualifying assets capitalized after the transition date.

c) Decommissioning costs included in PP&E

IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities* requires specified changes in a decommissioning, restoration or similar liability to be adjusted retrospectively from the cost of the asset to which it relates, with the adjusted depreciable amount of the asset being depreciated prospectively over its remaining useful life. The Corporation elected the exemption available in IFRS 1 which allows a first-time adopter to use a simplified method to recalculate its decommissioning provisions in accordance with IFRS at the transition date. The effect of electing the exemption was an increase to regulatory balances and a decrease to PP&E of \$0.9 million as at January 1, 2014.

d) Leases

IFRIC 4 *Determining Whether an Arrangement Contains a Lease* ["IFRIC 4"] requires the assessment of whether an arrangement contains a lease to be based on the facts and circumstances existing at the date of the inception of the arrangement. Under an optional exemption in IFRS 1, an entity that made the same determination of whether an arrangement contains a lease under its previous GAAP as that required by IFRIC 4, but at a date other than that required by IFRIC 4, does not have to reassess that determination when it adopts IFRS. As the Corporation assessed whether or not arrangements contain a lease in accordance with US GAAP in which the determination made is the same as that required by IFRIC 4, the Corporation elected this exemption and did not reassess its arrangements at the date of transition.



NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2015 and 2014

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

e) Business combinations

IFRS 1 provides an optional exemption for a first-time adopter to elect not to apply IFRS 3 *Business Combinations* ["IFRS 3"] retrospectively to past business combinations that occurred before the date of transition to IFRS, or to elect to restate all business combinations to comply with IFRS 3 prospectively from any date before the date of transition. The Corporation elected not to apply IFRS 3 to past business combinations that occurred prior to the date of transition.

f) Transfer of Assets from Customers (Capital Contributions)

IFRS 1 provides an optional exemption for a first-time adopter to apply IFRIC 18 prospectively to transfers of assets from customers received on or after the date of transition. The Corporation did not elect this exemption and instead applied IFRIC 18 retrospectively to all customer contributions received prior to the date of transition. However, the use of the rate-regulated deemed cost exemption noted above resulted in no adjustment to the capital contributions included in the PP&E deemed cost.

The reconciliation of the September 30, 2014 consolidated balance sheet from US GAAP to IFRS is as follows:



NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2015 and 2014

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

CONSOLIDATED BALANCE SHEET				
As at September 30, 2014	Notes	US GAAP \$	Transitional Adjustments \$	IFRS \$
ASSETS				
Current				
Accounts receivable		223.1	—	223.1
Unbilled revenue		280.0	—	280.0
Income tax receivable		2.1	—	2.1
Materials and supplies		8.3	—	8.3
Other assets	B, C	11.0	(0.8)	10.2
Regulatory assets	A	6.1	(6.1)	—
Total current assets		530.6	(6.9)	523.7
Property, plant and equipment	A, C, D, E, F, G	2,865.6	269.2	3,134.8
Intangible assets	F	188.0	0.5	188.5
Deferred tax assets	A	135.8	(11.1)	124.7
Other assets	B, C	15.7	(14.5)	1.2
Regulatory assets	A	365.6	(365.6)	—
Total assets		4,101.3	(128.4)	3,972.9
Regulatory balances	A, E, F, G	—	143.3	143.3
Total assets and regulatory balances		4,101.3	14.9	4,116.2
LIABILITIES AND EQUITY				
Current				
Working capital facility		10.0	—	10.0
Commercial paper		206.0	—	206.0
Accounts payable and accrued liabilities	D	509.2	(35.6)	473.6
Customer deposits		37.7	—	37.7
Deferred revenue	D	—	4.4	4.4
Deferred conservation credit		17.3	(3.1)	14.2
Post-employment benefits	E	8.2	(8.2)	—
Other liabilities		2.6	—	2.6
Regulatory liabilities	A	1.0	(1.0)	—
Total current liabilities		792.0	(43.5)	748.5
Debentures	B	1,649.3	(8.2)	1,641.1
Customer deposits		4.8	—	4.8
Deferred revenue	D	—	64.6	64.6
Post-employment benefits	E	234.2	5.4	239.6
Other liabilities		7.1	—	7.1
Regulatory liabilities	A	161.0	(161.0)	—
Total liabilities		2,848.4	(142.7)	2,705.7
Equity				
Share capital		567.8	—	567.8
Retained earnings	E	685.1	—	685.1
Total equity		1,252.9	—	1,252.9
Total liabilities and equity		4,101.3	(142.7)	3,958.6
Regulatory balances	A	—	157.6	157.6
Total liabilities, equity and regulatory balances		4,101.3	14.9	4,116.2



NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2015 and 2014

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

The reconciliations of the consolidated statement of income and the consolidated statement of comprehensive income from US GAAP to IFRS for the three months ended September 30, 2014 are as follows:

CONSOLIDATED STATEMENT OF INCOME				
Three months ended September 30, 2014	Notes	US GAAP \$	Transitional Adjustments \$	IFRS \$
Revenues				
Energy sales	A	668.1	(19.2)	648.9
Distribution revenue	A	143.9	2.0	145.9
Other	D	13.5	0.1	13.6
		825.5	(17.1)	808.4
Expenses				
Energy purchases		668.1	—	668.1
Operating expenses	A, E	63.1	0.1	63.2
Depreciation and amortization	A, D, G	41.3	3.6	44.9
		772.5	3.7	776.2
Finance costs	A, F	15.8	(0.5)	15.3
Gain on disposals of PP&E		1.5	—	1.5
Income before income taxes		38.7	(20.3)	18.4
Income tax expense	A	3.6	3.3	6.9
Net income for the period		35.1	(23.6)	11.5
Net movements in regulatory balances, net of tax	A, E, F, G	—	23.6	23.6
Net income after net movements in regulatory balances		35.1	—	35.1

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME				
Three months ended September 30, 2014	Notes	US GAAP \$	Transitional Adjustments \$	IFRS \$
Net income after net movements in regulatory balances		35.1	—	35.1
Other comprehensive income				
Items that will not be reclassified to income or loss				
Remeasurements of post-employment benefits, net of tax		—	—	—
Net movements in regulatory balances related to OCI, net of tax		—	—	—
Other comprehensive income, net of tax		—	—	—
Total comprehensive income		35.1	—	35.1



NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2015 and 2014

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

The reconciliations of the consolidated statement of income and the consolidated statement of comprehensive income from US GAAP to IFRS for the nine months ended September 30, 2014 are as follows:

CONSOLIDATED STATEMENT OF INCOME				
Nine months ended September 30, 2014	Notes	US GAAP \$	Transitional Adjustments \$	IFRS \$
Revenues				
Energy sales	A	1,997.3	(54.0)	1,943.3
Distribution revenue	A	420.2	3.0	423.2
Other	D	40.9	0.6	41.5
		2,458.4	(50.4)	2,408.0
Expenses				
Energy purchases		1,997.3	—	1,997.3
Operating expenses	A, E	199.6	(0.8)	198.8
Depreciation and amortization	A, D, G	119.0	5.7	124.7
		2,315.9	4.9	2,320.8
Finance costs	A, F	46.8	(1.7)	45.1
Gain on disposals of PP&E		1.5	—	1.5
Income before income taxes		97.2	(53.6)	43.6
Income tax expense	A	8.4	9.7	18.1
Net income for the period		88.8	(63.3)	25.5
Net movements in regulatory balances, net of tax	A, E, F, G	—	62.4	62.4
Net income after net movements in regulatory balances		88.8	(0.9)	87.9

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME				
Nine months ended September 30, 2014	Notes	US GAAP \$	Transitional Adjustments \$	IFRS \$
Net income after net movements in regulatory balances		88.8	(0.9)	87.9
Other comprehensive income				
Items that will not be reclassified to income or loss				
Remeasurements of post-employment benefits, net of tax		—	—	—
Net movements in regulatory balances related to OCI, net of tax		—	—	—
Other comprehensive income, net of tax		—	—	—
Total comprehensive income		88.8	(0.9)	87.9



NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2015 and 2014

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

The reconciliation of the consolidated statement of changes in equity from US GAAP to IFRS for the three months and the nine months ended September 30, 2014 is as follows:

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY				
Three months ended September 30, 2014	Notes	US GAAP \$	Transitional Adjustments \$	IFRS \$
Share capital		567.8	—	567.8
Retained earnings, beginning of period		656.3	—	656.3
Net income after net movements in regulatory balances		35.1	—	35.1
Dividends		(6.3)	—	(6.3)
Retained earnings, end of period		685.1	—	685.1
Total equity		1,252.9	—	1,252.9

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY				
Nine months ended September 30, 2014	Notes	US GAAP \$	Transitional Adjustments \$	IFRS \$
Share capital		567.8	—	567.8
Retained earnings, beginning of period	E	650.7	0.9	651.6
Net income after net movements in regulatory balances		88.8	(0.9)	87.9
Dividends		(54.4)	—	(54.4)
Retained earnings, end of period		685.1	—	685.1
Total equity		1,252.9	—	1,252.9

