TORONTO HYDRO Corporation

SECOND QUARTER FINANCIAL REPORT
JUNE 30, 2016

TORONTO HYDRO CORPORATION

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GLOSSARY

CDM – Conservation and demand management

CIR – Custom Incentive Rate-setting

City – City of Toronto

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

Corporation – Toronto Hydro Corporation

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

ERM – Enterprise risk management

GAAP – Generally Accepted Accounting Principles

GWh – Gigawatt hour

IAS – International Accounting Standard

IASB – International Accounting Standards Board

ICM – Incremental Capital Module

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

IFRS – International Financial Reporting Standards

KPIs – Key performance indicators

kW – Kilowatt

kWh – Kilowatt hour

LDC – Toronto Hydro-Electric System Limited

LRAM – Lost revenue adjustment mechanism

MD&A – Management's Discussion and Analysis

OCI – Other comprehensive income

OEB – Ontario Energy Board

OMERS – Ontario Municipal Employees Retirement System

OPEB – Other post-employment benefits

OSC – Ontario Securities Commission

PP&E – Property, plant and equipment

TH Energy – Toronto Hydro Energy Services Inc.

WMS – Wholesale Market Service

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE INTERIM PERIODS ENDED
JUNE 30, 2016 AND 2015

Executive Summary

- Net income after net movements in regulatory balances and OCI for the three months and six months ended June 30, 2016 was $31.2 million and $75.5 million compared to $15.9 million and $32.4 million for the comparable periods in 2015;
- capital expenditures were primarily related to the renewal of the electricity infrastructure of LDC and were $133.0 million and $266.9 million for the three months and six months ended June 30, 2016 compared to $151.7 million and $260.7 million for the comparable periods in 2015;
- the OEB issued its CIR decision regarding the 2015-2019 rate application on December 29, 2015 and its CIR rate order on March 1, 2016, approving a rate base of $3,232.0 million and revenue requirement of $633.1 million for 2015, and rates calculated on that basis;
- the distribution rates for 2015 and 2016 were implemented on March 1, 2016, with effective dates of May 1, 2015 and January 1, 2016, respectively;
- on June 14, 2016, the Corporation issued $200.0 million of 2.52% senior unsecured debentures due August 25, 2026; and
- on July 28, 2016, the OEB approved a settlement proposal by LDC and intervenors to the ICM rate application, providing that there would be no change to the 2015-2019 rate base previously approved.

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 and six months ended June 30, 2016 and 2015, which were prepared in accordance with IAS 34 *Interim Financial Reporting* (the "Interim Financial Statements");

- the Corporation's audited consolidated financial statements and accompanying notes as at December 31, 2015, December 31, 2014, and January 1, 2014, and for the years ended December 31, 2015 and 2014, which were prepared in accordance with IFRS (the annual "Consolidated Financial Statements"); and

- the Corporation's MD&A for the three months and years ended December 31, 2015 and 2014 (the "2015 Annual MD&A") (including the sections entitled "Electricity Distribution – Industry Overview", "Corporate Strategy", "Capability to Deliver Results", "Electricity Distribution Rates", "CDM Activities", "Share Capital", "Transactions with Related Parties", "Future Accounting Pronouncements", and "Risk Management and Risk Factors", which remain substantially unchanged as at the date hereof, except as may be 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.

Business of Toronto Hydro Corporation

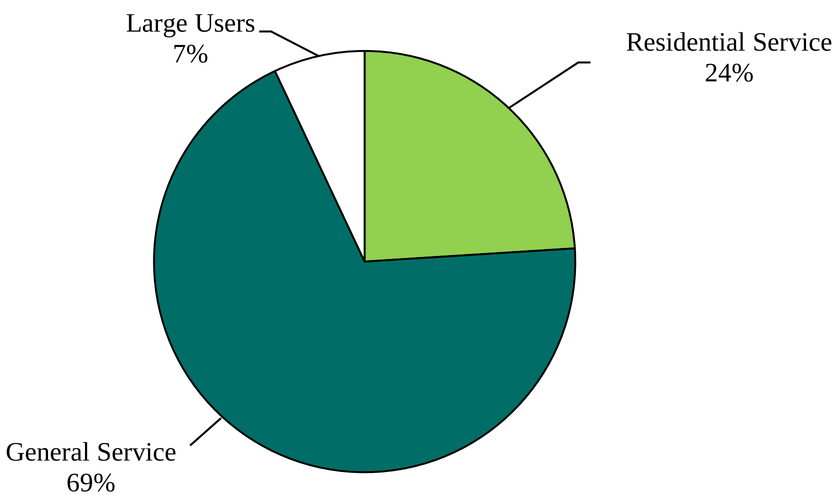
The Corporation is a holding company which wholly owns two subsidiaries:

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

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 758,000 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 six months ended June 30, 2016, LDC earned energy sales and distribution revenues of $1,898.6 million from general service users[1], residential service users[2] and large users[3].

LDC Energy Sales and Distribution Revenues by Class

Six months ended June 30, 2016



[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 more than 5,000 kW 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.

Performance Measurement

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

Strategic Pillars	Performance Measure
People	Safety index
	Sustainability index
	Talent index
Financial	Net income after net movements in regulatory balances and OCI
Operations	System average interruption duration index
	System average interruption frequency index
	Key account worst performing feeders
	LDC regulated capital
Customer	First call resolution
	Enhanced online customer engagement

Selected Consolidated Financial Data

Condensed Interim Consolidated Statements of Income and Other Comprehensive Income
Three months ended June 30
(in millions of Canadian dollars)

	2016 $	2015 $	Change $
Revenues			
Energy sales	801.1	695.2	105.9
Distribution revenue	158.8	132.7	26.1
Other	16.8	15.0	1.8
	976.7	842.9	133.8
Expenses			
Energy purchases	790.0	727.7	(62.3)
Operating expenses	63.4	65.2	1.8
Depreciation and amortization	53.7	43.0	(10.7)
	907.1	835.9	(71.2)
Finance costs	18.5	17.6	(0.9)
Income (loss) before income taxes	51.1	(10.6)	61.7
Income tax expense	15.0	5.6	(9.4)
Net income (loss) for the period	36.1	(16.2)	52.3
Net movements in regulatory balances, net of tax	(4.9)	32.1	(37.0)
Net income after net movements in regulatory balances and OCI	31.2	15.9	15.3

Condensed Interim Consolidated Statements of Income and Other Comprehensive Income
Six months ended June 30
(in millions of Canadian dollars)

	2016 $	2015 $	Change $
Revenues			
Energy sales	1,593.0	1,398.8	194.2
Distribution revenue	305.6	279.7	25.9
Other	32.7	28.5	4.2
	1,931.3	1,707.0	224.3
Expenses			
Energy purchases	1,567.4	1,414.9	(152.5)
Operating expenses	129.6	135.5	5.9
Depreciation and amortization	100.8	85.7	(15.1)
	1,797.8	1,636.1	(161.7)
Finance costs	37.2	34.6	(2.6)
Gain on disposals of PP&E	-	6.4	(6.4)
Income before income taxes	96.3	42.7	53.6
Income tax expense	22.6	10.9	(11.7)
Net income for the period	73.7	31.8	41.9
Net movements in regulatory balances, net of tax	1.8	0.6	1.2
Net income after net movements in regulatory balances and OCI	75.5	32.4	43.1

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

	As at June 30 2016 $	As at December 31 2015 $
Current assets	584.8	541.7
Non-current assets	4,056.6	3,903.5
Total assets	4,641.4	4,445.2
Regulatory balances	222.8	241.7
Total assets and regulatory balances	4,864.2	4,686.9
Current liabilities	824.6	875.9
Non-current liabilities	2,516.9	2,298.5
Total liabilities	3,341.5	3,174.4
Equity	1,371.8	1,340.9
Total liabilities and equity	4,713.3	4,515.3
Regulatory balances	150.9	171.6
Total liabilities, equity and regulatory balances	4,864.2	4,686.9

Results of Operations

Net Income after Net Movements in Regulatory Balances and OCI

Net income after net movements in regulatory balances and OCI for the three months and six months ended June 30, 2016 was $31.2 million and $75.5 million compared to $15.9 million and $32.4 million for the comparable periods in 2015.

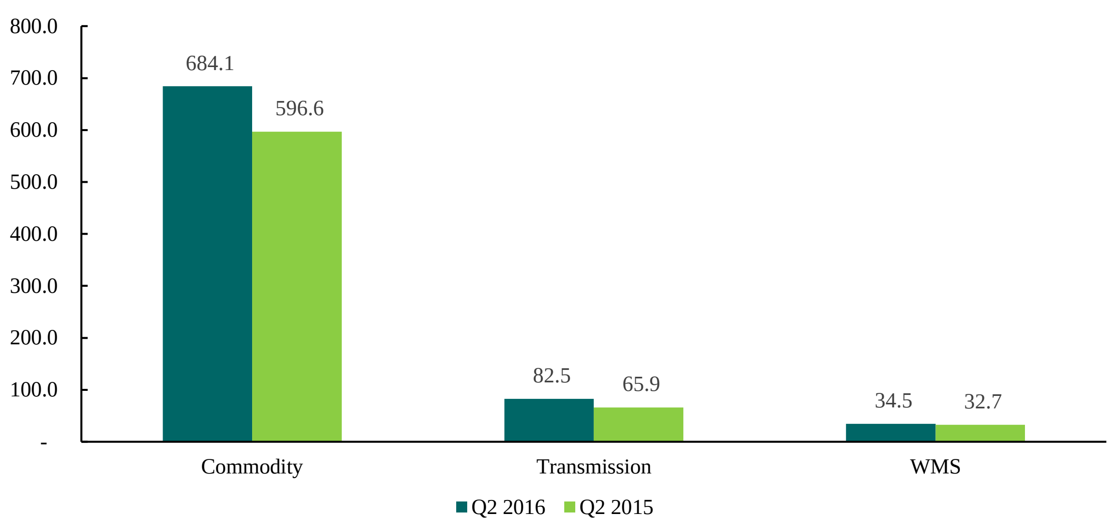
The increase in net income after net movements in regulatory balances and OCI for the three months ended June 30, 2016 was primarily due to implementation of electricity rates per the OEB CIR decision ($26.9 million) and higher other revenue ($1.8 million). These variances were partially offset by higher depreciation and amortization ($10.7 million), and higher income tax expense and income tax recorded in net movements in regulatory balances ($3.1 million).

