TORONTO HYDRO Corporation

FIRST QUARTER FINANCIAL REPORT
MARCH 31, 2023

TORONTO HYDRO CORPORATION

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GLOSSARY

CDM – Conservation and demand management

CEO – Chief Executive Officer

CFO – Chief Financial Officer

CIR – Custom Incentive Rate-setting

City – City of Toronto

Corporation – Toronto Hydro Corporation

COVID-19 – Coronavirus disease 2019 and its variant

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

HONI – Hydro One Networks Inc.

IAS – International Accounting Standard

IASB – International Accounting Standards Board

IESO – Independent Electricity System Operator

IFRS – International Financial Reporting Standards

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

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

OPEB – Other post-employment benefits

PP&E – Property, plant and equipment

RPP – Regulated Price Plan

TH Energy – Toronto Hydro Energy Services Inc

Toronto Hydro – Toronto Hydro Corporation and its subsidiaries

TOU – Time-of-use

WMS – Wholesale Market Service

TORONTO HYDRO Corporation

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE THREE MONTHS ENDED MARCH 31, 2023 AND 2022

Executive Summary

- Net income after net movements in regulatory balances for the three months ended March 31, 2023 was $44.0 million, compared to $47.5 million for the comparable period in 2022;
- Capital expenditures were primarily related to the renewal of the electricity infrastructure of LDC and were $156.2 million for the three months ended March 31, 2023, compared to $138.8 million for the comparable period in 2022;
- On March 17, 2023, the amount available for borrowing under the Revolving Credit Facility was increased by $200.0 million from $800 million to $1.0 billion;
- On March 24, 2023, the amount available for issuance under the Commercial Paper Program was increased by $250.0 million from $750.0 million to $1.0 billion;
- On April 28, 2023, DBRS confirmed the Corporation's issuer rating and debentures rating at "A" and the commercial paper rating at R-1 (low), each with stable trends;
- Effective May 1, 2023 but no later than November 1, 2023, LDC can start offering the ultra-low overnight price plan to RPP consumers, following the Ontario Ministry of Energy amendment of the OEB Act on August 10, 2022;
- On May 9, 2023, the Board of Directors of the Corporation declared a dividend in the amount of $24.6 million with respect to the second quarter of 2023 (second quarter of 2022 - $21.1 million), payable to the City by June 30, 2023; and
- On May 11, 2023, S&P Global Ratings announced its decision to maintain the issuer credit rating and senior unsecured rating on the Corporation as "A" and revised the outlook from "positive" to "developing".

Introduction

This MD&A should be read in conjunction with:

- the Corporation's unaudited condensed interim consolidated financial statements and accompanying notes as at and for the three months ended March 31, 2023 and 2022 ("the "Interim Financial Statements"), which were prepared in accordance with IAS 34 *Interim Financial Reporting*. The Interim Financial Statements have been prepared following the same accounting policies and methods of computation as those described in note 25 to the Corporation's audited consolidated financial statements as at and for the years ended December 31, 2022 and 2021 (the "2022 Annual Financial Statements");

- 2022 Annual Financial Statements; and

- the Corporation's MD&A for the years ended December 31, 2022 and 2021 (the "2022 Annual MD&A"), including the sections titled "Electricity Distribution – Industry Overview", "Corporate Developments COVID 19 Pandemic Considerations", "Legal Proceedings", "Share Capital", "Transactions with Related Parties", and "Risk Management and Risk Factors", which remain substantially unchanged as at the date hereof, except as may be noted below or as updated in the Corporation's Interim Financial Statements.

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

Business of Toronto Hydro Corporation

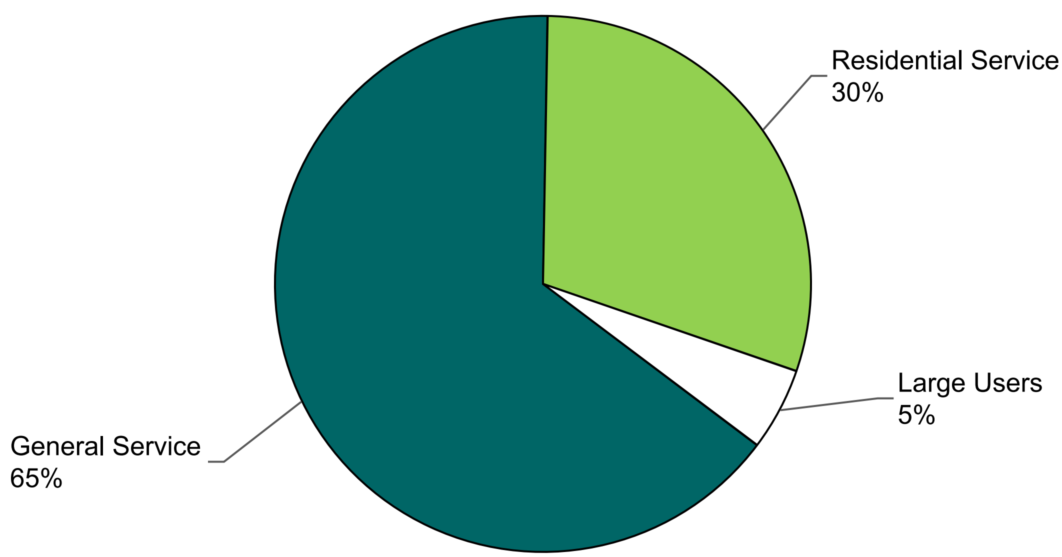
The Corporation is a holding company which wholly owns two subsidiaries:

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

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

The principal business of the Corporation and its subsidiaries is the distribution of electricity by LDC. LDC owns and operates an electricity distribution system that delivers electricity to approximately 791,000 customers located in the city of Toronto. LDC serves the largest city in Canada and distributes approximately 17% of the electricity consumed in Ontario. The business of LDC is regulated by the OEB, which has broad powers relating to licensing, standards of conduct and service, and the regulation of electricity distribution rates charged by electricity distributors in Ontario. For the three months ended March 31, 2023, LDC recognized energy sales and distribution revenue of $829.6 million from general service users[1], residential service users[2] and large users[3].

LDC Energy Sales and Distribution Revenue by Class
Three months ended March 31, 2023



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

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

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

Results of Operations

Net Income after Net Movements in Regulatory Balances

Condensed Interim Consolidated Statements of Income
Three months ended March 31, 2023
(in millions of Canadian dollars)

	2023 **$**	2022 $	Change $
Revenues			
Energy sales	**628.3**	674.3	(46.0)
Distribution revenue	**201.3**	186.9	14.4
Other	**27.3**	25.7	1.6
	856.9	886.9	(30.0)
Expenses			
Energy purchases	**676.5**	693.9	(17.4)
Operating expenses	**87.6**	76.1	11.5
Depreciation and amortization	**68.0**	73.2	(5.2)
	832.1	843.2	(11.1)
Finance costs	**(27.3)**	(19.6)	(7.7)
Other gains	**34.1**	—	34.1
Income before income taxes	**31.6**	24.1	7.5
Income tax expense	**(13.0)**	(9.1)	(3.9)
Net income	**18.6**	15.0	3.6
Net movements in regulatory balances	**12.7**	24.8	(12.1)
Net movements in regulatory balances arising from deferred taxes	**12.7**	7.7	5.0
Net income after net movements in regulatory balances	**44.0**	47.5	(3.5)

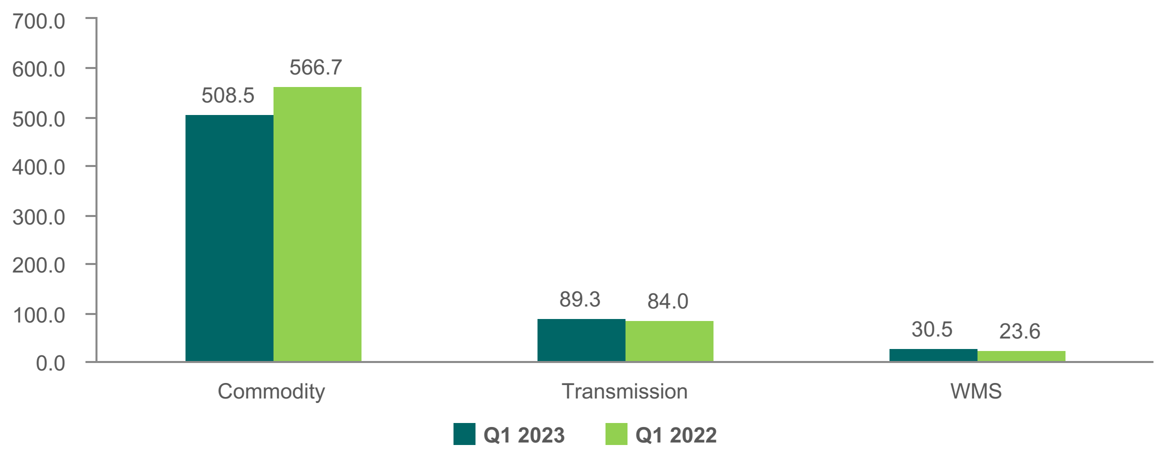
For the three months ended March 31, 2023, net income after net movements in regulatory balances was lower by $3.5 million. The decrease was mainly due to higher operating expenses resulting from an increase in system maintenance costs, ancillary service costs and bad debt expense ($11.5 million) and increased finance costs relating to higher rate of funding from commercial paper ($7.7 million). These variances were partially offset by higher distribution revenue ($14.4 million) and lower depreciation and amortization ($5.2 million).