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2015 and 2014

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

Notes to the transitional adjustments

A. Regulatory balances

IFRS 14 permits a rate-regulated entity to continue to apply its previous GAAP accounting policies for the recognition, measurement, impairment and derecognition of regulatory balances. However, all regulatory balances and related deferred tax amounts are reclassified to a new and separate section of the consolidated balance sheet. As well, the net income effect of all changes in regulatory balances must be segregated in a new separate section of the consolidated statement of income. Amounts that are permitted or required to be recognized under another IFRS are excluded from the regulatory balances. The effect of the reclassifications would enhance comparability of IFRS 14 compliant financial statements with those entities not applying IFRS 14. IFRS 14 also requires disclosure regarding the movements in the period, risks, and expected period of recovery/amortization of individual regulatory balances.

As at September 30, 2014, the impact was to reduce current regulatory assets by \$6.1 million, non-current regulatory assets by \$365.6 million, deferred tax assets by \$11.1 million, current regulatory liabilities by \$1.0 million and non-current regulatory liabilities by \$161.0 million, and increase PP&E by \$238.6 million, regulatory debit balances by \$139.8 million and regulatory credit balances by \$157.6 million. For the three months ended September 30, 2014, the impact was to increase distribution revenue by \$2.0 million, operating expenses by \$0.4 million, finance costs by \$0.1 million, income tax expense by \$3.3 million and net movements in regulatory balances, net of tax by \$20.5 million, and to decrease energy sales by \$19.2 million and depreciation and amortization expense by \$0.7 million. For the nine months ended September 30, 2014, the impact was to increase distribution revenue by \$3.0 million, operating expenses by \$1.4 million, income tax expense by \$8.1 million and net movements in regulatory balances, net of tax by \$58.5 million, and to decrease energy sales by \$54.0 million, depreciation and amortization expense by \$1.9 million and finance costs by \$0.1 million.

B. Debt issuance costs

Under US GAAP, debt issuance costs were recognized as deferred charges in other assets. Under IFRS, debt issuance costs are netted against the principal balance of the related debenture. As at September 30, 2014, this presentation difference resulted in a decrease to current other assets of \$0.7 million, a decrease to non-current other assets of \$7.5 million, and a corresponding decrease to debentures of \$8.2 million.

C. Prepaid lease

Under US GAAP, prepaid land lease was included in other assets. Under IFRS, prepaid land lease is included in PP&E as a finance lease as substantially all of the risks and rewards incidental to ownership of the land are transferred to the Corporation. The impact as at September 30, 2014 was a decrease to current other assets of \$0.1 million, a decrease to non-current other assets of \$7.0 million, and an increase to PP&E of \$7.1 million.

D. Capital contributions

Under US GAAP, capital contributions received and used to finance additions to PP&E were offset against the cost of the constructed asset and depreciated at an equivalent rate as the related PP&E as a reduction in depreciation expense. Under IFRIC 18, contributions received in order to construct an item of PP&E are treated as deferred revenue and recognized as revenues over the useful lives of the related PP&E. The Corporation applied IFRIC 18 to capital contributions received for projects not yet in service, excluding PP&E items for which the deemed cost exemption was applied. As at September 30, 2014, the impact was to increase PP&E by \$29.8 million, current deferred revenue by \$1.3 million and non-current deferred revenue by \$64.6 million, and reduce accounts payable and accrued liabilities by \$36.1 million. For the three months and the nine months ended September 30, 2014, \$0.1 million and \$0.3 million, respectively, was reclassified from depreciation and amortization expense to other revenue.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2015 and 2014

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

E. Employee benefits

The attribution methods and attribution periods are different between IFRS and US GAAP and result in a measurement difference of the post-employment benefit liability. In addition, under IFRS, a liability is recognized for both non-vested accumulating and vested sick leave benefits, unlike US GAAP, which only requires a liability for the vested sick leave component. Under IFRS, actuarial gains and losses resulting from experience adjustments and changes in actuarial assumptions are recognized in OCI as they arise, and amounts related to rate regulation are subsequently reclassified to a regulatory balance on the consolidated balance sheets.