The increase in net income after net movements in regulatory balances and OCI for the six months ended June 30, 2016 was primarily due to implementation of electricity rates per the OEB CIR decision and rate order ($56.3 million), lower operating expenses ($5.9 million), and higher other revenue ($4.2 million). These variances were partially offset by higher depreciation and amortization ($15.1 million), higher income tax expense and income tax recorded in net movements in regulatory balances ($6.2 million), and higher finance costs ($2.6 million).

Energy Sales

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

LDC Energy Sales
Three months ended June 30, 2016
(in millions of Canadian dollars)

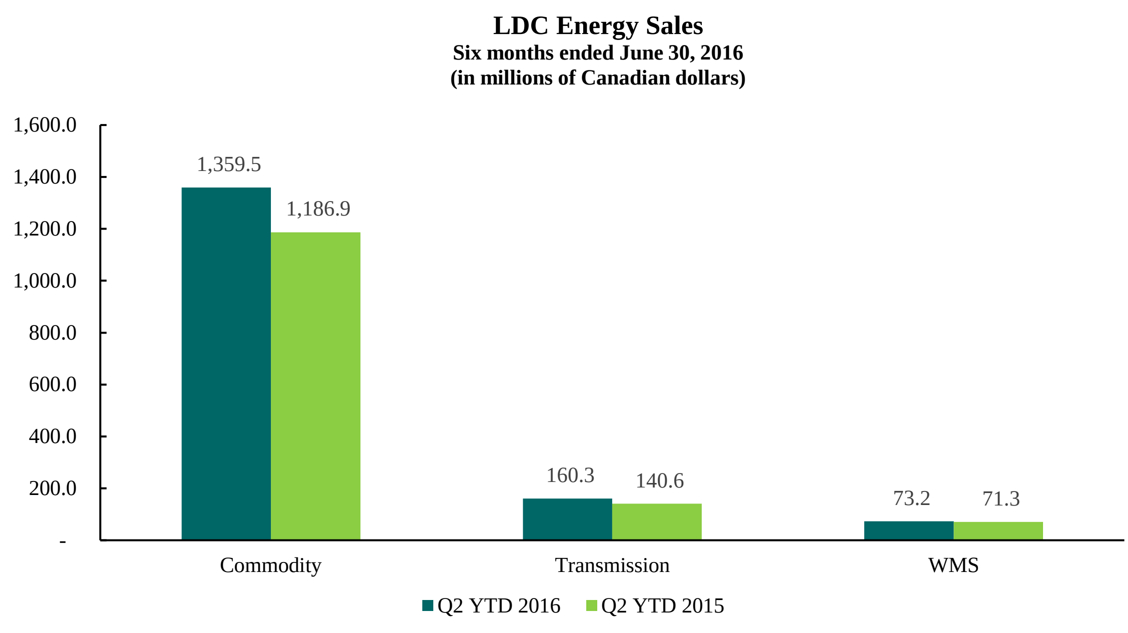


Energy sales for the three months ended June 30, 2016 were $801.1 million compared to $695.2 million for the comparable period in 2015. The increase was primarily due to higher commodity charges ($87.5 million) and higher retail transmission charges ($16.6 million).

Energy Sales, Settlement Variances and Energy Purchases
Three months ended June 30, 2016
(in millions of Canadian dollars)

	Energy Sales $	Settlement Variances $	Energy Purchases $
Commodity Charges	684.1	3.6	687.7
Retail Transmission Charges	82.5	(9.3)	73.2
WMS Charges	34.5	(5.4)	29.1
Total	801.1	(11.1)	790.0

For the three months ended June 30, 2016, LDC recognized $801.1 million in energy sales to customers and was billed $790.0 million for energy purchases from the IESO. The difference between energy sales and energy purchases represents a $11.1 million settlement variance for the period. As such, the settlement variance was recorded as a decrease to the regulatory debit balance ($11.0 million including carrying charges) on the Consolidated Balance Sheets, and presented within net movements in regulatory balances, net of tax on the Consolidated Statements of Income.



Energy sales for the six months ended June 30, 2016 were $1,593.0 million compared to $1,398.8 million for the comparable period in 2015. The increase was primarily due to higher commodity charges ($172.6 million) and higher retail transmission charges ($19.7 million).

Energy Sales, Settlement Variances and Energy Purchases
Six months ended June 30, 2016
(in millions of Canadian dollars)

	Energy Sales $	Settlement Variances $	Energy Purchases $
Commodity Charges	1,359.5	10.0	1,369.5
Retail Transmission Charges	160.3	(15.7)	144.6
WMS Charges	73.2	(19.9)	53.3
Total	1,593.0	(25.6)	1,567.4

For the six months ended June 30, 2016, LDC recognized $1,593.0 million in energy sales to customers and was billed $1,567.4 million for energy purchases from the IESO. The difference between energy sales and energy purchases represents a $25.6 million settlement variance for the period. The settlement variance was recorded as a decrease to the regulatory debit balance ($25.5 million including carrying charges, see the regulatory debit balance table in note 7 to the Interim Financial Statements) on the Consolidated Balance Sheets, and presented within net movements in regulatory balances, net of tax on the Consolidated Statements 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 collection of OEB-approved rate riders. Distribution revenue for the three months and six months ended June 30, 2016 was $158.8 million and $305.6 million compared to $132.7 million and $279.7 million for the comparable periods in 2015.

The increase in distribution revenue for the three months ended June 30, 2016 was primarily due to higher revenue related to implementation of electricity rates per the OEB CIR decision ($26.9 million), partially offset by revenue earned from ICM rate riders recorded in the second quarter of 2015 ($1.7 million).

The increase in distribution revenue for the six months ended June 30, 2016 was primarily due to higher revenue related to implementation of electricity rates per the OEB CIR decision ($37.1 million), partially offset by revenue earned from ICM rate riders recorded in the first two quarters of 2015 ($7.2 million), lower revenue related to smart meter recoveries recorded in 2016 ($3.1 million), and lower electricity consumption in 2016 ($1.5 million).

Other Revenue

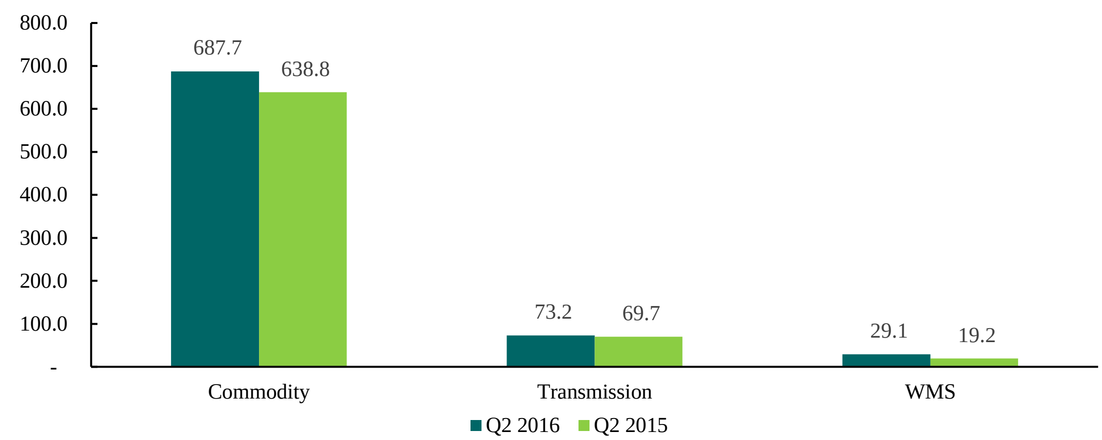
Other revenue includes revenue from services ancillary to electricity distribution, revenue from delivery of street lighting services, amortization of deferred revenue related to capital contributions from customers on capital projects, and CDM cost efficiency incentives. Other revenue for the three months and six months ended June 30, 2016 was $16.8 million and $32.7 million compared to $15.0 million and $28.5 million for the comparable periods in 2015.

The increase in other revenue for the three months and six months ended June 30, 2016 was primarily due to higher revenue in connection with pole and duct rentals and ancillary services, and higher recognition of capital contribution revenue received from customers for specific projects.

Energy purchases

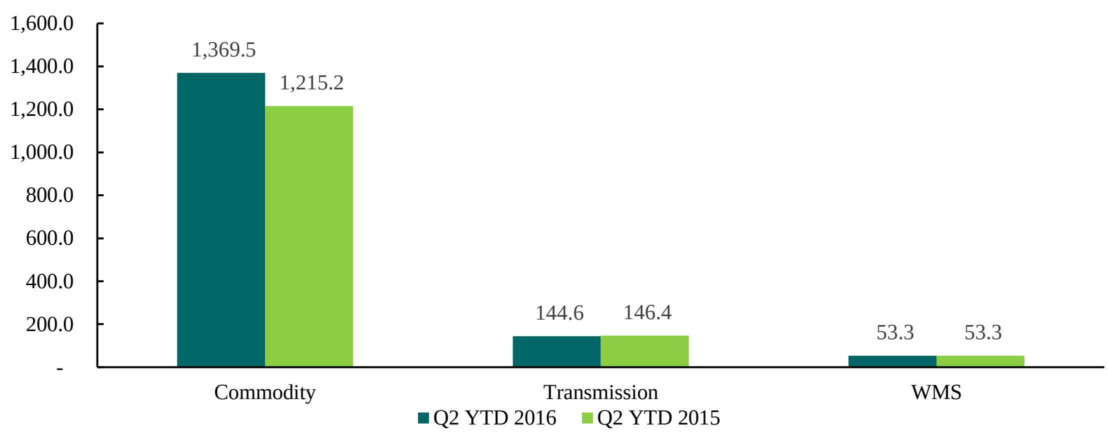
LDC's energy purchases consist of actual charges for electricity generated by third parties, which are passed through to customers over time in the form of energy sales. Energy purchases are billed monthly by the IESO and include commodity charges, retail transmission charges and WMS charges.