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

Energy Sales

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

Energy Sales
Three months ended March 31, 2023
(in millions of Canadian dollars)



Energy sales for the three months ended March 31, 2023 were $628.3 million, compared to $674.3 million for the comparable period in 2022. The decrease was primarily due to lower commodity charges ($58.2 million), partially offset by higher wholesale market service charges ($6.9 million) and higher retail transmission charges ($5.3 million).

Energy Purchases, Energy Sales, and Settlement Variances
Three months ended March 31, 2023
(in millions of Canadian dollars)

	Energy Purchases $	Energy Sales $	Settlement Variances $
Commodity charges	548.0	508.5	39.5
Retail transmission charges	97.0	89.3	7.7
WMS charges	31.5	30.5	1.0
Total	676.5	628.3	48.2

For the three months ended March 31, 2023, LDC recognized $628.3 million in energy sales to customers and was billed $676.5 million for energy purchases from the IESO. The difference between energy sales and energy purchases represents a $48.2 million settlement variance for the period. The settlement variance was recorded as an increase to the regulatory debit balance ($50.5 million including carrying charges on the accumulated settlement variance balance) on the Consolidated Balance Sheets, and presented within net movements in regulatory balances on the Consolidated Statements of Income.

Distribution Revenue

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

Distribution revenue for the three months ended March 31, 2023 was $201.3 million, compared to $186.9 million for the comparable period in 2022.

The increase in distribution revenue ($14.4 million) for the three months ended March 31, 2023 was primarily due to higher 2023 distribution rates ($12.4 million) and higher revenue collected through OEB-approved rate riders ($2.6 million), partially offset by lower electricity consumption ($0.6 million).

Other Revenue

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

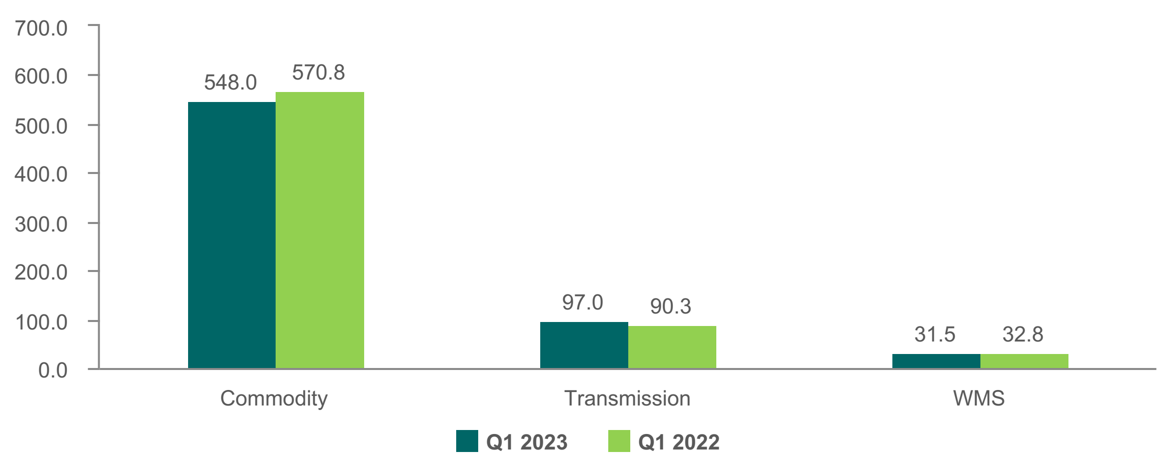
Other revenue for the three months ended March 31, 2023 was $27.3 million, compared to $25.7 million for the comparable period in 2022.

The increase in other revenue for the three months ended March 31, 2023 was primarily due to higher revenue in connection with ancillary services and an increase in other regulatory service charges.

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 March 31, 2023
(in millions of Canadian dollars)



Energy purchases for the three months ended December 31, 2023 were $676.5 million compared to $693.9 million for the comparable period in 2022. The decrease was primarily due to lower commodity charges ($22.8 million) and lower wholesale market service charges ($1.3 million), partially offset by higher retail transmission charges ($6.7 million).

Operating Expenses

Operating expenses for the three months ended March 31, 2023 were $87.6 million, compared to $76.1 million for the comparable period in 2022.

The increase in operating expenses for the three months ended March 31, 2023 was primarily due to higher system maintenance costs, increased costs in connection with ancillary services and higher bad debt expense.

Depreciation and Amortization

Depreciation and amortization expense, which includes derecognition of assets removed from service, for the three months ended March 31, 2023 was $68.0 million, compared to $73.2 million for the comparable period in 2022.

The decrease in depreciation and amortization for the three months ended March 31, 2023 was primarily due to the change in useful lives which was applied prospectively resulting in a reduction of depreciation expense (refer to "Changes in Accounting Estimates" section), certain assets being fully depreciated and lower derecognition of assets removed from service, partially offset by in-service asset additions.

Finance Costs

Finance costs for the three months ended March 31, 2023 were $27.3 million, compared to $19.6 million for the comparable period in 2022.

The increase in finance costs for the three months ended March 31, 2023 was primarily due to a higher interest rate of funding from commercial paper with a weighted average interest rate of 4.57% (2022 – 0.44%) and higher average long-term debentures outstanding, partially offset by an increase in investment income due to higher short-term rates and higher capitalized borrowing costs.

Other gains

Other gains for the three months ended March 31, 2023 was $34.1 million, compared to $nil for the comparable period in 2022.

The increase in other gains for the three months ended March 31, 2023 was due to the deferred variable consideration receivable in relation to the disposition of properties by LDC in prior years upon achievement of conditions. The proceeds receivable of $29.6 million, net of tax and selling costs, was recorded as a regulatory credit balance on the condensed interim Consolidated Balance Sheets with a corresponding offset in net movements in regulatory balances. The realized gain and tax savings in connection with the disposition of properties were previously recorded in a prior period to the regulatory account and approved for disposition by the OEB.

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 ended March 31, 2023 was $0.3 million, compared to $1.4 million for the comparable period in 2022.

The decrease in income tax expense and income tax recorded in net movements in regulatory balances for the three months ended March 31, 2023 was primarily due to higher net deductions in permanent and temporary differences between accounting and tax treatments and lower income before taxes, partially offset by higher tax recognized on the realized gains related to property dispositions in prior years.

Net Movements in Regulatory Balances

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

The increase in the regulatory debit ($54.6 million) and increase in the regulatory credit ($20.7 million) balances for the three months ended March 31, 2023 equals the sum ($33.9 million) of net movements in regulatory balances, net movements in regulatory balances arising from deferred taxes and net movements in regulatory balances related to OCI for the period (refer to “Financial Position”). Energy purchases record the actual cost of power purchased, which varies from month to month. Since the selling price of power within energy sales is fixed for set periods of time, a gain or loss usually results and is part of the calculation of net income. However, per OEB regulations, such gains or losses on energy sales are deferred within regulatory variance accounts for later disposition to or from rate payers via rate riders after approval by the OEB. Deferrals of gains or losses on energy sales (refer to discussion on settlement variance under “Results of Operations”), or disposition of past deferrals in electricity rates will usually represent the largest single element of the net movements in regulatory balances for a given period.

Net movements in regulatory balances for the three months ended March 31, 2023 were a recovery of $12.7 million, compared to a recovery of $24.8 million for the comparable period in 2022. The recovery of $12.7 million for the three months ended March 31, 2023 was primarily due to the settlement variance between the electricity costs billed monthly by the IESO and LDC’s billing to customers and amounts disposed through OEB-approved rate riders, partially offset by gain on disposals resulting from deferred variable consideration in connection with the disposal of two properties in prior years (refer to note 7(a) in the Interim Financial Statements) and changes to the useful life of PP&E (refer to note 7(b) in the Interim Financial Statements). The recovery of $24.8 million for the three months ended March 31, 2022 was primarily due to the settlement variance between the electricity costs billed monthly by the IESO and LDC’s billing to customers and amounts disposed through OEB-approved rate riders.

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 March 31, 2023.

