FINANCIAL REPORT
DECEMBER 31, 2023

TORONTO HYDRO Corporation

TORONTO HYDRO CORPORATION

TABLE OF CONTENTS

Glossary	3
Management's Discussion and Analysis	4
Executive Summary	5
Introduction	5
Business of Toronto Hydro Corporation	6
Electricity Distribution – Industry Overview	7
Results of Operations	8
Summary of Quarterly Results of Operations	15
Financial Position	16
Liquidity and Capital Resources	17
Corporate Developments	23
Legal Proceedings	24
Share Capital	25
Transactions with Related Parties	25
Controls and Procedures	26
Risk Management and Risk Factors	26
Use of Judgements and Estimates	35
Material Accounting Policies	36
Changes in Accounting Standards	36
Future Accounting Pronouncements	37
Forward-Looking Information	37
Selected Annual Information	40
Additional Information	40
Consolidated Financial Statements	41
Notes to the Consolidated Financial Statements	51

TORONTO HYDRO Corporation

GLOSSARY

CDM – Conservation and demand management

CEO – President and Chief Executive Officer

CFO – Executive Vice-President and Chief Financial Officer

CGU – Cash generating unit

CIR – Custom Incentive Rate-setting

City – *City incorporated under the City of Toronto Act, 1997* (Ontario)

Climate Advisory Services – Program within the unregulated business of the Corporation to support the realization of the City's net zero strategy by facilitating and stimulating the growth of emerging local cleantech markets.

Corporation – Toronto Hydro Corporation

COVID-19 – Coronavirus disease 2019 and its variants

CP Program – Commercial Paper Program established by the Corporation under which the Corporation issues commercial paper

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

ERM – Enterprise Risk Management

GAAP – Generally Accepted Accounting Principles

GHG – Greenhouse Gas

HONI – Hydro One Networks Inc.

IAS – International Accounting Standards

IASB – International Accounting Standards Board

IESO – Independent Electricity System Operator

IFRS – International Financial Reporting Standards

IRM – Incentive Regulation Mechanism

ITA – *Income Tax Act, 1985* (Canada), as amended

ITC – Investment tax credit

kW – Kilowatt

kWh – Kilowatt hour

LDC – The Corporation's wholly-owned subsidiary, Toronto Hydro-Electric System Limited

LRAM – Lost revenue adjustment mechanism

MD&A – Management's Discussion and Analysis

MEU – Municipal electricity utility

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

OCI – Other comprehensive income

OEB – Ontario Energy Board

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

OMERS – Ontario Municipal Employees Retirement System

OPEB – Other post-employment benefits

PILs – Payments in lieu of corporate taxes

PP&E – Property, plant and equipment

PWU – Power Workers' Union

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

TH Energy – The Corporation's wholly-owned subsidiary, Toronto Hydro Energy Services Inc

Toronto Hydro – Toronto Hydro Corporation and its subsidiaries

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

WMS – Wholesale Market Service

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

TORONTO HYDRO Corporation

Executive Summary

- Net income after net movements in regulatory balances for the three months and year ended December 31, 2023 was $20.4 million and $139.9 million, respectively, compared to $16.0 million and $163.9 million for the comparable periods in 2022;
- Capital expenditures were primarily related to the renewal of the electricity infrastructure of LDC and were $213.3 million and $755.0 million for the three months and year ended December 31, 2023, respectively, compared to $239.7 million and $722.7 million for the comparable periods in 2022;
- On August 25, 2023, LDC filed the 2024 rate application seeking the OEB's approval to finalize distribution rates and other charges for the period commencing on January 1, 2024 and ending on December 31, 2024;
- On November 17, 2023, LDC filed a CIR application seeking the OEB's approval of electricity distribution rates and charges effective January 1, 2025, and subsequent annual rate adjustments based on a custom index specific to LDC for the period commencing on January 1, 2026 and ending on December 31, 2029. The application requests distribution rate increases necessary to fund a capital expenditures plan of approximately $3.9 billion and an operational expenditures plan of approximately $1.9 billion over the 2025-2029 period subject to inflationary adjustments via a custom index. The rate application also seeks approval to include in LDC's rate base capital amounts that were incurred during the 2020-2024 period;
- On December 14, 2023, the OEB issued a decision and rate order approving LDC's 2024 rates and providing for other deferral and variance account dispositions; and
- On February 28, 2024, the Board of Directors of the Corporation declared a quarterly dividend in the amount of $21.0 million with respect to the first quarter of 2024 (first quarter of 2023 – $24.6 million) payable to the City by March 28, 2024.

Introduction

This MD&A should be read in conjunction with the Corporation's audited consolidated financial statements and accompanying notes as at and for the years ended December 31, 2023 and 2022, which were prepared in accordance with IFRS Accounting Standards (the Consolidated Financial Statements).