LDC Energy Purchases
Three months ended June 30, 2016
(in millions of Canadian dollars)



Energy purchases for the three months ended June 30, 2016 were $790.0 million compared to $727.7 million for the comparable period in 2015. The increase was primarily due to higher commodity charges ($48.9 million) and higher WMS charges ($9.9 million).

LDC Energy Purchases
Six months ended June 30, 2016
(in millions of Canadian dollars)



Energy purchases for the six months ended June 30, 2016 were $1,567.4 million compared to $1,414.9 million for the comparable period in 2015. The increase was primarily due to higher commodity charges ($154.3 million).

Operating expenses

Operating expenses for the three months and six months ended June 30, 2016 were $63.4 million and $129.6 million compared to $65.2 million and $135.5 million for the comparable periods in 2015.

The decrease in operating expenses for the three months ended June 30, 2016 was primarily due to lower maintenance program costs ($3.7 million), partially offset by higher ancillary service costs ($0.9 million).

The decrease in operating expenses for the six months ended June 30, 2016 was primarily due to lower maintenance program costs ($4.3 million) and lower emergency management costs ($1.0 million).

Depreciation and amortization

Depreciation and amortization expense for the three months and six months ended June 30, 2016 was $53.7 million and $100.8 million compared to $43.0 million and $85.7 million for the comparable periods in 2015.

The increase in depreciation and amortization expense for the three months and six months ended June 30, 2016 was primarily due to new in-service asset additions and higher derecognition in 2016, partially offset by certain assets being fully depreciated.

Finance Costs

Finance costs for the three months and six months ended June 30, 2016 were $18.5 million and $37.2 million compared to $17.6 million and $34.6 million for the comparable periods in 2015.

The increase in finance costs for the three months and six months ended June 30, 2016 was primarily due to higher average amount of long-term debt outstanding during 2016 compared with the same period in 2015 (see "Liquidity and Capital Resources" below).

Gain on Disposals of PP&E

Gain on disposals of PP&E for the three months and six months ended June 30, 2016 was $nil compared to $nil and $6.4 million for the comparable periods in 2015.

The variance in gain on disposals of PP&E for the six months ended June 30, 2016 was due to gains realized on disposal of surplus properties in the first quarter of 2015. Consistent with the OEB's CIR decision and rate order, the pre-tax gain recorded on the disposal of a surplus property ($5.9 million) under the facilities consolidation program was recorded as a regulatory credit balance on the Consolidated Balance Sheets, 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 six months ended June 30, 2016 were $5.5 million and $11.2 million compared to $2.4 million and $5.0 million for the comparable periods in 2015.

The unfavourable variances in income tax expense and income tax recorded in net movements in regulatory balances for the three months and six months ended June 30, 2016 were primarily due to higher income before taxes (including net movements in regulatory balances), offset by higher 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 ($18.9 million) and credit ($20.7 million) balances for the period equal the net movements in regulatory balances, net of tax ($1.8 million) for the six months ended June 30, 2016 (see "Financial Position" below). Under IFRS 14, all regulatory related transactions 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 and the Consolidated Statements of Income captions impacted by actual net movements in regulatory balances, net of tax for the three months and six months ended June 30, 2016.

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

	2016 $	**2015 $**	**Increase (Decrease) $**	**Consolidated Statements of Income Captions Impacted**
Movements in regulatory debit balances				
Settlement variances [1]	(9.0)	32.6	(41.6)	Energy sales
Foregone revenue	(5.0)	-	(5.0)	Distribution revenue
IFRS transitional adjustments	(1.8)	-	(1.8)	Distribution revenue
LRAM	(1.0)	-	(1.0)	Distribution revenue
Stranded meters	(0.9)	-	(0.9)	Distribution revenue
Named properties	(0.3)	-	(0.3)	Distribution revenue
Capital contributions	(0.1)	-	(0.1)	Distribution revenue
Smart meters	(2.1)	(2.7)	0.6	Distribution revenue
OPEB cash versus accrual	0.5	-	0.5	Operating expenses
Other	(2.2)	0.9	(3.1)	Distribution revenue and operating expenses
Subtotal	**(21.9)**	**30.8**	**(52.7)**	
Movements in regulatory credit balances				
Deferred taxes	9.5	3.2	6.3	Income tax expense
Gain on disposal	4.4	0.1	4.3	Distribution revenue
Tax-related variances	3.2	(0.2)	3.4	Distribution revenue
ICM	-	(1.8)	1.8	Distribution revenue
Other	(0.1)	-	(0.1)	Distribution revenue
Subtotal	**17.0**	**1.3**	**15.7**	
Net movements in regulatory balances, net of tax	**(4.9)**	**32.1**	**(37.0)**	

[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 June 30, 2016 were $(4.9) million compared to $32.1 million for the comparable period in 2015.

The variance in net movements in regulatory balances, net of tax for the three months ended June 30, 2016 was primarily related to changes in both settlement variance balances ($41.6 million) and the 2016 foregone revenue balance ($5.0 million). These variances were partially offset by changes in deferred taxes ($6.3 million) and gain on disposal balances ($4.3 million).

The changes in settlement variance balances were primarily due to changes in commodity charges and retail transmission charges. The change in the 2016 foregone revenue balance was primarily due to recoveries through rate riders in the second quarter of 2016 per the OEB's CIR decision and rate order ($5.0 million). The changes in deferred taxes was primarily related to changes in temporary differences between accounting and tax treatments. The change in gain on disposal balances was primarily related to the disposition of realized gain and related future tax savings on disposal of a surplus property by LDC in the first quarter of 2015.

Net Movements in Regulatory Balances, Net of Tax
Six months ended June 30
(in millions of Canadian dollars)

	2016 $	2015 $	Increase (Decrease) $	Consolidated Statements of Income Captions Impacted
Movements in regulatory debit balances				
Settlement variances [1]	(23.5)	16.4	(39.9)	Energy sales
IFRS transitional adjustments	(1.9)	-	(1.9)	Distribution revenue
LRAM	(1.0)		(1.0)	Distribution revenue
Stranded meters	(1.0)	-	(1.0)	Distribution revenue
Named properties	(0.4)	-	(0.4)	Distribution revenue
Capital contribution	(0.1)		(0.1)	Distribution revenue
Foregone revenue	14.0	-	14.0	Distribution revenue
Smart meters	(4.0)	(7.0)	3.0	Distribution revenue
OPEB cash versus accrual	1.1	-	1.1	Operating expenses
Other	(2.1)	1.6	(3.7)	Distribution revenue and operating expenses
Subtotal	**(18.9)**	**11.0**	**(29.9)**	
Movements in regulatory credit balances				
Gain on disposal	4.6	(8.0)	12.6	Distribution revenue and Gain on disposals of PP&E
ICM	(0.1)	(7.3)	7.2	Distribution revenue
Deferred taxes	11.4	5.9	5.5	Income tax expense
Tax-related variances	3.3	(1.0)	4.3	Distribution revenue
Derecognition	1.7	-	1.7	Distribution revenue
Other	(0.2)	-	(0.2)	Distribution revenue
Subtotal	**20.7**	**(10.4)**	**31.1**	
Net movements in regulatory balances, net of tax	**1.8**	**0.6**	**1.2**	

Net movements in regulatory balances, net of tax for the six months ended June 30, 2016 were $1.8 million compared to $0.6 million for the comparable period in 2015.

The variance in net movements in regulatory balances, net of tax for the six months ended June 30, 2016 was primarily related to an increase in the 2016 foregone revenue balance ($14.0 million) and changes in gain on disposal balances ($12.6 million), ICM balances ($7.2 million), deferred tax balances ($5.5 million), and tax-related variance balances ($4.3 million). These variances were partially offset by changes in both settlement variance balances ($39.9 million) and the 2016 IFRS transitional adjustment balance ($1.9 million).

The increase in the 2016 foregone revenue balance was primarily due to an additional amount recognized for the period from January 1, 2016 to February 2016 ($19.2 million) offset by recoveries through rate riders in 2016 ($5.2 million) per the OEB's CIR decision and rate order. The change in gain on disposal balances was primarily related to the disposition of realized gain and related future tax savings on disposal of a surplus property by LDC in the first quarter of 2015. The change in ICM balances was primarily due to revenues collected through the ICM revenue rate rider during the first two quarters of 2015. The change in deferred taxes was primarily related to changes in temporary differences between accounting and tax treatments. The change in tax-related variance balance was primarily due to the disposition of the income tax variance regulatory balance. The changes in settlement variance balances were primarily due to changes in retail transmission charges and commodity charges. The change in the 2016 IFRS transitional adjustment balance was related to revenue recoveries in 2016 for the differences arising from accounting policy changes for PP&E and intangible assets.

Summary of Quarterly Results of Operations

The table below presents a summary of the Corporation's results of operations for eight quarters including and immediately preceding June 30, 2016. The number of issued and outstanding shares of the Corporation during the eight quarters noted below was 1,000.