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

	March 31, 2023 $	December 31, 2022 $	September 30, 2022 $	June 30, 2022 $
Energy sales	**628.3**	601.7	815.3	646.5
Distribution revenue	**201.3**	185.4	194.8	187.1
Other	**27.3**	32.0	26.2	25.8
Revenues	**856.9**	819.1	1,036.3	859.4
Net income after net movements in regulatory balances	**44.0**	16.0	55.0	45.4

	March 31, 2022 $	December 31, 2021 $	September 30, 2021 $	June 30, 2021 $
Energy sales	674.3	625.0	756.9	643.3
Distribution revenue	186.9	186.6	201.4	188.5
Other	25.7	32.4	25.2	26.2
Revenues	886.9	844.0	983.5	858.0
Net income after net movements in regulatory balances	47.5	19.5	47.8	37.9

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

Financial Position

The following table outlines the significant changes in the Consolidated Balance Sheet as at March 31, 2023 as compared to the Consolidated Balance Sheet as at December 31, 2022.

Consolidated Balance Sheet Data
(in millions of Canadian dollars)

Balance Sheet Account	Increase (Decrease) $	Explanation of Significant Change
Assets		
Other assets	**26.0**	The increase was primarily due to the deferred variable consideration receivable in relation to the sale of properties disposed in prior years.
PP&E and intangible assets	**73.8**	The increase was primarily due to capital expenditures (refer to "Investing Activities" below).
Liabilities and Equity		
Commercial paper	**105.0**	The increase was primarily due to the issuances of commercial paper required for general corporate purposes (refer "Liquidity and Capital Resources" below).
Accounts payable and accrued liabilities	**(16.6)**	The decrease was primarily due to timing differences in payments, partially offset by lower pass-through electricity costs payable to the IESO.
Deferred revenue	**16.3**	The increase was primarily due to capital contributions received.
Post-employment benefits	**12.2**	The increase was a result of the change in the discount rate from 5.10% to 4.75% as at March 31, 2023.
Deferred tax liabilities	**10.4**	The increase was primarily due to lower tax values as compared to accounting values of PP&E and intangible assets, partially offset by the impact of the actuarial loss on post-employment benefits.
Retained earnings	**19.4**	The increase was due to net income after net movements in regulatory balances ($44.0 million), net of dividends paid ($24.6 million).

Consolidated Balance Sheet Data
(in millions of Canadian dollars)

Balance Sheet Account	Increase (Decrease) $	Explanation of Significant Change
Regulatory Balances		
Regulatory debit balances	**54.6**	The increase was primarily related to the settlement variance between the electricity costs billed monthly by the IESO and LDC's billing to customers and deferred taxes, partially offset by amounts disposed through OEB-approved rate riders.
Regulatory credit balances	**20.7**	The increase was primarily due to the gain on sale (refer to note 7(a) in the Interim Financial Statements) and changes in useful life of PP&E (refer to note 7(b) in the Interim Financial Statements), partially offset by remeasurement of post-employment benefits to reflect the changes to discount rate and amounts disposed through OEB-approved rate riders.

Liquidity and Capital Resources

The Corporation is a party to a credit agreement with a syndicate of Canadian chartered banks which established a revolving credit facility ("Revolving Credit Facility"), of which up to $210.0 million is available in the form of letters of credit. On November 18, 2022, the maturity date of the Revolving Credit Facility was extended from September 2, 2026 to September 17, 2027. On March 17, 2023, the amount available for borrowing under the Revolving Credit Facility was increased by $200.0 million from $800 million to $1.0 billion. As at March 31, 2023, the Corporation was in compliance with all covenants included in its Revolving Credit Facility agreement.

The Corporation has a commercial paper program allowing unsecured short-term promissory notes ("Commercial Paper Program") to be issued in various maturities of no more than one year. On March 24, 2023, the amount available for issuance under the Commercial Paper Program was increased by $250.0 million from $750.0 million to $1.0 billion. The Commercial Paper Program is supported by liquidity facilities available under the Revolving Credit Facility; hence, available borrowing under the Revolving Credit Facility is reduced by the amount of commercial paper outstanding at any point in time. Proceeds from the Commercial Paper Program are used for general corporate purposes. Borrowings under the Commercial Paper Program bear interest based on the prevailing market conditions at the time of issuance.

Additionally, the Corporation is a party to a demand facility with a Canadian chartered bank for the purpose of issuing letters of credit mainly to support LDC's prudential requirements with the IESO ("Prudential Facility"). As at March 31, 2023, $57.6 million of letters of credit had been issued against the Prudential Facility.

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 March 31, 2023, $1.7 million had been drawn under the Working Capital Facility, compared to $1.3 million as at March 31, 2022. On the condensed interim consolidated statements of cash flows, cash and cash equivalents (working capital balances) includes bank overdrafts that are repayable on demand and form an integral part of the Corporation's cash management.

The Corporation's current assets and current liabilities amounted to $532.1 million and $1,264.9 million, respectively, as at March 31, 2023, resulting in a working capital deficit of $732.8 million. The deficit was primarily attributable to the Corporation's preference for utilizing its Commercial Paper Program and Working Capital Facility. The Corporation seeks to maintain an optimal mix of short-term and long-term debt in order to lower overall financing costs and to enhance borrowing flexibility.

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

The amount available under the Revolving Credit Facility as well as the outstanding borrowings under the Revolving Credit Facility and the 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** $
Balance as at March 31, 2023	**1,000.0**	**—**	**460.0**	**540.0**
Balance as at December 31, 2022	800.0	—	355.0	445.0

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

	Three months ended March 31,	
	2023 $	2022 $
Working capital facility, beginning of period	**(12.8)**	(8.8)
Net cash provided by operating activities	**128.7**	122.5
Net cash used in investing activities	**(178.1)**	(154.4)
Net cash provided by financing activities	**60.5**	39.4
Working capital facility, end of period	**(1.7)**	(1.3)

In addition, the Corporation continues to monitor the impacts of interest rate increases on the Corporation, and any further increases that may occur.

Operating Activities

Net cash provided by operating activities for the three months ended March 31, 2023 was $128.7 million, compared to $122.5 million for the comparable period in 2022.

The increase in net cash provided by operating activities for the three months ended March 31, 2023 was primarily due to timing differences in settlement receivables and payables, higher net other non-current assets and liabilities, partially offset by lower net income before net movements in regulatory balances after adjustments for non-cash items and lower deferred revenue.

Investing Activities

Net cash used in investing activities for the three months ended March 31, 2023 was $178.1 million, compared to $154.4 million for the comparable period in 2022.

The following table summarizes the Corporation's capital expenditures (on an accrual basis) for the periods indicated (refer to note 14 to the Interim Financial Statements for cash basis).

Capital Expenditures
(in millions of Canadian dollars)

	Three months ended March 31,	
	2023 **$**	2022 $
Regulated LDC		
Distribution system		
Planned [1]	**124.8**	109.9
Reactive [2]	**13.3**	10.1
Technology assets	**11.3**	11.4
Other [3]	**5.1**	5.7
Regulated capital expenditures	**154.5**	137.1
Unregulated capital expenditures [4]	**1.7**	1.7
Total capital expenditures	**156.2**	138.8

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

The total regulated capital expenditures for the three months ended March 31, 2023 were $154.5 million, compared to $137.1 million for the comparable period in 2022.

For the three months ended March 31, 2023, the increase in regulated capital expenditures was primarily due to higher spending on critical capital equipment ($8.8 million), customer-initiated plant relocations and expansions ($7.5 million), underground infrastructure ($6.5 million), replacement of overhead infrastructure ($4.7 million) and reactive capital ($3.2 million), partially offset by lower spending on station programs ($13.6 million).

The largest capital initiatives in 2023 include the delivery of customer connections, replacement of underground and overhead infrastructures, and customer-initiated plant relocations and expansions.

The delivery of customer connections includes spending related to new service and upgrades to existing service for specific commercial customers. For the three months ended March 31, 2023, capital expenditures for the delivery of customer connections were $31.7 million.

The replacement of underground infrastructure includes replacing direct buried cables, transformers, switches and other aging underground infrastructure. The replacement of overhead infrastructure includes replacing poles, overhead transformers, conductors, overhead switches and other aging overhead infrastructure and equipment. Both initiatives will allow LDC to continue to provide ongoing safe and reliable service to its customers. For the three months ended March 31, 2023, capital expenditures for underground and overhead infrastructure were $19.3 million and $16.9 million, respectively.

Customer-initiated plant relocations and expansions include relocating infrastructure to accommodate construction by third parties. For the three months ended March 31, 2023, capital expenditures for customer-initiated plant relocations and expansions were $15.4 million.

Financing Activities

Net cash provided by financing activities for the three months ended March 31, 2023 was $60.5 million, compared to $39.4 million for the comparable period in 2022.

The increase in net cash provided by financing activities for the three months ended March 31, 2023 was primarily due to higher net commercial paper issuances in 2023.

As at March 31, 2023, the Corporation had debentures outstanding in the principal amount of $2.7 billion. These debentures will mature between 2023 and 2063. As at March 31, 2023, the Corporation was in compliance with all covenants included in its trust indenture and supplemental trust indentures.

On April 10, 2023, the Corporation's $250.0 million Series 8 debentures matured and were repaid.