As at September 30, 2014, the impact of these recognition and measurement differences was a decrease to post-employment benefit liability of \$2.8 million, PP&E of \$0.3 million, regulatory debit balances of \$2.4 million (of which \$2.6 million related to post-employment benefits, offset by \$0.2 million related to IFRS transitional adjustments), and an increase to opening retained earnings of \$0.9 million. For the three months ended September 30, 2014, the impact of these recognition and measurement differences was a decrease to operating expenses of \$0.1 million and net movements in regulatory balances, net of tax of \$0.1 million. For the nine months ended September 30, 2014, the impact of these recognition and measurement differences was a decrease to operating expenses of \$0.4 million and net movements in regulatory balances, net of tax of \$1.2 million.

Under US GAAP, the amount of the actuarial present value of benefits expected to be paid in the next twelve months was presented as a current liability. Under IFRS, it is a policy choice whether or not to separately present a component as current as it relates to post-employment benefits. However, IFRS does specify that short-term employee benefits, such as sick leave benefits, are classified as current if they are expected to be settled wholly within twelve months after the end of the reporting period. The Corporation elected to present post-employment benefit obligation as non-current since it is not expected to be settled wholly within twelve months. As the Corporation does not expect to settle all of its sick leave benefits within twelve months, sick leave benefits have been included in the non-current liability as well. This presentation difference resulted in a decrease to current post-employment benefits and an increase to non-current post-employment benefits as at September 30, 2014 in the amount of \$8.2 million.

F. Borrowing costs

Under US GAAP, an allowance for funds used during construction was applied based on OEB-prescribed rates on a simple interest basis and capitalized as part of the cost of PP&E and intangible assets where applicable. Under IFRS, the applicable borrowing costs are determined by applying the methodology in IAS 23 to qualifying assets. The capitalization rate under IFRS is based on the weighted average interest rate of the Corporation's external general borrowings using the effective interest rate method, which is applied to the carrying amount of the asset including borrowing costs previously capitalized. In addition, under IFRS, capitalization commences immediately as the expenditure on a qualifying asset is incurred. The differences arising as a result of this accounting policy change due to the transition from US GAAP to IFRS for the year of transition were recorded within IFRS transitional adjustments in regulatory debit balances and net movements in regulatory balances, net of tax. For the three months ended September 30, 2014, the impact was to increase PP&E by \$0.7 million and intangible assets by \$0.1 million, and decrease regulatory debit balances, finance costs and net movements in regulatory balances, net of tax by \$0.8 million. For the nine months ended September 30, 2014, the impact was to increase PP&E by \$1.5 million and intangible assets by \$0.3 million, and decrease regulatory debit balances, finance costs and net movements in regulatory balances, net of tax by \$1.8 million.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2015 and 2014

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

G. PP&E derecognition

Under the group depreciation policy adopted under US GAAP, assets in a group were not removed from the accounts on disposition and depreciation continued to be recorded until the asset group was fully depreciated. Under IFRS, the carrying amount of a replaced item of PP&E is derecognized and the related loss is recorded within depreciation and amortization expense. The differences arising as a result of this accounting policy change due to the transition from US GAAP to IFRS for the year of transition were recorded within IFRS transitional adjustments in regulatory debit balances and net movements in regulatory balances, net of tax. For the three months ended September 30, 2014, the impact was to decrease PP&E and increase depreciation and amortization expense, regulatory debit balances, and net movements in regulatory balances, net of tax by \$4.1 million. For the nine months ended September 30, 2014, the impact was to decrease PP&E and increase depreciation and amortization expense, regulatory debit balances, and net movements in regulatory balances, net of tax by \$7.3 million.

Impact on the consolidated statements of cash flows

The changes in classifications of cash flows from US GAAP to IFRS were mainly due to:

- Reclassification of capital contributions received to finance additions to PP&E from investing activities to operating activities of \$6.3 million for the three months ended September 30, 2014 and \$20.8 million for the nine months ended September 30, 2014, and inclusion of amortization of deferred revenue related to capital contributions. Under US GAAP, capital contributions were treated as a reduction of PP&E and associated cash flows were classified as investing activities. Under IFRS, the Corporation treats capital contributions as deferred revenue and classifies the associated cash flows as operating activities;
- Presentation of short-term bank overdrafts as part of cash and cash equivalents under IFRS; whereas movements in short-term bank overdrafts were presented as cash flows from financing activities under US GAAP;
- Presentation of income taxes paid and interest paid within the body of the condensed interim consolidated statements of cash flows as part of operating and financing activities, respectively, whereas they were previously disclosed as supplementary information; and
- Reclassification of adjustments relating to regulatory balances within operating activities to "Net movements in regulatory balances" in the application of IFRS 14.