Summary of Quarterly Results of Operations [1]
(in millions of Canadian dollars)

	June 30 2016 $	March 31 2016 $	December 31 2015 $	September 30 2015 $
Revenues	976.7	954.6	855.3	977.6
Net income after net movements in regulatory balances and OCI	31.2	44.3	74.3	20.0
	June 30 2015 $	**March 31 2015 $**	**December 31 2014 $**	**September 30 2014 $**
Revenues	842.9	864.1	864.8	808.4
Net income after net movements in regulatory balances and OCI	15.9	16.5	23.8	35.1

[1] Quarterly financial information for 2016 and 2015 has been derived from the annual Consolidated Financial Statements and interim financial statements of the Corporation, which have been prepared in accordance with IFRS. Quarterly financial information for 2014 that was previously reported in accordance with United States GAAP is now reported in accordance with IFRS.

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 revenues are also impacted by fluctuations in electricity prices and the timing and recognition of regulatory decisions. This resulted in variations from the trend noted above for the second quarter of 2016 due to implementation of electricity rates per the OEB CIR decision and rate order and 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 Consolidated Balance Sheets as at June 30, 2016 as compared to the Consolidated Balance Sheets as at December 31, 2015.

Condensed Interim Consolidated Balance Sheet Data
As at June 30, 2016 compared to December 31, 2015
(in millions of Canadian dollars)

Balance Sheet Account	Increase (Decrease) $	Explanation of Significant Change
Assets		
Accounts receivable and unbilled revenue	45.5	The increase was primarily due to higher pass-through electricity costs as a result of implementation of electricity rates per the OEB CIR decision and rate order and timing variances of billing and collection activities from electricity customers.
PP&E and intangible assets	165.1	The increase was primarily due to capital expenditures, partially offset by depreciation and derecognition during the period.
Deferred tax assets	(11.8)	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	(7.5)	The decrease was primarily due to timing of cash flows (see “Liquidity and Capital Resources” below).
Commercial paper	(57.0)	The decrease was primarily due to repayment using proceeds from issuance of senior unsecured debentures in the second quarter of 2016, offset primarily by funds used for general corporate purposes (see “Liquidity and Capital Resources” below).
Accounts payable and accrued liabilities	17.4	The increase was primarily due to higher electricity costs payable to the IESO.
Deferred revenue	18.6	The increase was primarily due to capital contributions received in 2016 and increased pole and duct rentals.
Debentures	199.1	The increase was primarily due to issuance of the $200.0 million senior unsecured debentures in the second quarter of 2016 (see “Liquidity and Capital Resources” below).
Retained earnings	30.9	The increase was due to net income after net movements in regulatory balances and OCI ($75.5 million) offset by dividends paid ($ 44.6 million).

Condensed Interim Consolidated Balance Sheet Data
As at June 30, 2016 compared to December 31, 2015
(in millions of Canadian dollars)

Balance Sheet Account	Increase (Decrease) $	Explanation of Significant Change
Regulatory Balances		
Regulatory debit balances[1]	(18.9)	See table of net movements in regulatory balances, net of tax under "Results of Operations" above.
Regulatory credit balances[1]	(20.7)	See table of net movements in regulatory balances, net of tax under "Results of Operations" above.

[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 $584.8 million and $824.6 million, respectively, as at June 30, 2016, resulting in a working capital deficit of $239.8 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 funding of 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 overall financing costs and to 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.

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

	Three months ended June 30		Six months ended June 30	
	2016 $	2015 $	2016 $	2015 $
Cash and cash equivalents (working capital facility), beginning of period	(12.7)	6.6	(14.2)	(6.1)
Net cash provided by operating activities	145.9	29.7	236.6	163.8
Net cash used in investing activities	(132.7)	(142.8)	(282.5)	(275.0)
Net cash provided by (used in) financing activities	(7.2)	92.3	53.4	103.1
Working capital facility, end of period	(6.7)	(14.2)	(6.7)	(14.2)

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 June 30, 2016, $6.7 million had been drawn under the Working Capital Facility compared to $14.2 million as at December 31, 2015.

Operating Activities

Net cash provided by operating activities for the three months and six months ended June 30, 2016 was $145.9 million and $236.6 million compared to $29.7 million and $163.8 million for the comparable periods in 2015.

The increase in net cash provided by operating activities for the three months ended June 30, 2016 was primarily due to movements in both non-cash working capital balances (see note 15 to the Interim Financial Statements) and regulatory balances (see "Net Movements in Regulatory Balances, Net of Tax" above), adjustments for non-cash items, and higher net income after net movements in regulatory balances and OCI.

The increase in net cash provided by operating activities for the six months ended June 30, 2016 was primarily due to higher net income after net movements in regulatory balances and OCI, and adjustments for non-cash items. These variances were partially offset by movements in non-cash working capital balances (see note 15 to the Interim Financial Statements).

Investing Activities

Net cash used in investing activities for the three months and six months ended June 30, 2016 was $132.7 million and $282.5 million compared to $142.8 million and $275.0 million for the comparable periods in 2015.

The decrease in net cash used in investing activities for the three months ended June 30, 2016 was due to lower cash spending on capital projects.

The increase in net cash used in investing activities for the six months ended June 30, 2016 was due to proceeds on disposal of surplus properties in 2015 offset by lower cash spending on capital projects.

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)

	Three months ended June 30		**Six months ended June 30**	
	2016 $	**2015 $**	**2016 $**	**2015 $**
Regulated LDC				
Distribution system				
Planned [1]	93.3	114.6	189.9	196.4
Reactive	13.6	8.2	18.1	14.8
Copeland Station	5.2	6.5	10.5	13.1
Facilities consolidation	11.0	8.7	18.9	16.3
Technology assets	7.4	6.3	24.1	10.1
Other [2]	1.3	7.3	4.0	8.0
Regulated capital expenditures	131.8	151.6	265.5	258.7
Unregulated capital expenditures [3]	1.2	0.1	1.4	2.0
Total capital expenditures	133.0	151.7	266.9	260.7

[1] Includes, among other initiatives, the replacement of underground and overhead infrastructures, and the delivery of customer connections.

[2] Includes fleet capital and buildings.

[3] Primarily relates to equipment in TH Energy.

The total regulated capital expenditures for the three months and six months ended June 30, 2016 were $131.8 million and $265.5 million compared to $151.6 million and $258.7 million for the comparable periods in 2015.

For the three month ended June 30, 2016, the decrease in regulated capital expenditures was primarily related to lower spending on underground infrastructure ($18.1 million) and Copeland Station ($1.3 million).

For the six months ended June 30, 2016, the increase in regulated capital expenditures was primarily related to higher spending on technology assets ($14.0 million) mainly for the radio project, network infrastructure ($4.6 million), and equipment to meet increased load demand ($4.3 million). These variances were partially offset by lower spending on underground infrastructure ($16.3 million).

The largest capital initiatives in 2016 include the replacement of overhead and underground infrastructures, the delivery of customer connections, the facilities consolidation program, the radio project, 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 overhead infrastructure includes replacing poles, overhead transformers, conductors, overhead switches and other aging overhead infrastructure and equipment. The replacement of underground infrastructure includes replacing direct buried cables, transformer switches, handwells and other aging underground infrastructure. Both initiatives will allow LDC to continue to provide ongoing safe and reliable service to its customers. For the six months ended June 30, 2016, capital expenditures for the overhead and underground infrastructures were $42.8 million and $38.8 million, respectively.

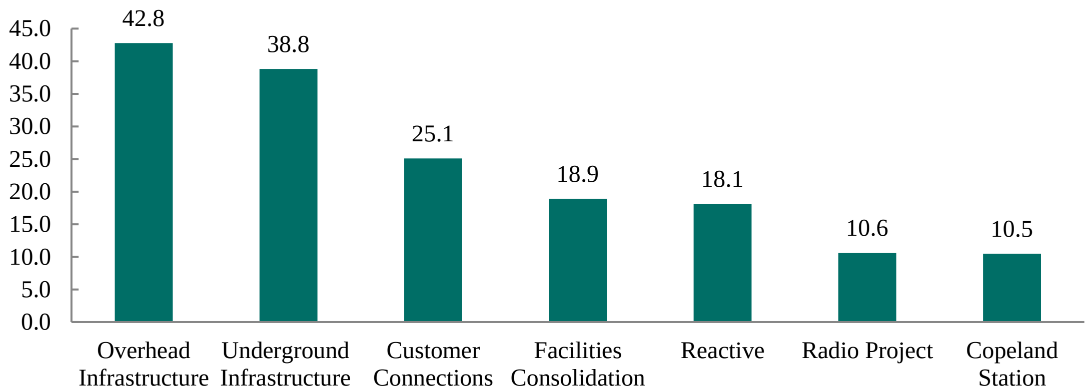
The delivery of customer connections includes spending related to new services and upgrades to existing services for specific commercial customers. For the six months ended June 30, 2016, capital expenditures for the delivery of customer connections were $25.1 million.

The facilities consolidation program relates to the consolidation of operating centres to lower operating centre costs and simplify long-term planning. In 2016, the Corporation continued relocating staff, equipment and operations as well as performing the required capital investment on specific properties and incurred costs of $18.9 million for the six months ended June 30, 2016.

The radio project relates to the implementation of a new digital voice radio system. The Corporation provides radio communication services to its own internal subscribers and contractors. The current analog radio technology has reached the end of its lifecycle and manufacturer's support. The new radio infrastructure will allow for expanded radio coverage and enhanced dispatching capabilities. For the six months ended June 30, 2016, capital expenditures for the radio project were $10.6 million.