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

Credit Ratings
As at March 31, 2023

	DBRS		**S&P Global Ratings**	
	Credit Rating	Trend	Credit Rating	Outlook
Issuer rating	A	Stable	A	Developing
Senior unsecured debentures	A	Stable	A	—
Commercial paper	R-1 (low)	Stable	—	—

On April 28, 2023, DBRS confirmed the Corporation's issuer rating and debentures rating at "A" and the commercial paper rating at R-1 (low), each with stable trends.

On May 11, 2023, S&P Global Ratings announced its decision to maintain the issuer credit rating and senior unsecured rating on the Corporation as "A" and revised the outlook from "positive" to "developing".

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

On March 1, 2023, the Board of Directors of the Corporation declared a quarterly dividend in the amount of $24.6 million with respect to the first quarter of 2023 (first quarter of 2022 – $21.2 million), paid to the City on March 31, 2023.

On May 9, 2023, the Board of Directors of the Corporation declared a quarterly dividend in the amount of $24.6 million with respect to the second quarter of 2023 (second quarter of 2022 – $21.1 million), payable to the City by June 30, 2023.

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 March 31, 2023
[in millions of Canadian dollars]

	Total $	**2023**[1] $	**2024 / 2025** $	**2026 / 2027** $	**After 2027** $
Commercial paper [2]	**460.0**	460.0	—	—	—
Debentures - principal repayment	**2,745.0**	250.0	—	200.0	2,295.0
Debentures - interest payments	**2,005.5**	77.0	174.0	168.9	1,585.6
Capital projects [3] and other	**15.2**	8.3	3.0	1.7	2.2
Leases	**0.2**		0.2		—
Total contractual obligations and other commitments	**5,225.9**	795.3	177.2	370.6	3,882.8

[1] Due over the period from April 1, 2023 to December 31, 2023.
[2] The notes under the Commercial Paper Program were issued at a discount and are repaid at their principal amount.
[3] Primarily commitments for construction services.

Corporate Developments

Toronto Hydro Climate Action Plan

At its meeting held on April 7-8, 2021, a resolution was passed by City Council that requested the City Manager and Toronto Hydro report back to City Council with respect to Toronto Hydro's ongoing work and an action plan with opportunities to achieve outcomes associated with climate action matters, including electric vehicle chargers, outdoor lighting, renewable energy, energy storage, and related grants, funding, and financing.

Toronto Hydro submitted its Climate Action Plan to the City Manager on September 30, 2021 concerning current work and an action plan setting out opportunities, in accordance with the City Council resolution.

At its meeting held on December 15-17, 2021, a resolution was passed by City Council that requested the City Manager and Toronto Hydro report back to City Council with additional information related to the Climate Action Plan and its interplay with the City of Toronto TransformTO Net Zero Strategy approved at that same meeting.

At its meeting held on July 19-22, 2022, City Council received reports from the City Manager and Toronto Hydro in accordance with the December 2021 direction. City Council adopted the recommendations of those reports, as well as additional motions from City Councillors. The resolutions include a request that Toronto Hydro establish a new climate advisory services business in keeping with the proposal set out in Toronto Hydro's Climate Action Plan and Toronto Hydro's Climate Action Plan Status Report filed with the City in June 2022. City Council directed that a memorandum of understanding between the City and Toronto Hydro with respect to climate advisory services implementation targets and coordination details be developed.

Climate Advisory Services is designed to facilitate reductions in greenhouse gas emissions via electrification by reducing stakeholder-identified barriers that prevent or inhibit customers from participating in the energy transition. The Climate Action Plan sets out examples of these services to customers, including to: identify their situation-specific opportunities; help in choosing particular climate actions and the timing of implementation; provide recommendations on potential clean tech products and services to vendors; assist in applying for government or institutional funding such as grants and/or loans; remove barriers faced by low income customers; as well as assist with monitoring the implementation and evaluating the results. Toronto Hydro employees would then use the knowledge obtained from this work to ease and support the energy transition of other customers.

The annual costs for the Climate Advisory Services are anticipated to be approximately $8.0 million in 2023, and are expected to increase each year until reaching approximately $15 million in 2026. Actual costs will depend on the nature and scope of services provided. Specifically, the operating costs set out above are expected to be funded through revenues and net income within LDC, not from electricity distribution rates.

Other adopted City Council resolutions support in principle a city-wide LED conversion of streetlights and reinvestment in the enabling infrastructure, and request a report back in the second quarter of 2023 with implementation options and a recommendation from City Transportation Services. City Council requested additional information in future annual reports to the City with respect to the expansion of the electricity grid to help the City achieve its TransformTO Net Zero Strategy goals, and directed the City Manager to submit TransformTO targets to Toronto Hydro to consider in its local capacity planning and rate application processes. City Council requested a report on potential future opportunities to proceed with the climate capital investments proposal set out in Toronto Hydro's Climate Action Plan. To date, City Council is yet to provide approval of the funding required to support the implementation of city-wide LED street light conversion or the climate capital investments proposal.

Electricity Distribution Rates

On December 19, 2019, the OEB issued its 2020-2024 CIR Decision and on February 20, 2020, the OEB issued its CIR Final Rate Order, both in relation to the rate application filed on August 15, 2018 (together, the "2020-2024 CIR Decision and Rate Order"). The 2020-2024 CIR Decision and Rate Order approved funding for capital and operating expenditures of approximately $3.8 billion for the 2020-2024 period. The 2020-2024 CIR Decision and Rate Order approved subsequent annual rate adjustments based on a custom index for the period commencing on January 1, 2021 and ending on December 31, 2024.

On August 23, 2022, LDC filed the 2023 rate application seeking the OEB's approval to finalize distribution rates and other charges for the period commencing on January 1, 2023 and ending on December 31, 2023. On December 8, 2022, the OEB issued a decision and rate order approving LDC's 2023 rates and providing for other deferral and variance account dispositions.

Ultra-low Overnight Price Plan

Effective May 1, 2023 but no later than November 1, 2023, LDC can start offering the ultra-low overnight price plan to RPP consumers, following the Ontario Ministry of Energy amendment of the OEB Act on August 10, 2022.

CDM Activities

The IESO is responsible for delivery of CDM programs; however, LDC remains responsible for its obligations under participant agreements with customers for many of the programs under its previous joint CDM plan with Oakville Hydro Electricity Distribution Inc. that were in effect before April 1, 2019. On June 10, 2021, the Government of Ontario issued ministerial directives to the IESO to extend the deadline by which participants were to complete the projects from June 30, 2021 to December 31, 2021, and on December 9, 2021, the deadline was further extended to August 31, 2022. The ministerial directives also allowed for the completion deadline to be further extended for participants who completed projects prior to December 31, 2022 to be eligible for funding upon submission of their claims, if certain conditions were met. Amounts received from the IESO for the funding of the projects under the participant agreements, but not yet spent, are presented on the Corporation's Consolidated Balance Sheets under current liabilities as deferred conservation credit.

Controls and Procedures

For purposes of certain Canadian securities regulations, the Corporation is a "Venture Issuer". As such, it is exempt from certain requirements of National Instrument 52-109 – *Certification of Disclosure in Issuers*' Annual and Interim Filings. The CEO and CFO have reviewed the Interim Financial Statements and the MD&A for the three months ended March 31, 2023 and 2022. 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.

Use of Judgements and Estimates

The preparation of the Corporation's Interim Financial Statements requires management to make judgments, estimates and assumptions which affect the application of accounting policies, reported assets, liabilities and regulatory balances, disclosure of contingent assets and liabilities at the date of the Interim Financial Statements, and the reported 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.

Changes in Accounting Estimates

Property, plant and equipment

Effective January 1, 2023, the Corporation changed its estimate of the useful lives of certain items of PP&E to better reflect the period over which these assets are expected to be in service, following a depreciation study performed by an external third-party. The change in useful lives has been applied prospectively and resulted in a reduction of depreciation expense of $8.2 million for the three months ended March 31, 2023. Assuming the assets are held until the end of their estimated useful lives and there are no new additions, changes, or disposals and retirements after 2022, the depreciation expense is expected to be reduced by approximately $49.9 million for the year ended December 31, 2023 and a similar amount in future years.

Changes in Accounting Standards

Definition of Accounting Estimates (Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors ("IAS 8"))

In February 2021, the IASB issued amendments to IAS 8 to introduce a definition of "accounting estimates" and include other amendments to help entities distinguish changes in accounting estimates from changes in accounting policies. The amendments are effective for annual reporting periods beginning on or after January 1, 2023, with early adoption permitted. The amendments are to be applied prospectively.

Disclosure of Accounting Policies (Amendments to IAS 1 Presentation of Financial Statements ("IAS 1"))

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

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

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

Effective January 1, 2023, the Corporation adopted these amendments, with no impact on the Interim Financial Statements.

Future Accounting Pronouncements

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

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

In January 2020, the IASB issued amendments to IAS 1 relating to the classification of liabilities as current or non-current. Specifically, the amendments clarify one of the criteria in IAS 1 for classifying a liability as non-current - that is, the requirement for an entity to have the right to defer settlement of the liability for at least 12 months after the reporting period. This right may be subject to compliance with covenants. After reconsidering certain aspects of the 2020 amendments, in October 2022, the IASB issued Non-current Liabilities with Covenants (Amendments to IAS 1), reconfirming that only covenants with which a company must comply on or before the reporting date affect the classification of a liability as current or non-current. The amendments are effective for annual reporting periods beginning on or after January 1, 2024, with early adoption permitted. The amendments are to be applied retrospectively.

The Corporation anticipates that the adoption of these accounting pronouncements will not have a material impact on the Corporation's consolidated financial statements.

Forward-Looking Information

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

Specific forward-looking information in the MD&A includes, but is not limited to, the statements regarding the settlement variance and other regulatory balance variances as described in the section entitled "Results of Operations"; the effect of changes in weather conditions and energy consumption on future revenue as described in the section entitled "Summary of Quarterly Results of Operations"; the statements regarding the change in useful lives under the section entitled "Depreciation and Amortization"; the Corporation's plans to lower overall financing costs and enhance borrowing flexibility as described in the section entitled "Liquidity and Capital Resources"; the planned capital expenditures, including the replacement of underground and overhead infrastructures, station programs, delivery of customer connections and customer-initiated plant relocations and expansions, as described in the section entitled "Liquidity and Capital Resources"; the Corporation's available sources of liquidity and capital resources and the sufficiency thereof to satisfy working capital requirements for the next 12 months as described in the section entitled "Liquidity and Capital Resources"; the City's climate-related objectives, including TransformTO, and the Corporation's climate action plan and relevant City strategies and programs, including Toronto Hydro's Climate Advisory Services and anticipated costs, as described in the section entitled "Corporate Developments"; the LDC's ability to offer the ultra-low overnight price plan to RPP customers as described in the section entitled "Corporate Developments"; any judgements, assumptions and estimates that Management had to make in the preparation of the Corporation's Interim Financial Statements as described in the section entitled "Use of Judgments and Estimates"; the change in estimate of useful lives and related depreciation expense as described in the section entitled "Changes in Accounting Estimates", and the Corporation's assessment of the impact on adoption of the amendments to IAS 1, IAS 8, IAS 12, and IAS 37, if any, as described in the sections entitled "Changes in Accounting Standards" and "Future Accounting Pronouncements".

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

The forward-looking information is subject to risks, uncertainties and other factors that could cause actual results to differ materially from historical results or results anticipated by the forward-looking information. The factors which could cause results or events to differ from current expectations include, but are not limited to, risks associated with the execution of LDC's capital and maintenance programs necessary to maintain the performance of aging distribution assets and make required infrastructure improvements, including to deliver a modernized grid and meet electrification requirements to achieve government net zero GHG emissions targets; risks associated with capital projects; risks associated with electricity industry regulatory developments and other governmental policy changes including factors relating to LDC's distribution activities and to climate change; risks associated with increased competition from regulated and unregulated entities; risks associated with the timing and results of regulatory decisions regarding LDC's revenue requirements, cost recovery and rates; risks associated with information system security and with maintaining complex information technology systems; risks associated with maintaining the security of Toronto Hydro's information assets, including but not limited to the collection, use and disclosure of personal information; risks associated with the failure of critical IT systems; risk of external threats to LDC's facilities and operations posed by unexpected weather conditions caused by climate change and other factors; risks associated with changing weather patterns due to climate change and resultant impacts to electricity consumption based on historic seasonal trends, terrorism and pandemics, including but not limited to COVID-19, and LDC's limited insurance coverage for losses resulting from these events; risks related to COVID-19, including but not limited to restrictive measures affecting the mobility and availability of human and non-human resources, operational disruptions and the availability of financing; risk to Toronto Hydro's employees or the general public of serious/fatal injuries and illnesses relating to or impacting upon Toronto Hydro's activities; risks of municipal government activity, including the risk that the City could introduce rules, policies or directives, including those relating to net zero GHG emissions targets, that can potentially limit Toronto Hydro's ability to meet its business objectives as laid out in the Shareholder Direction principles; risks related to LDC's work force demographic, the available labour markets and the changing expectations of potential employees, and Toronto Hydro's potential inability to attract, train and retain skilled employees; risks of being unable to retain necessary qualified external contracting forces relating to its capital, maintenance and reactive infrastructure program; risks associated with possible labour disputes and LDC's ability to negotiate appropriate collective agreements; related to the approval of the rate application to the OEB for the 2025-2029 rate period; risk that Toronto Hydro may fail to monitor the external environment and or develop and pursue strategies through appropriate business models, thus failing to gain a strategic advantage; risk that Toronto Hydro is not able to arrange sufficient and cost-effective debt financing to repay maturing debt and to fund capital expenditures and other obligations; risk that the Corporation is unable to maintain its financial health and performance at acceptable levels; risk that insufficient debt or equity financing will be available to meet the Corporation's requirements, objectives, or strategic opportunities; risk of downgrades to the Corporation's credit rating; risks related to the timing and extent of changes in prevailing interest rates and discount rates and their effect on future revenue requirements and future post-employment benefits; risks arising from inflation, the course of the economy and other general macroeconomic factors; risk associated with the impairment to the Corporation's image in the community, public confidence or brand; risk associated with the Corporation failing to meet its material compliance obligations under legal and regulatory instruments; risk of substantial and currently undetermined or underestimated environmental costs and liabilities; risk that assumptions that form the basis of LDC's recorded environmental liabilities and related regulatory balances may change; risk that the presence or release of hazardous or harmful substances could lead to claims by third parties and/or governmental orders; risk concerning the renewal of the LDC's distribution licence and other factors which are discussed in more detail under the section entitled "Risk Management and Risk Factors" in the 2022 Annual MD&A.

Please review the section "Risk Management and Risk Factors" in the 2022 Annual MD&A in detail. All of the forward-looking information included in this MD&A is qualified by the cautionary statements in this "Forward-Looking Information" section and the "Risk Management and Risk Factors" section in the 2022 Annual MD&A. These factors are not intended to represent a complete list of the factors that could affect the Corporation; however, these factors should be considered carefully and readers should not place undue reliance on forward-looking information made herein. Furthermore, the forward-looking information contained herein is dated as of the date of this MD&A or as of the date specified in this MD&A, as the case may be, and the Corporation has no intention and undertakes no obligation to update or revise any forward-looking information, whether as a result of new information, future events or otherwise, except as required by law.

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

May 11, 2023

UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED MARCH 31, 2023 AND 2022

See First 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)

	Note	As at March 31, 2023 $	As at December 31, 2022 $
ASSETS			
Current			
Accounts receivable and unbilled revenue	*10(b)*	**500.9**	501.6
Income tax receivable		**3.7**	—
Materials and supplies		**9.1**	8.2
Other assets	*4*	**18.4**	16.4
Total current assets		**532.1**	526.2
Property, plant and equipment	*5*	**5,832.7**	5,756.5
Intangible assets	*6*	**384.9**	387.3
Other assets	*4*	**38.1**	14.1
Total assets		**6,787.8**	6,684.1
Regulatory balances	*7*	**317.5**	262.9
Total assets and regulatory balances		**7,105.3**	6,947.0
LIABILITIES AND EQUITY			
Current			
Working capital facility	*8*	**1.7**	12.8
Commercial paper	*8*	**460.0**	355.0
Accounts payable and accrued liabilities		**446.6**	463.2
Income tax payable		**—**	0.4
Customer deposits		**58.5**	54.8
Deferred revenue	*9*	**31.8**	29.6
Deferred conservation credit	*3(b)*	**16.3**	16.8
Debentures		**250.0**	249.9
Total current liabilities		**1,264.9**	1,182.5
Debentures		**2,479.3**	2,479.2
Customer deposits		**15.6**	15.2
Deferred revenue	*9*	**751.1**	737.0
Post-employment benefits		**242.2**	230.0
Deferred tax liabilities		**95.0**	84.6
Other liabilities		**5.0**	6.4
Total liabilities		**4,853.1**	4,734.9
Equity			
Share capital	*11*	**817.8**	817.8
Retained earnings		**1,263.6**	1,244.2
Total equity		**2,081.4**	2,062.0
Total liabilities and equity		**6,934.5**	6,796.9
Regulatory balances	*7*	**170.8**	150.1
Total liabilities, equity and regulatory balances		**7,105.3**	6,947.0

Subsequent events *16*

See accompanying notes to the condensed interim consolidated financial statements.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF INCOME

(in millions of Canadian dollars, unaudited)

	Note	Three months ended March 31, 2023 $	2022 $
Revenues			
Energy sales	*12*	**628.3**	674.3
Distribution revenue	*12*	**201.3**	186.9
Other	*12*	**27.3**	25.7
		856.9	886.9
Expenses			
Energy purchases		**676.5**	693.9
Operating expenses		**87.6**	76.1
Depreciation and amortization	*5, 6*	**68.0**	73.2
		832.1	843.2
Finance costs		**(27.3)**	(19.6)
Other gains	*7(a)*	**34.1**	—
Income before income taxes		**31.6**	24.1
Income tax expense	*13*	**(13.0)**	(9.1)
Net income		**18.6**	15.0
Net movements in regulatory balances	*7*	**12.7**	24.8
Net movements in regulatory balances arising from deferred taxes	*7*	**12.7**	7.7
Net income after net movements in regulatory balances		**44.0**	47.5