Copeland Station 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 area of Toronto. During the second quarter of 2016, the installation of major electrical equipment was commenced and the machine shop structure work is underway. As at June 30, 2016, the cumulative capital expenditures on the Copeland Station project amounted to $165.4 million, plus capitalized borrowing costs. All capital expenditures related to Copeland Station are recorded to PP&E. Copeland Station is one of the most complex projects ever undertaken by the Corporation and unforeseen delays have extended the expected completion date from 2017 to 2018. The delays are attributable to a variety of factors, including the effect of inclement weather, challenging site conditions and contractor performance. Despite the delays, the total capital expenditures required to complete the project are expected to remain at approximately $195.0 million, plus capitalized borrowing costs.

Most Significant Regulated Capital Initiatives
Six months ended June 30, 2016
(in millions of Canadian dollars)



Financing Activities

Net cash provided by (used in) financing activities for the three months and six months ended June 30, 2016 was $(7.2) million and $53.4 million compared to $92.3 million and $103.1 million for the comparable periods in 2015.

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 is available in the form of letters of credit. As at June 30, 2016, 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. The Commercial Paper Program is supported by liquidity facilities available under the Revolving Credit Facility; hence, available borrowing under the Revolving Credit Facility is reduced by the amount of commercial paper outstanding at any point in time.

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

(in millions of Canadian dollars)	**Revolving Credit Facility Limit $**	**Revolving Credit Facility Borrowings $**	**Commercial Paper Outstanding $**	**Revolving Credit Facility Availability $**
June 30, 2016	800.0	-	267.0	533.0
December 31, 2015	800.0	-	324.0	476.0

For the three months and six months ended June 30, 2016, the average aggregate outstanding borrowings under the Corporation's Revolving Credit Facility, Working Capital Facility and Commercial Paper Program were $449.5 million and $427.9 million with weighted average interest rates of 0.89% and 0.90%.

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 June 30, 2016, $32.4 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 June 14, 2016, the Corporation issued $200.0 million of 2.52% senior unsecured debentures at a price of $999.84 per $1,000 principal amount due August 25, 2026 ("Series 12"). The Series 12 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 12 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. Net proceeds from the debentures were used to repay certain existing indebtedness of the Corporation and for general corporate purposes. Debt issuance costs of $1.3 million relating to the Series 12 debentures were recorded against the carrying amount of the debentures in the second quarter of 2016 and are amortized to finance costs using the effective interest method.

As at June 30, 2016, the Corporation had long-term debentures outstanding in the principal amount of $2.1 billion. These debentures will mature between 2017 and 2063. The Corporation may issue up to $555.0 million of additional debentures under its existing base shelf prospectus. As at June 30, 2016, the Corporation was in compliance with all covenants included in its trust indenture and supplemental trust indentures.

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

Credit Ratings
As at June 30, 2016

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

On April 25, 2016, Standard & Poor's announced its decision to maintain the credit rating on the Corporation as "A" and revised their outlook from stable to negative.

On April 27, 2016, DBRS announced its decision to maintain the credit rating on the Corporation as "A" with a stable trend.

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 2, 2016, the Corporation's Board of Directors declared dividends in the amount of $44.6 million. The dividends consisted of $38.35 million with respect to net income after net movements in regulatory balances for the year ended December 31, 2015, paid to the City on March 11, 2016, and $6.25 million with respect to the first quarter of 2016, paid to the City on March 31, 2016.

On July 5, 2016, the Corporation's Board of Directors declared a dividend in the amount of $6.25 million with respect to the second quarter of 2016, paid to the City on July 8, 2016.

On August 18, 2016, the Corporation's Board of Directors declared a dividend in the amount of $6.25 million with respect to the third quarter of 2016. The dividend is payable on September 30, 2016.

Summary of Contractual Obligations and Other Commitments

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

Summary of Contractual Obligations and Other Commitments
As at June 30, 2016
(in millions of Canadian dollars)

	Total $	2016 [1] $	2017/2018 $	2019/2020 $	After 2020 $
Working Capital Facility	6.7	6.7	-	-	-
Commercial paper [2]	267.0	267.0	-	-	-
Debentures – principal repayment	2,095.0	-	250.0	250.0	1,595.0
Debentures – interest payments	1,383.3	40.0	153.3	129.2	1,060.8
Operating leases	8.5	2.9	3.2	1.3	1.1
Capital projects [3] and other	44.6	20.7	23.9	-	-
Capital leases	6.2	1.6	4.6	-	-
Total contractual obligations and other commitments	3,811.3	338.9	435.0	380.5	2,656.9

1 Due over the period from July 1, 2016 to December 31, 2016.

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

3 Commitments for construction services and estimated capital contributions.

Subsequent to June 30, 2016, the Corporation entered into a capital commitment of approximately $9.0 million, which is expected to be settled within 2016.

Corporate Developments

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

Effective May 4, 2016, the City, as the sole shareholder of the Corporation, appointed Michael Nobrega to the Board of Directors. The appointment is effective for a term ending on December 10, 2017, or until a successor is appointed. Effective May 11, 2016, Michael Nobrega was appointed as Chair of the Audit Committee, replacing Heather Zordel who will remain as an Audit Committee member. On May 11, 2016, Brian Chu resigned from the Audit Committee but will remain as Chair of the Human Resources Committee of the Board of Directors.

Electricity Distribution Rates

On December 29, 2015, the OEB issued its CIR decision and on March 1, 2016, the OEB issued its CIR rate order, both in relation to the 2015-2019 rate application filed on July 31, 2014. The CIR decision and rate order approved a rate base of $3,232.0 million and revenue requirement of $633.1 million for 2015, and rates calculated on that basis. The CIR decision and rate order also approved subsequent annual rate adjustments based on a custom index for the period commencing on January 1, 2016 and ending on December 31, 2019. The rates for 2015 and 2016 were implemented on March 1, 2016, with effective dates of May 1, 2015 and January 1, 2016, respectively.

The OEB's decision and rate order on LDC's 2012-2014 rate application directed that a reconciliation process take place at the end of the 2012-2014 ICM period to reflect the difference between the revenue collected pursuant to the approved ICM rate rider and the actual revenue requirement associated with actual in-service assets eligible for ICM funding. On March 8, 2016, LDC filed a rate application to reconcile those amounts in accordance with the OEB's directive.

On July 28, 2016, the OEB approved a settlement proposal submitted by LDC and intervenors to the ICM rate application, which provided that there would be no change to the 2015–2019 rate base previously approved in the CIR decision and the 2012-2014 ICM process would be closed with no future disposition to or from ratepayers. Further to this approval, the $9.8 million currently recorded as an ICM regulatory credit balance will be recorded as an increase in equity through net movements in regulatory balances, net of tax in the third quarter of 2016.

CDM Activities

Under the energy conservation agreement with the IESO, LDC has a joint CDM plan with Oakville Hydro Electricity Distribution Inc. for the delivery of CDM programs over the 2015-2020 period. The joint CDM plan provides combined funding of approximately $425.0 million, including participant incentives and program administration costs, with an energy savings target of approximately 1,668 GWh. The programs for Oakville Hydro Electricity Distribution Inc. under the joint CDM plan started on January 1, 2016. LDC received $17.2 million as at December 31, 2015 and $8.0 million in the six months ended June 30, 2016 from the IESO for the delivery of CDM programs. Amounts received but not yet spent are presented on the Consolidated Balance Sheets under current liabilities as deferred conservation credit.

Legal Proceedings

In the ordinary course of business, the Corporation is subject to various legal actions and claims from customers, suppliers, 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 17 to the Interim Financial Statements.

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 June 30, 2016 and 2015. 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 requires management to make estimates and assumptions which affect the application of accounting policies, reported amounts of assets, liabilities and regulatory balances, 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.

Changes in Accounting Policies

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 were adopted effective January 1, 2016. The adoption of these amendments has no material impact on the Corporation’s consolidated financial statements.

Future Accounting Pronouncements

A number of new standards, amendments and interpretations are effective for annual periods beginning after December 31, 2016, and as such, have not yet been applied in preparing the Interim Financial Statements. In addition to the changes described in note 4 to the annual Consolidated Financial Statements, the Corporation has determined that the following could have an impact on its consolidated financial statements:

In January 2016, the IASB issued IFRS 16 *Leases* ("IFRS 16"), which replaces IAS 17 *Leases* ("IAS 17"). IFRS 16 provides a single lessee accounting model, requiring the recognition of assets and liabilities for all leases, unless the lease term is twelve months or less or the underlying asset has a low value. Lessor accounting remains largely unchanged from IAS 17 and the distinction between operating and finance leases is retained. In addition, lessees will recognize a front-loaded pattern of expense for most leases, even when they pay constant annual rentals. The standard is effective for annual periods beginning on or after January 1, 2019, and will be applied retrospectively with some exceptions. Early adoption is permitted if IFRS 15 *Revenue from Contracts with Customers* ("IFRS 15") has been adopted.

In January 2016, the IASB issued amendments to IAS 7 *Statement of Cash Flows* as part of the IASB's Disclosure Initiative. These amendments require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including changes from cash flows and non-cash changes. These amendments are effective for annual periods beginning on or after January 1, 2017.

In April 2016, the IASB issued amendments to IFRS 15, which was originally issued in May 2014. These amendments do not change the underlying principles of the standard but clarify how those principles should be applied. The amendments clarify how to identify a performance obligation in a contract, determine whether a company is a principal or an agent, and determine whether the revenue from granting a licence should be recognized at a point in time or over time. The amendments also include two additional transitional reliefs. The amendments are effective for annual periods beginning on or after January 1, 2018, consistent with the effective date of the standard.

The Corporation is currently evaluating the impact of these standards.

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", "focus", "future", "may", "outlook", "plan", "seek", "should", "strives", "trend", "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, the statements regarding the settlement variance as described in the section entitled "Results of Operations", the effect of changes in energy consumption on future revenue as described in the section entitled "Quarterly Results of Operations", 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 trend and outlook published by the credit rating agencies as described in the section entitled "Liquidity and Capital Resources", statements regarding the accounting for the ICM regulatory credit balance in the third quarter of 2016 as set out in the section entitled "Corporate Developments", the ability to pay any damages in connection with legal actions and claims as described in the section entitled "Legal Proceedings", and the 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

August 18, 2016

TORONTO HYDRO Corporation

UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2016 AND 2015

See Second Quarter Financial 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 June 30, 2016 $	As at December 31, 2015 $
ASSETS		
Current		
Accounts receivable	**236.8**	191.7
Unbilled revenue	**320.8**	320.4
Income tax receivable	**3.3**	9.9
Materials and supplies	**11.0**	9.8
Other assets	**12.9**	9.9
Total current assets	**584.8**	541.7
Property, plant and equipment *[note 5]*	**3,755.2**	3,588.7
Intangible assets *[note 6]*	**197.9**	199.3
Deferred tax assets	**102.5**	114.3
Other assets	**1.0**	1.2
Total assets	**4,641.4**	4,445.2
Regulatory balances *[note 7]*	**222.8**	241.7
Total assets and regulatory balances	**4,864.2**	4,686.9
LIABILITIES AND EQUITY		
Current		
Working capital facility *[note 8]*	**6.7**	14.2
Commercial paper *[note 8]*	**267.0**	324.0
Accounts payable and accrued liabilities	**491.7**	474.3
Customer deposits	**36.8**	37.5
Deferred revenue *[note 9]*	**8.1**	4.8
Deferred conservation credit *[note 3[b]]*	**11.3**	17.9
Other liabilities	**3.0**	3.2
Total current liabilities	**824.6**	875.9
Debentures *[note 10]*	**2,084.2**	1,885.1
Customer deposits	**11.3**	9.9
Deferred revenue *[note 9]*	**115.6**	100.3
Post-employment benefits *[note 11]*	**301.1**	296.5
Other liabilities	**4.7**	6.7
Total liabilities	**3,341.5**	3,174.4
Commitments, contingencies and subsequent events *[notes 2, 16 and 17]*		
Equity		
Share capital	**567.8**	567.8
Retained earnings	**804.0**	773.1
Total equity	**1,371.8**	1,340.9
Total liabilities and equity	**4,713.3**	4,515.3
Regulatory balances *[note 7]*	**150.9**	171.6
Total liabilities, equity and regulatory balances	**4,864.2**	4,686.9

See accompanying notes to the condensed interim consolidated financial statements.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF INCOME AND OTHER COMPREHENSIVE INCOME

[in millions of Canadian dollars, unaudited]

	Three months ended June 30,		Six months ended June 30,	
	2016	**2015**	**2016**	**2015**
	$	**$**	**$**	**$**
Revenues				
Energy sales	**801.1**	695.2	**1,593.0**	1,398.8
Distribution revenue	**158.8**	132.7	**305.6**	279.7
Other	**16.8**	15.0	**32.7**	28.5
	976.7	842.9	**1,931.3**	1,707.0
Expenses				
Energy purchases	**790.0**	727.7	**1,567.4**	1,414.9
Operating expenses	**63.4**	65.2	**129.6**	135.5
Depreciation and amortization *[notes 5 and 6]*	**53.7**	43.0	**100.8**	85.7
	907.1	835.9	**1,797.8**	1,636.1
Finance costs	**18.5**	17.6	**37.2**	34.6
Gain on disposals of property, plant and equipment	**-**	-	**-**	6.4
Income (loss) before income taxes	**51.1**	(10.6)	**96.3**	42.7
Income tax expense *[note 14]*	**15.0**	5.6	**22.6**	10.9
Net income (loss) for the period	**36.1**	(16.2)	**73.7**	31.8
Net movements in regulatory balances, net of tax *[note 7]*	**(4.9)**	32.1	**1.8**	0.6
Net income after net movements in regulatory balances and other comprehensive income	**31.2**	15.9	**75.5**	32.4

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

[in millions of Canadian dollars, unaudited]

	Three months ended June 30,		Six months ended June 30,	
	2016	**2015**	**2016**	**2015**
	$	**$**	**$**	**$**
Share capital	**567.8**	567.8	**567.8**	567.8
Retained earnings, beginning of period	**772.8**	681.7	**773.1**	702.7
Net income after net movements in regulatory balances and other comprehensive income	**31.2**	15.9	**75.5**	32.4
Dividends *[note 13]*	**-**	(6.3)	**(44.6)**	(43.8)
Retained earnings, end of period	**804.0**	691.3	**804.0**	691.3
Total equity	**1,371.8**	1,259.1	**1,371.8**	1,259.1

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 June 30,		Six months ended June 30,	
	2016	2015	**2016**	2015
	$	$	**$**	$
OPERATING ACTIVITIES				
Net income after net movements in regulatory balances	**31.2**	15.9	**75.5**	32.4
Net movements in regulatory balances *[note 7]*	**4.9**	(32.1)	**(1.8)**	(0.6)
Adjustments				
Depreciation and amortization *[notes 5 and 6]*	**53.7**	43.0	**100.8**	85.7
Amortization of deferred revenue *[note 9]*	**(0.9)**	(0.4)	**(1.7)**	(0.8)
Finance costs	**18.5**	17.6	**37.2**	34.6
Income tax expense	**15.0**	5.6	**22.6**	10.9
Post-employment benefits	**2.3**	2.0	**4.6**	4.2
Gain on disposals of property, plant and equipment	**-**	-	**-**	(6.4)
Other	**(0.1)**	(0.1)	**0.1**	0.3
Capital contributions received *[note 9]*	**9.9**	10.1	**17.1**	16.1
Net change in other non-current assets and liabilities	**0.7**	-	**(0.1)**	(1.7)
Increase (decrease) in customer deposits	**(0.6)**	(2.4)	**0.7**	0.7
Changes in non-cash working capital balances *[note 15]*	**11.3**	(27.5)	**(17.5)**	(6.9)
Income tax paid	**-**	(2.0)	**(0.9)**	(4.7)
Net cash provided by operating activities	**145.9**	29.7	**236.6**	163.8
INVESTING ACTIVITIES				
Purchase of property, plant and equipment *[note 15]*	**(126.1)**	(137.0)	**(274.3)**	(276.0)
Purchase of intangible assets *[note 15]*	**(7.0)**	(5.9)	**(8.6)**	(9.4)
Proceeds on disposals of property, plant and equipment	**0.4**	0.1	**0.4**	10.4
Net cash used in investing activities	**(132.7)**	(142.8)	**(282.5)**	(275.0)
FINANCING ACTIVITIES				
Increase (decrease) in commercial paper *[note 8]*	**(172.0)**	131.0	**(57.0)**	(13.0)
Dividends paid *[note 13]*	**-**	(6.3)	**(44.6)**	(43.8)
Proceeds from debentures *[note 10]*	**200.0**	-	**200.0**	199.7
Debt issuance costs paid *[note 10]*	**(1.3)**	-	**(1.3)**	(1.4)
Repayment of finance lease liability	**(1.0)**	(0.9)	**(1.7)**	(1.5)
Interest paid	**(32.9)**	(31.5)	**(42.0)**	(36.9)
Net cash provided by (used in) financing activities	**(7.2)**	92.3	**53.4**	103.1
Net decrease (increase) in working capital facility during the period	**6.0**	(20.8)	**7.5**	(8.1)
Cash and cash equivalents (working capital facility), beginning of period	**(12.7)**	6.6	**(14.2)**	(6.1)
Working capital facility, end of period	**(6.7)**	(14.2)	**(6.7)**	(14.2)

See accompanying notes to the condensed interim consolidated financial statements.

1. NATURE OF BUSINESS

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

The Corporation 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 in the City.

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 for the three and six months ended June 30, 2016 and 2015 ["Interim Financial Statements"] have been prepared in accordance with IAS 34 *Interim Financial Reporting*. The disclosures in these Interim Financial Statements do not conform in all respects to the requirements of IFRS for annual consolidated financial statements. These Interim Financial Statements follow the same accounting policies and methods of computation as the Corporation's audited consolidated financial statements for the year ended December 31, 2015, except for accounting policies that have changed as described in note 4. Accordingly, they should be read in conjunction with the Corporation's annual consolidated financial statements.

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 August 18, 2016 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 required recognition in the Interim Financial Statements and/or disclosure in the notes to the Interim Financial Statements *[notes 3, 7, 13 and 16]*.

3. REGULATION

a) Electricity Distribution Rates

On December 29, 2015, the OEB issued its CIR decision and on March 1, 2016, the OEB issued its CIR rate order, both in relation to the 2015-2019 rate application filed on July 31, 2014. The CIR decision and rate order approved a rate base of $3,232.0 million and revenue requirement of $633.1 million for 2015, and rates calculated on that basis. The CIR decision and rate order also approved subsequent annual rate adjustments based on a custom index for the period commencing on January 1, 2016 and ending on December 31, 2019. The rates for 2015 and 2016 were implemented on March 1, 2016, with effective dates of May 1, 2015 and January 1, 2016, respectively *[note 7[a]]*.

The OEB's decision and rate order on LDC's 2012-2014 rate application directed that a reconciliation process take place at the end of the 2012-2014 ICM period to reflect the difference between the revenue collected pursuant to the approved ICM rate rider and the actual revenue requirement associated with actual in-service assets eligible for ICM funding. On March 8, 2016, LDC filed a rate application to reconcile those amounts in accordance with the OEB's directive.