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in millions of Canadian dollars, unaudited)

	Note	Three months ended March 31, 2023 $	2022 $
Net income after net movements in regulatory balances		**44.0**	47.5
Other comprehensive income			
Items that will not be reclassified to income or loss			
Remeasurements of post-employment benefits, net of tax (2023 - $3.1, 2022 - ($12.2))		**(8.5)**	33.9
Net movements in regulatory balances related to OCI, net of tax (2023 - $3.1, 2022 - ($12.2))	*7*	**8.5**	(33.9)
Other comprehensive income, net of tax		**—**	—
Total comprehensive income		**44.0**	47.5

See accompanying notes to the condensed interim consolidated financial statements.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(in millions of Canadian dollars, unaudited)

		Three months ended March 31,	
		2023	2022
	Note	**$**	$
Share capital		**817.8**	817.8
Retained earnings, beginning of period		**1,244.2**	1,164.9
Net income after net movements in regulatory balances		**44.0**	47.5
Dividends	*11*	**(24.6)**	(21.2)
Retained earnings, end of period		**1,263.6**	1,191.2
Total equity		**2,081.4**	2,009.0

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 March 31,	
		2023	2022
	Note	**$**	$
OPERATING ACTIVITIES			
Net income after net movements in regulatory balances		**44.0**	47.5
Net movements in regulatory balances	*7*	**(12.7)**	(24.8)
Net movements in regulatory balances arising from deferred taxes	*7*	**(12.7)**	(7.7)
Adjustments			
Depreciation and amortization	*5, 6*	**68.0**	73.2
Amortization of deferred revenue	*9*	**(4.1)**	(4.4)
Finance costs		**27.3**	19.6
Income tax expense		**13.0**	9.1
Post-employment benefits		**0.6**	1.1
Other gains	*7(a)*	**(34.1)**	—
Other		**0.1**	0.2
Capital contributions received	*9*	**25.0**	21.1
Net change in other non-current assets and liabilities		**2.4**	(11.0)
Increase in customer deposits		**4.1**	4.8
Changes in non-cash operating working capital balances	*14*	**11.5**	(5.3)
Income tax paid		**(3.7)**	(0.9)
Net cash provided by operating activities		**128.7**	122.5
INVESTING ACTIVITIES			
Purchase of property, plant and equipment	*14*	**(165.3)**	(138.7)
Purchase of intangible assets	*14*	**(15.7)**	(15.8)
Proceeds from deferred variable consideration		**2.9**	0.1
Net cash used in investing activities		**(178.1)**	(154.4)
FINANCING ACTIVITIES			
Increase in commercial paper, net of repayments	*8*	**105.0**	75.0
Dividends paid	*11*	**(24.6)**	(21.2)
Interest paid		**(19.9)**	(14.4)
Net cash provided by financing activities		**60.5**	39.4
Net change in cash and cash equivalents during the period		**11.1**	7.5
Working capital facility, beginning of period		**(12.8)**	(8.8)
Working capital facility, end of period		**(1.7)**	(1.3)

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

2. BASIS OF PRESENTATION

The Corporation's unaudited condensed interim consolidated financial statements as at and for the three months ended March 31, 2023 and 2022 ("Interim Financial Statements") have been prepared in accordance with IAS 34 *Interim Financial Reporting*. The notes presented in these Interim Financial Statements include only significant transactions and changes occurring for the three months since the year-end of December 31, 2022. The disclosures in these Interim Financial Statements do not conform in all respects to the IFRS requirements for annual consolidated financial statements. These Interim Financial Statements have been prepared following the same accounting policies and methods of computation as those described in note 25 to the Corporation's audited consolidated financial statements for the year ended December 31, 2022 ("2022 Annual Financial Statements"). Accordingly, they should be read in conjunction with the Corporation's 2022 Annual Financial Statements.

These Interim Financial Statements are presented in Canadian dollars, the Corporation's functional and presentation currency. The Interim Financial Statements have been prepared on the historical cost basis, except for post-employment benefits which are measured at the present value of the post-employment benefit obligation.

The Corporation's revenues, all other things being equal, are impacted by temperature fluctuations and unexpected weather conditions. Generally, 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.

3. REGULATION

a) Electricity Distribution Rates

On December 19, 2019, the OEB issued its 2020-2024 CIR Decision and on February 20, 2020, the OEB issued its CIR Final Rate Order, both in relation to the rate application filed on August 15, 2018 (together, the "2020-2024 CIR Decision and Rate Order"). The 2020-2024 CIR Decision and Rate Order approved subsequent annual rate adjustments based on a custom index for the period commencing on January 1, 2021 and ending on December 31, 2024.

On August 23, 2022, LDC filed the 2023 rate application seeking the OEB's approval to finalize distribution rates and other charges for the period commencing on January 1, 2023 and ending on December 31, 2023. On December 8, 2022, the OEB issued a decision and rate order approving LDC's 2023 rates and providing for other deferral and variance account dispositions.

(Unaudited; all tabular amounts in millions of Canadian dollars)

b) CDM Activities

The IESO is responsible for delivery of CDM programs; however, LDC remains responsible for its obligations under participant agreements with customers for many of the programs under its previous joint CDM plan with Oakville Hydro Electricity Distribution Inc. that were in effect before April 1, 2019. On June 10, 2021, the Government of Ontario issued ministerial directives to the IESO to extend the deadline by which participants were to complete the projects from June 30, 2021 to December 31, 2021, and on December 9, 2021, the deadline was further extended to August 31, 2022. The ministerial directives also allowed for the completion deadline to be further extended for participants who completed projects prior to December 31, 2022 to be eligible for funding upon submission of their claims, if certain conditions were met. Amounts received from the IESO for the funding of the projects under the participant agreements, but not yet spent, are presented on the Corporation’s consolidated balance sheets under current liabilities as deferred conservation credit.

4. OTHER ASSETS

Other assets consist of the following:

	As at March 31, 2023 $	As at December 31, 2022 $
Prepaid expenses	**31.4**	29.1
Other receivables [1]	**23.6**	—
Deferred financing costs	**1.5**	1.4
Total other assets	**56.5**	30.5
Less: Current portion of other assets relating to:		
Prepaid expenses	**18.1**	16.1
Deferred financing costs	**0.3**	0.3
Current portion of other assets	**18.4**	16.4
Non-current portion of other assets	**38.1**	14.1

[1] Includes deferred variable consideration receivable in relation to the disposition of a property in a prior year and recognized upon achievement of conditions *(note 7(a))*.

(Unaudited; all tabular amounts in millions of Canadian dollars)

5. PROPERTY, PLANT AND EQUIPMENT

PP&E consists of the following:

	Distribution assets $	Land and buildings $	Equipment and other $	Construction in progress $	Total $
Cost					
Balance as at December 31, 2022	5,897.0	485.1	486.2	553.4	7,421.7
Additions	—	—	—	**148.0**	**148.0**
Transfers into service	**57.0**	**4.9**	**11.0**	**(72.9)**	—
Disposals, retirements and other	**(1.0)**	**0.7**	**(15.3)** [1]	—	**(15.6)**
Balance as at March 31, 2023	**5,953.0**	**490.7**	**481.9**	**628.5**	**7,554.1**
Accumulated depreciation					
Balance as at December 31, 2022	1,291.2	114.1	259.9	—	1,665.2
Depreciation	**40.0**	**8.0**	**8.1**	—	**56.1**
Disposals, retirements and other	**0.3**	**0.6**	**(0.8)**	—	**0.1**
Balance as at March 31, 2023	**1,331.5**	**122.7**	**267.2**	—	**1,721.4**
Carrying amount					
Balance as at December 31, 2022	4,605.8	371.0	226.3	553.4	5,756.5
Balance as at March 31, 2023	**4,621.5**	**368.0**	**214.7**	**628.5**	**5,832.7**

[1] Includes $14.2 million related to the derecognition of an asset pertaining to a finance lease.

(Unaudited; all tabular amounts in millions of Canadian dollars)

6. INTANGIBLE ASSETS

Intangible assets consist of the following:

	Computer software	Contributions [1]	Software in development	Contributions for work in progress	Total
	$	$	$	$	$
Cost					
Balance as at December 31, 2022	319.6	267.7	44.1	12.7	644.1
Additions	**—**	**—**	**8.0**	**0.2**	**8.2**
Transfers into service	**5.7**	**0.1**	**(5.7)**	**(0.1)**	**—**
Balance as at March 31, 2023	**325.3**	**267.8**	**46.4**	**12.8**	**652.3**
Accumulated amortization					
Balance as at December 31, 2022	214.4	42.4	—	—	256.8
Amortization	**7.8**	**2.8**	**—**	**—**	**10.6**
Balance as at March 31, 2023	**222.2**	**45.2**	**—**	**—**	**267.4**
Carrying amount					
Balance as at December 31, 2022	105.2	225.3	44.1	12.7	387.3
Balance as at March 31, 2023	**103.1**	**222.6**	**46.4**	**12.8**	**384.9**

[1] Contributions represent payments made to HONI for dedicated infrastructure in order to receive connections to transmission facilities.