On July 28, 2016, the OEB approved a settlement proposal submitted by LDC and intervenors to the ICM rate application, which provided that there would be no change to the 2015–2019 rate base previously approved in the CIR decision and the 2012-2014 ICM process would be closed with no future disposition to or from ratepayers. Further to this approval, the $9.8 million currently recorded as an ICM regulatory credit balance *[note 7]* will be recorded as an increase in equity through net movements in regulatory balances, net of tax in the third quarter of 2016.

b) CDM Activities

Under the energy conservation agreement with the IESO, LDC has a joint CDM plan with Oakville Hydro Electricity Distribution Inc. for the delivery of CDM programs over the 2015-2020 period. The joint CDM plan provides combined funding of approximately $425.0 million, including participant incentives and program administration costs, with an energy savings target of approximately 1,668 GWh. The programs for Oakville Hydro Electricity Distribution Inc. under the joint CDM plan started on January 1, 2016. LDC received $17.2 million as at December 31, 2015 and $8.0 million in the six months ended June 30, 2016 from the IESO for the delivery of CDM programs. Amounts received but not yet spent are presented on the consolidated balance sheets under current liabilities as deferred conservation credit.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Changes in accounting policies

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 were adopted effective January 1, 2016. The adoption of these amendments has no material impact on the Corporation's consolidated financial statements.

b) Use of estimates

The preparation of the Corporation's Interim Financial Statements requires management to make estimates and assumptions which affect the application of accounting policies, reported amounts of assets, liabilities and regulatory balances, 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. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively.

c) Future accounting pronouncements

A number of new standards, amendments and interpretations are effective for annual periods beginning after December 31, 2016, and as such, have not yet been applied in preparing these Interim Financial Statements. In addition to the changes described in note 4 to the Corporation's audited consolidated financial statements for the year ended December 31, 2015, the Corporation has determined that the following could have an impact on its consolidated financial statements:

- In January 2016, the IASB issued IFRS 16 *Leases* ["IFRS 16"], which replaces IAS 17 *Leases* ["IAS 17"]. IFRS 16 provides a single lessee accounting model, requiring the recognition of assets and liabilities for all leases, unless the lease term is twelve months or less or the underlying asset has a low value. Lessor accounting remains largely unchanged from IAS 17 and the distinction between operating and finance leases is retained. In addition, lessees will recognize a front-loaded pattern of expense for most leases, even when they pay constant annual rentals. The standard is effective for annual periods beginning on or after January 1, 2019, and will be applied retrospectively with some exceptions. Early adoption is permitted if IFRS 15 *Revenue from Contracts with Customers* ["IFRS 15"] has been adopted.

- In January 2016, the IASB issued amendments to IAS 7 *Statement of Cash Flows* as part of the IASB's Disclosure Initiative. These amendments require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including changes from cash flows and non-cash changes. These amendments are effective for annual periods beginning on or after January 1, 2017.

- In April 2016, the IASB issued amendments to IFRS 15, which was originally issued in May 2014. These amendments do not change the underlying principles of the standard but clarify how those principles should be applied. The amendments clarify how to identify a performance obligation in a contract, determine whether a company is a principal or an agent, and determine whether the revenue from granting a licence should be recognized at a point in time or over time. The amendments also include two additional transitional reliefs. The amendments are effective for annual periods beginning on or after January 1, 2018, consistent with the effective date of the standard.

The Corporation is currently evaluating the impact of these standards.

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

5. PROPERTY, PLANT AND EQUIPMENT

PP&E consist of the following:

	Distribution assets $	Land and buildings $	Equipment and other $	Construction in progress $	Total $
Cost					
Balance as at December 31, 2015	3,027.2	203.1	175.7	498.7	3,904.7
Additions	**149.0**	**6.4**	**4.6**	**98.3**	**258.3**
Disposals and retirements	**(14.1)**	—	—	—	**(14.1)**
Balance as at June 30, 2016	**3,162.1**	**209.5**	**180.3**	**597.0**	**4,148.9**
Accumulated depreciation					
Balance as at December 31, 2015	222.6	15.7	77.7	—	316.0
Depreciation	**63.2**	**4.7**	**11.6**	—	**79.5**
Disposals and retirements	**(1.8)**	—	—	—	**(1.8)**
Balance as at June 30, 2016	**284.0**	**20.4**	**89.3**	—	**393.7**
Carrying amount					
Balance as at December 31, 2015	2,804.6	187.4	98.0	498.7	3,588.7
Balance as at June 30, 2016	**2,878.1**	**189.1**	**91.0**	**597.0**	**3,755.2**

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

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

6. INTANGIBLE ASSETS

Intangible assets consist of the following:

	Computer software $	Contributions $	Software in development $	Contributions for work in progress $	Total $
Cost					
Balance as at December 31, 2015	101.6	21.7	11.8	104.3	239.4
Additions	**2.6**	—	**2.2**	**3.8**	**8.6**
Balance as at June 30, 2016	**104.2**	**21.7**	**14.0**	**108.1**	**248.0**
Accumulated amortization					
Balance as at December 31, 2015	38.1	2.0	—	—	40.1
Amortization	**9.5**	**0.5**	—	—	**10.0**
Balance as at June 30, 2016	**47.6**	**2.5**	—	—	**50.1**
Carrying amount					
Balance as at December 31, 2015	63.5	19.7	11.8	104.3	199.3
Balance as at June 30, 2016	**56.6**	**19.2**	**14.0**	**108.1**	**197.9**

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

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

7. REGULATORY BALANCES

Debit balances consist of the following:

	January 1 2016 $	Balances arising in the period $	Recovery/ reversal (i) $	Other movements (ii) $	June 30 2016 $	Remaining recovery/ reversal period (months)
OPEB actuarial loss	**81.2**	—	—	—	**81.2**	(iii)
Foregone revenue *[7[a]]*	**61.1**	**19.2**	**(5.2)**	—	**75.1**	42(iv)
IFRS transitional adjustments	**28.9**	—	**(1.9)**	—	**27.0**	42(iv)
Stranded meters	**14.4**	—	**(1.0)**	—	**13.4**	42(iv)
LRAM	**9.1**	—	**(1.0)**	—	**8.1**	(v)
Smart meters	**10.0**	—	**(4.0)**	—	**6.0**	10
Named properties	**5.8**	—	**(0.4)**	—	**5.4**	42(iv)
OPEB cash versus accrual *[7[b]]*	**1.8**	**1.1**	—	—	**2.9**	(vi)
Settlement variances	**25.3**	**(25.5)**	**(0.4)**	**2.4**	**1.8**	(vii)
Capital contributions	**1.9**	—	**(0.1)**	—	**1.8**	42(iv)
Other	**2.2**	**0.1**	**(0.2)**	**(2.0)**	**0.1**	6(iv)
	241.7	**(5.1)**	**(14.2)**	**0.4**	**222.8**	

(i) Related to amounts disposed through OEB-approved rate riders.

(ii) Reclassification of minor deferral accounts into "Other" regulatory credit balances, which were approved by the OEB for disposition over a 10-month period commencing on March 1, 2016.

(iii) LDC did not seek recovery from the OEB as changes in underlying assumptions may reduce the balance in the account. LDC expects to recover this regulatory balance as per OEB direction when recovery is sought.

(iv) Disposition period commencing on March 1, 2016 is based on the CIR decision and rate order *[note 3[a]]*.

(v) Disposition period of the 2011-2013 LRAM of $3.6 million over 10 months commencing on March 1, 2016 is based on the CIR decision and rate order *[note 3[a]]*. LDC intends to apply for disposition of the 2014 LRAM balance of $5.0 million in its next rate application and for the remaining balance in respect of 2015 at a later date, for which timing is currently unknown.

(vi) LDC intends to apply for disposition of the balance following the completion of the OEB consultation process on pension and OPEB, for which timing is currently unknown.

(vii) Disposition period of the low voltage variances of $1.3 million over 10 months commencing on March 1, 2016 is based on the CIR decision and rate order *[note 3[a]]*. LDC intends to apply for disposition of remaining settlement variances in its next rate applications.

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

Credit balances consist of the following:

	January 1 2016 $	Balances arising in the period $	Recovery/ reversal (i) $	Other movements (ii) $	June 30 2016 $	Remaining recovery/ reversal period (months)
Deferred taxes *[7[c]]*	**114.8**	**(11.4)**	**—**	**—**	**103.4**	(iii)
Tax-related variances	**26.5**	**—**	**(2.8)**	**(0.5)**	**23.2**	6-30(iv)
ICM	**9.7**	**0.1**	**—**	**—**	**9.8**	(v)
Derecognition *[7[d]]*	**9.9**	**(1.7)**	**—**	**—**	**8.2**	(vi)
Capital-related revenue requirement	**2.8**	**—**	**—**	**—**	**2.8**	(vi)
Gain on disposal	**5.9**	**—**	**(4.6)**	**—**	**1.3**	(vii)
Other	**2.0**	**0.1**	**(0.8)**	**0.9**	**2.2**	6(viii)
	171.6	**(12.9)**	**(8.2)**	**0.4**	**150.9**	

(i) Related to amounts disposed through OEB-approved rate riders.
(ii) Reclassification of minor deferral accounts into “Other” regulatory credit balances, which were approved by the OEB for disposition over a 10-month period commencing on March 1, 2016.
(iii) LDC did not apply for disposition of the balance since it is being reversed through timing differences in the recognition of deferred tax assets.
(iv) Disposition period of the revision of prior year tax position account over 34 months and the income tax variance account over 10 months commencing on March 1, 2016 is based on the CIR decision and rate order *[note 3[a]]*.
(v) Further to the OEB’s decision of July 28, 2016, the full balance will be recorded as an increase in equity through net movements in regulatory balances, net of tax in the third quarter of 2016 *[note 3[a]]*.
(vi) LDC intends to apply for disposition of the balance at a later date, for which timing is currently unknown.
(vii) Disposition period of forecasted gains is over 34 months commencing on March 1, 2016 as per the CIR decision and rate order *[note 3[a]]*. The timing of balances arising from the realization of those gains is dependent on market and other conditions. LDC intends to apply for disposition of any residual balance at a later date for which timing is currently unknown.
(viii) Disposition period commencing on March 1, 2016 is based on the CIR decision and rate order *[note 3[a]]*.