(Unaudited; all tabular amounts in millions of Canadian dollars)

7. REGULATORY BALANCES

Debit balances consist of the following:

	As at January 1, 2023 $	Balances arising in the period $	Recovery/ reversal $	Other movements $	As at March 31, 2023 $	Remaining recovery/ reversal period (months)	Carrying charges applicable
Settlement variances	**168.4**	**50.5**	**(8.5)**	**0.8**	**211.2**	(2)	(3)
Deferred taxes	**86.6**	**9.6**	**—**	**—**	**96.2**	(2)	—
LRAM	**1.9**	**—**	**—**	**—**	**1.9**	(2)	(3)
Other	**6.0**	**0.7**	**(0.2)**	**1.7**	**8.2**	—	(3)
	262.9	**60.8**	**(8.7)**	**2.5**	**317.5**		

Credit balances consist of the following:

	As at January 1, 2023 $	Balances arising in the period $	Recovery/ reversal $	Other movements $	As at March 31, 2023 $	Remaining recovery/ reversal period (months)	Carrying charges applicable
Capital-related revenue requirement	**79.7**	**0.9**	**(7.2)**	**2.4**	**75.8**	(2)	(3)
Gain on disposals	**2.2**	**29.6**	**—**	**—**	**31.8**	Note 7(a)	(3)
OPEB net actuarial gain (1)	**28.5**	**(11.6)**	**—**	**—**	**16.9**	(2)	—
Development charges	**13.7**	**0.2**	**(0.6)**	**—**	**13.3**	(2)	(3)
Tax-related variances	**12.5**	**0.3**	**(1.0)**	**0.3**	**12.1**	(2)	(3)
Useful life changes	**—**	**9.6**	**—**	**—**	**9.6**	Note 7(b)	(3)
Accounts receivable credits	**1.9**	**—**	**(0.2)**	**—**	**1.7**	21	(3)
Derecognition	**3.2**	**—**	**(2.4)**	**—**	**0.8**	(2)	(3)
Other	**8.4**	**0.7**	**(0.1)**	**(0.2)**	**8.8**	21	(3)
	150.1	**29.7**	**(11.5)**	**2.5**	**170.8**		

(1) Actuarial loss of $11.6 million was recognized as a result of the remeasurement of post-employment benefits to reflect the decrease in discount rate (March 31, 2023 – 4.75%; December 31, 2022 – 5.10%).
(2) There were no significant changes to the disposition period for the three months ended March 31, 2023. Refer to note 8 to the Corporation's 2022 Annual Financial Statements.
(3) Carrying charges were added to the regulatory balances in accordance with the OEB's direction, at a rate of 4.73% for January 1, 2023 to March 31, 2023 (January 1, 2022 to March 31, 2022 – 0.57%; April 1, 2022 to June 30, 2022 – 1.02%; July 1, 2022 to September 30, 2022 – 2.20% and October 1, 2022 to December 31, 2022 – 3.87%).

(Unaudited; all tabular amounts in millions of Canadian dollars)

The "Balances arising in the period" column consists of new additions to regulatory balances (for both debits and credits). The "Recovery/reversal" column consists of amounts disposed through OEB-approved rate riders. The "Other movements" column consists of impairment and reclassification between the regulatory balances and other regulatory deferral accounts considered to be insignificant.

a) Gain on disposals

The balance arising in the gain on disposals account during the first quarter of 2023 was primarily related to the realized gains of $29.6 million, net of tax and selling costs, resulting from the deferred variable consideration recognized in connection with the disposition of properties in prior years upon achievement of conditions. The realized gain and tax savings in connection with the disposition of the properties were previously recorded to this regulatory account and approved for disposition by the OEB.

b) Useful life changes

The regulatory balance of the account accumulates the asymmetrical variance for the cumulative revenue requirement impact between the former and updated depreciation rates for 2023 and 2024 for the benefit of customers *(note 15(b))*. As at March 31, 2023, the revenue requirement included in rates exceed the actual revenue requirement as a result of the change in useful lives.

8. SHORT-TERM BORROWINGS

The Corporation is a party to a credit agreement with a syndicate of Canadian chartered banks which established a revolving credit facility ("Revolving Credit Facility"), of which up to $210.0 million is available in the form of letters of credit. On November 18, 2022, the maturity date of the Revolving Credit Facility was extended from September 2, 2026 to September 17, 2027. On March 17, 2023, the amount available for borrowing under the Revolving Credit Facility was increased by $200.0 million from $800.0 million to $1.0 billion.

The Corporation has a commercial paper program allowing unsecured short-term promissory notes ("Commercial Paper Program") to be issued in various maturities of no more than one year. On March 24, 2023, the amount available for issuance under the Commercial Paper Program was increased by $250.0 million from $750.0 million to $1.0 billion. The Commercial Paper Program is supported by liquidity facilities available under the Revolving Credit Facility; hence, available borrowing under the Revolving Credit Facility is reduced by the amount of commercial paper outstanding at any point in time.

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

	Revolving Credit Facility Limit $	Revolving Credit Facility Borrowings $	Commercial Paper Outstanding $	Revolving Credit Facility Availability $
Balance as at March 31, 2023	**1,000.0**	**—**	**460.0**	**540.0**
Balance as at December 31, 2022	800.0	—	355.0	445.0

As at March 31, 2023, $1.7 million had been drawn under the Working Capital Facility (December 31, 2022 – $12.8 million) and $57.6 million of letters of credit had been issued against the Prudential Facility (December 31, 2022 – $57.6 million).

(Unaudited; all tabular amounts in millions of Canadian dollars)

9. DEFERRED REVENUE

Deferred revenue consists of the following:

	As at and three months ended March 31, 2023 $	As at and year ended December 31, 2022 $
Capital contributions, beginning of period	**761.8**	664.1
Capital contributions received [1]	**28.3**	115.7
Disposals and retirements [2]	**(14.2)**	—
Amortization	**(4.1)**	(18.1)
Other	**(0.1)**	0.1
Capital contributions, end of period	**771.7**	761.8
Other deferred revenue	**11.2**	4.8
Total deferred revenue	**782.9**	766.6
Less: Current portion of deferred revenue relating to:		
Capital contributions	**20.9**	24.8
Other deferred revenue	**10.9**	4.8
Current portion of deferred revenue	**31.8**	29.6
Non-current portion of deferred revenue	**751.1**	737.0

[1] Includes non-cash contributions of $3.3 million (year ended December 31, 2022 – $29.9 million).
[2] Relates to the derecognition of amounts received in advance as the asset pertaining to a finance lease was derecognized in the period *(note 5).*

10. FINANCIAL INSTRUMENTS

a) Fair value

As at March 31, 2023 and December 31, 2022, the fair values of accounts receivable and unbilled revenue, Working Capital Facility, Revolving Credit Facility, commercial paper, and accounts payable and accrued liabilities approximated their carrying amounts due to the short maturity of these instruments. The fair value of customer deposits approximates their carrying amount taking into account interest accrued on the outstanding balance. Obligations under leases are measured based on a discounted cash flow analysis and fair values approximate the carrying amounts as management believes that the fixed interest rates are representative of current market rates. Debentures are measured at amortized cost, based on the fair value of the debentures at issuance, which was the fair value of the consideration received adjusted for transaction costs.

The fair value of the debentures is based on the present value of contractual cash flows, discounted at the Corporation's current borrowing rate for similar debt instruments, and is included in Level 2 of the fair value hierarchy. As at March 31, 2023, the total fair value of the Corporation's debentures was determined to be approximately $2,509.7 million (December 31, 2022 – $2,420.2 million), with a total carrying amount of $2,729.3 million (December 31, 2022 – $2,729.1 million).

(Unaudited; all tabular amounts in millions of Canadian dollars)

b) Financial risks

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

Credit risk

As a result of current uncertain economic conditions, the Corporation may be exposed to credit risk with respect to customer non-payment of electricity bills, and LDC's security interest or other protective measures, if any, provided to LDC, such as letters of credit, cash deposits or pre-authorized payments may not be sufficient. The Corporation considers the current economic and credit conditions to determine the expected credit loss allowance of its accounts receivable and unbilled revenue. Due to current uncertain economic conditions, the estimates and judgments made by management in the preparation of the expected credit loss allowance are subject to an estimation uncertainty. The Corporation determines the expected credit loss allowance based on current estimates and assumptions, including, but not limited to, recent trends for customer collections and current and forecasted economic conditions. The Corporation continues to actively monitor its exposure to credit risk.