For a full description of the regulatory balances, refer to note 9 of the Corporation’s audited consolidated financial statements for the year ended December 31, 2015. The significant changes for the six months ended June 30, 2016 are described as follows:

a) Foregone Revenue

This regulatory balance relates to the revenue that LDC would have recovered in 2015 and 2016 if new rates were implemented as of May 1, 2015 and January 1, 2016, respectively. LDC recorded $19.2 million during the six months ended June 30, 2016 to reflect the amount associated with the January 1, 2016 to February 29, 2016 period to be recovered through rates over a 46-month period commencing on March 1, 2016.

b) OPEB Cash versus Accrual

This regulatory balance relates to the difference between LDC’s forecasted OPEB costs on an accrual basis and the cash payments made to the OPEB plans. In the CIR decision and rate order *[note 3[a]]*, the OEB directed LDC to account for OPEB costs on a cash basis for rate-making purposes. This is a temporary arrangement, pending the OEB’s conclusion on the sector-wide policy consultation it initiated on pension and OPEB costs. LDC does not consider the OEB’s direction to constitute a change in the basis of its recovery of OPEB costs at this time, considering the OEB's approval of the variance account. LDC expects to apply for disposition of the balance in the future. LDC recorded $1.1 million to reflect the OPEB variance for the six months ended June 30, 2016.

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

c) Deferred Taxes

The amounts reclassified under IFRS 14 *Regulatory Deferral Accounts* include the deferred tax liability related to regulatory balances of $41.9 million as at June 30, 2016 [December 31, 2015 - $42.1 million], offset by the recognition of a regulatory balance in respect of additional temporary differences for which a deferred tax amount was recognized of $22.2 million as at June 30, 2016 [December 31, 2015 - $26.2 million]. The deferred tax amount related to the expected future electricity distribution rate reduction for customers was $83.7 million as at June 30, 2016 [December 31, 2015 - $98.9 million].

d) Derecognition

This regulatory balance relates to the difference between the revenue requirement on derecognition amounts for PP&E and intangible assets included in the OEB-approved rates and the actual amounts of derecognition. LDC recorded $1.7 million to reflect the derecognition variance for the six months ended June 30, 2016.

8. SHORT-TERM BORROWINGS

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

	Revolving Credit Facility Limit $	Revolving Credit Facility Borrowings $	Commercial Paper Outstanding $	Revolving Credit Facility Availability $
June 30, 2016	800.0	—	267.0	533.0
December 31, 2015	800.0	—	324.0	476.0

For the three months and the six months ended June 30, 2016, the average aggregate outstanding borrowings under the Corporation's Revolving Credit Facility, Working Capital Facility and Commercial Paper Program were $449.5 million and $427.9 million [three months and six months ended June 30, 2015 - $221.1 million and $271.4 million] with weighted average interest rates of 0.89% and 0.90% [three months and six months ended June 30, 2015 - 1.02% and 1.05%].

As at June 30, 2016, $6.7 million had been drawn under the Working Capital Facility [December 31, 2015 - $14.2 million] and $32.4 million of letters of credit had been issued against the Prudential Facility [December 31, 2015 - $32.4 million].

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

9. DEFERRED REVENUE

Deferred revenue consists of the following:

	As at and six months ended June 30 2016 $	As at and year ended December 31 2015 $
Capital contributions, beginning of period	**103.0**	72.6
Receipt of capital contributions	**17.1**	33.0
Amortization	**(1.7)**	(2.2)
Other	**0.3**	(0.4)
Capital contributions, end of period	**118.7**	103.0
Other	**5.0**	2.1
Total deferred revenue	**123.7**	105.1
Less: Current portion of deferred revenue	**8.1**	4.8
Non-current portion of deferred revenue	**115.6**	100.3

10. DEBENTURES

On June 14, 2016, the Corporation issued $200.0 million of 2.52% senior unsecured debentures at a price of $999.84 per $1,000 principal amount due August 25, 2026 ["Series 12"]. The Series 12 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 12 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. Net proceeds from the debentures were used to repay certain existing indebtedness of the Corporation and for general corporate purposes. Debt issuance costs of $1.3 million relating to the Series 12 debentures were recorded against the carrying amount of the debentures in the second quarter of 2016 and are amortized to finance costs using the effective interest method.

The Corporation may issue up to $555.0 million of additional debentures under the existing base shelf prospectus.

11. EMPLOYEE FUTURE BENEFITS

Pension

The Corporation's eligible employees participate in a defined benefit pension plan through OMERS. For the three months and the six months ended June 30, 2016, the Corporation's contributions to the plan were $4.4 million and $9.5 million [three months and six months ended June 30, 2015 - $3.8 million and $8.8 million].

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

Post-employment benefits other than pension

The components of benefit cost are:

	Three months ended June 30		Six months ended June 30	
	2016 $	2015 $	2016 $	2015 $
Current service cost	**1.6**	1.5	**3.1**	3.0
Interest cost	**3.0**	2.9	**6.0**	5.8
Benefit cost	**4.6**	4.4	**9.1**	8.8
Capitalized to PP&E and intangible assets	**2.0**	1.9	**3.7**	3.5
Charged to operating expenses	**2.6**	2.5	**5.4**	5.3

12. FINANCIAL INSTRUMENTS

Recognition and measurement

As at June 30, 2016 and December 31, 2015, the fair values of accounts receivable, unbilled revenue, Working Capital Facility, commercial paper, and accounts payable and accrued liabilities approximated their carrying amounts due to the short maturity of these instruments. The fair values of customer deposits approximate their carrying amounts 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 amounts 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 June 30, 2016, the total fair value of the Corporation's debentures was determined to be approximately $2,292.3 million [December 31, 2015 - $2,004.4 million], with a total carrying amount of $2,084.2 million [December 31, 2015 - $1,885.1 million].

13. SHARE CAPITAL

On March 2, 2016, the Corporation's Board of Directors declared dividends in the amount of $44.6 million. The dividends consisted of $38.35 million with respect to net income after net movements in regulatory balances for the year ended December 31, 2015, paid to the City on March 11, 2016, and $6.25 million with respect to the first quarter of 2016, paid to the City on March 31, 2016.

On July 5, 2016, the Corporation's Board of Directors declared a dividend in the amount of $6.25 million with respect to the second quarter of 2016, paid to the City on July 8, 2016.

On August 18, 2016, the Corporation's Board of Directors declared a dividend in the amount of $6.25 million with respect to the third quarter of 2016. The dividend is payable on September 30, 2016.

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

14. INCOME TAXES

The Corporation's effective tax rate after net movements in regulatory balances for the three months and the six months ended June 30, 2016 was 15.2% and 12.9% [three months and six months ended June 30, 2015 - 13.4%]. The effective tax rate for the three months ended June 30, 2016 was higher than the three months ended June 30, 2015 primarily due to changes in permanent and temporary differences between accounting and tax treatments.

15. CONSOLIDATED STATEMENTS OF CASH FLOWS

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

	Three months ended June 30		Six months ended June 30	
	2016 $	2015 $	2016 $	2015 $
Accounts receivable	**(19.3)**	0.9	**(45.1)**	(29.8)
Unbilled revenue	**14.3**	(15.1)	**(0.4)**	28.5
Income tax receivable	**2.6**	(3.4)	**6.6**	(4.3)
Materials and supplies	**(0.3)**	(0.2)	**(1.2)**	(0.7)
Other current assets	**(0.8)**	(3.4)	**(3.0)**	(5.5)
Accounts payable and accrued liabilities	**19.8**	(5.0)	**29.1**	1.9
Deferred revenue	**(1.4)**	(1.1)	**3.3**	2.6
Deferred conservation credit	**(3.8)**	(0.2)	**(6.6)**	0.1
Other current liabilities	**0.2**	—	**(0.2)**	0.3
	11.3	(27.5)	**(17.5)**	(6.9)

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 June 30		Six months ended June 30	
	2016 $	2015 $	2016 $	2015 $
Purchase of PP&E, cash basis	**126.1**	137.0	**274.3**	276.0
Net change in accruals related to PP&E	**2.4**	8.2	**(16.8)**	(25.9)
Other	**0.5**	0.6	**0.8**	1.2
Total additions to PP&E	**129.0**	145.8	**258.3**	251.3
Purchase of intangible assets, cash basis	**7.0**	5.9	**8.6**	9.4
Net change in accruals related to intangible assets	**(3.0)**	—	**—**	—
Total additions to intangible assets	**4.0**	5.9	**8.6**	9.4
Total additions to PP&E and intangible assets	**133.0**	151.7	**266.9**	260.7

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

16. COMMITMENTS

Operating leases and capital projects

As at June 30, 2016, the future minimum payments under property operating leases, capital projects and other commitments were as follows:

	Operating leases $	Capital projects [4] and other $
Less than one year [1]	**2.9**	**20.7**
Between one and five years [2]	**4.5**	**23.9**
More than five years [3]	**1.1**	**—**
Total amount of future minimum payments	**8.5**	**44.6**

(1) Due over the period from July 1, 2016 to December 31, 2016.
(2) Due over the period from January 1, 2017 to December 31, 2020.
(3) Due from January 1, 2021 and beyond.
(4) Commitments for construction services and estimated capital contributions.

Subsequent to June 30, 2016, the Corporation entered into a capital commitment of approximately $9.0 million, which is expected to be settled within 2016.

17. 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 25 to the Corporation's audited consolidated financial statements for the year ended December 31, 2015.