The Corporation has provided additional information on its credit risk related to accounts receivable and unbilled revenue in the Interim Financial Statements that were impacted by the COVID-19 pandemic.

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

	As at March 31, 2023 $	As at December 31, 2022 $
Accounts receivable, gross		
Outstanding for not more than 30 days	**203.8**	188.2
Outstanding for more than 30 days and not more than 120 days	**34.5**	30.5
Outstanding for more than 120 days	**36.8**	36.7
Total accounts receivable, gross	**275.1**	255.4
Unbilled revenue, gross	**259.4**	278.3
Expected credit loss allowance	**(33.6)**	(32.1)
Total accounts receivable and unbilled revenue	**500.9**	501.6

(Unaudited; all tabular amounts in millions of Canadian dollars)

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

	As at and three months ended March 31, 2023 $	As at and year ended December 31, 2022 $
Balance, beginning of period	**(32.1)**	(33.5)
Additional expected credit loss allowance	**(3.4)**	(4.6)
Write-offs	**1.9**	6.2
Recoveries of previously written-off balances	**—**	(0.2)
Balance, end of period	**(33.6)**	(32.1)

Liquidity risk

The Corporation is exposed to liquidity risk related to its ability to fund its obligations as they become due. The Corporation relies on debt financing through the debt capital markets and existing credit facilities to finance its daily operations, repay existing indebtedness and fund capital expenditures. The current challenging economic climate affected by factors including, but not limited to, uncertain macroeconomic conditions like a global recession may lead to material adverse changes in cash flows, working capital levels and/or debt balances, which may also have a direct negative impact on the Corporation's operating results and financial position in the future. Accordingly, the Corporation continues to monitor liquidity risk and adapt its plans as the economic climate evolves.

Inflation risk

The general rate of inflation in Canada and many other countries remained high throughout most of 2022, peaking midyear at multi-decade highs. However, while recent 2023 monthly data has shown a decline in the annual rate of inflation to approximately 4.2%, it remains above the Bank of Canada target range of 2.0% – 3.0%. Certain underlying factors such as global supply chain disruptions, shipping restrictions and labour market constraints are improving; however, the global economic conditions remain uncertain. Prices for certain services and materials continue to evolve in response to fast-changing commodity markets, industry activities, supply chain dynamics, and government policies impacting operating and capital costs. The uncertain global economic recovery and declining inflationary trends are widely expected to limit the pace of interest rate hikes. The Bank of Canada has raised its benchmark interest rates by 25-basis points to 4.5% since December 31, 2022. The Corporation closely monitors market trends and seeks to mitigate cost impacts through various measures, including project management, procurement and other management actions.

11. SHARE CAPITAL

On March 1, 2023, the Board of Directors of the Corporation declared a dividend in the amount of $24.6 million with respect to the first quarter of 2023 (first quarter of 2022 – $21.2 million), paid to the City on March 31, 2023.

(Unaudited; all tabular amounts in millions of Canadian dollars)

12. REVENUES

Revenues consist of the following:

	Three months ended March 31, 2023 $	Three months ended March 31, 2022 $
Revenue from contracts with customers		
Energy sales	**628.3**	674.3
Distribution revenue	**201.3**	186.9
Street lighting services	**5.0**	4.8
Pole and duct rentals	**4.0**	4.3
Ancillary services revenue	**3.1**	6.1
Other regulatory service charges	**2.6**	1.7
Capital contributions - energy storage systems	**0.3**	0.3
Miscellaneous	**5.6**	2.9
Revenue from other sources		
Capital contributions - developers and other	**3.8**	4.1
Other	**2.9**	1.5
Total revenues	**856.9**	886.9

13. INCOME TAXES

The Corporation’s effective tax rate after net movements in regulatory balances for the three months ended March 31, 2023 was 0.7% (three months ended March 31, 2022 – 2.9%). The effective tax rate for the three months ended March 31, 2023 was 2.2% lower than the prior comparative period primarily due to higher net deductions in permanent and temporary differences between accounting and tax treatments, partially offset by higher tax recognized on the realized gains related to property dispositions in prior years.

(Unaudited; all tabular amounts in millions of Canadian dollars)

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

	Three months ended March 31, 2023 $	2022 $
Income tax expense	**(13.0)**	(9.1)
Income tax recorded in net movements in regulatory balances	**12.7**	7.7
Income tax expense and income tax recorded in net movements in regulatory balances	**(0.3)**	(1.4)
Income tax (expense) recovery in OCI	**3.1**	(12.2)
Income tax (expense) recovery in OCI recorded in net movements in regulatory balances	**(3.1)**	12.2
Income tax in OCI	**—**	—

14. CONSOLIDATED STATEMENTS OF CASH FLOWS

Changes in non-cash operating working capital were as follows:

	Three months ended March 31, 2023 $	2022 $
Accounts receivable and unbilled revenue	**9.6**	(16.1)
Income tax receivable	**(3.7)**	1.2
Materials and supplies	**(0.9)**	—
Other current assets	**(2.0)**	0.8
Accounts payable and accrued liabilities	**7.2**	1.4
Income tax payable	**(0.4)**	—
Deferred revenue	**2.2**	6.8
Deferred conservation credit	**(0.5)**	0.6
Total changes in non-cash operating working capital	**11.5**	(5.3)

(Unaudited; all tabular amounts in millions of Canadian dollars)

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

	Three months ended March 31,	
	2023 $	2022 $
Purchase of PP&E, cash basis	**165.3**	138.7
Net change in accounts payable and accruals related to PP&E	**(19.5)**	(16.3)
Non-cash contributed assets	**2.0**	3.0
Other	**0.2**	0.3
Total additions to PP&E	**148.0**	125.7
Purchase of intangible assets, cash basis	**15.7**	15.8
Net change in accounts payable and accruals related to intangible assets	**(7.5)**	(2.7)
Total additions to intangible assets	**8.2**	13.1

15. SUMMARY OF MATERIAL ACCOUNTING POLICIES

a) Use of judgments and estimates

The preparation of the Corporation's Interim Financial Statements requires management to make judgments, estimates and assumptions which affect the application of accounting policies, reported assets, liabilities and regulatory balances, disclosure of contingent assets and liabilities at the date of the Interim Financial Statements, and the reported 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.

b) Changes in accounting estimates

Property, plant and equipment

Effective January 1, 2023, the Corporation changed its estimate of the useful lives of certain items of PP&E to better reflect the period over which these assets are expected to be in service, following a depreciation study performed by an external third-party. The change in useful lives has been applied prospectively and resulted in a reduction of depreciation expense of $8.2 million for the three months ended March 31, 2023. Assuming the assets are held until the end of their estimated useful lives and there are no new additions, changes, or disposals and retirements after 2022, the depreciation expense is expected to be reduced by approximately $49.9 million for the year ended December 31, 2023 and a similar amount in future years.

c) Changes in accounting standards

Definition of Accounting Estimates (Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors ("IAS 8"))

In February 2021, the IASB issued amendments to IAS 8 to introduce a definition of "accounting estimates" and include other amendments to help entities distinguish changes in accounting estimates from changes in accounting policies. The amendments are effective for annual reporting periods beginning on or after January 1, 2023, with early adoption permitted. The amendments are to be applied prospectively.

Disclosure of Accounting Policies (Amendments to IAS 1 Presentation of Financial Statements ("IAS 1"))

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

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

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

Effective January 1, 2023, the Corporation adopted these amendments, with no impact on the Interim Financial Statements.

d) Future accounting pronouncements

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

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

In January 2020, the IASB issued amendments to IAS 1 relating to the classification of liabilities as current or non-current. Specifically, the amendments clarify one of the criteria in IAS 1 for classifying a liability as non-current - that is, the requirement for an entity to have the right to defer settlement of the liability for at least 12 months after the reporting period. This right may be subject to compliance with covenants. After reconsidering certain aspects of the 2020 amendments, in October 2022, the IASB issued Non-current Liabilities with Covenants (Amendments to IAS 1), reconfirming that only covenants with which a company must comply on or before the reporting date affect the classification of a liability as current or non-current. The amendments are effective for annual reporting periods beginning on or after January 1, 2024, with early adoption permitted. The amendments are to be applied retrospectively.

The Corporation anticipates that the adoption of these accounting pronouncements will not have a material impact on the Corporation's consolidated financial statements.

16. SUBSEQUENT EVENTS

The Corporation has evaluated the events and transactions occurring after the condensed interim consolidated balance sheet date through to May 11, 2023 when the Corporation's Interim Financial Statements were authorized for issuance by the Corporation's Board of Directors, and has identified the following events and transactions which require disclosure in the notes to the Interim Financial Statements.

a) Dividends

On May 9, 2023, the Board of Directors of the Corporation declared a dividend in the amount of $24.6 million with respect to the second quarter of 2023 (second quarter of 2022 – $21.1 million), payable to the City by June 30, 2023.

b) Repayment of debentures

On April 10, 2023, the Corporation's $250.0 million Series 8 debentures matured and were repaid.