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

Business of Toronto Hydro Corporation

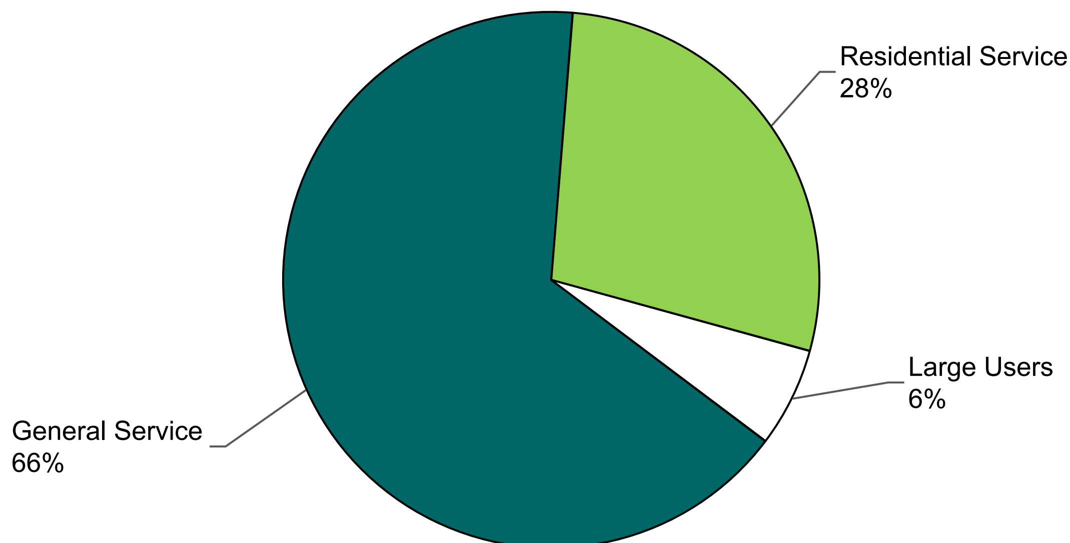
The Corporation is a holding company which wholly owns two subsidiaries:

- 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 793,000 customers located in the city of Toronto. LDC serves the largest city in Canada and distributes approximately 18% of the electricity consumed in Ontario. The business of LDC is regulated by the OEB, which has broad powers relating to licensing, standards of conduct and service, and the regulation of electricity distribution rates charged by electricity distributors in Ontario. For the year ended December 31, 2023, LDC recognized energy sales and distribution revenue of $3,526.8 million from general service users[1], residential service users[2] and large users[3].

LDC Energy Sales and Distribution Revenue by Class
Year ended December 31, 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.

TORONTO HYDRO Corporation

Electricity Distribution – Industry Overview

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

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

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

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

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

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

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

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

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

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

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

TORONTO HYDRO Corporation

Results of Operations

Net Income after Net Movements in Regulatory Balances

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

	2023 $	2022 $	Change $
Revenues			
Energy sales	**691.4**	601.7	89.7
Distribution revenue	**210.4**	185.4	25.0
Other	**32.6**	32.0	0.6
	934.4	819.1	115.3
Expenses			
Energy purchases	**684.7**	643.1	41.6
Operating expenses	**97.3**	91.9	5.4
Depreciation and amortization	**74.6**	88.7	(14.1)
	856.6	823.7	32.9
Finance costs	**(32.2)**	(25.4)	(6.8)
Other gains	**0.7**	—	0.7
Income (loss) before income taxes	**46.3**	(30.0)	76.3
Income tax (expense) recovery	**(18.0)**	0.6	(18.6)
Net income (loss)	**28.3**	(29.4)	57.7
Net movements in regulatory balances	**(23.8)**	48.1	(71.9)
Net movements in regulatory balances arising from deferred taxes	**15.9**	(2.7)	18.6
Net income after net movements in regulatory balances	**20.4**	16.0	4.4

For the three months ended December 31, 2023, net income after net movements in regulatory balances was higher by $4.4 million. The increase was primarily due to higher distribution revenue ($25.0 million) and lower depreciation and amortization expense ($14.1 million). These variances were partially offset by lower amounts deferred into regulatory accounts ($23.8 million), higher finance costs ($6.8 million) and higher operating expenses ($5.4 million).

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

TORONTO HYDRO Corporation

Consolidated Statements of Income
Year ended December 31, 2023
(in millions of Canadian dollars)

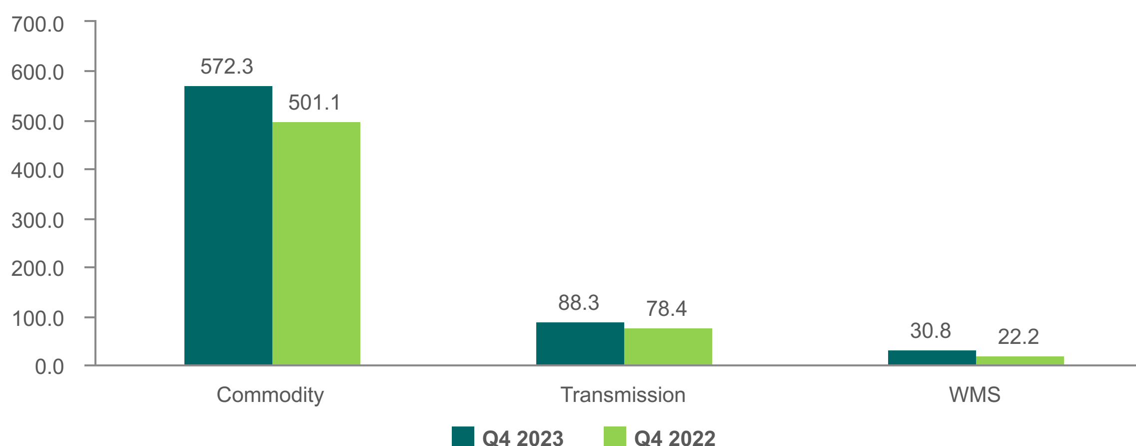
	2023 $	2022 $	Change $
Revenues			
Energy sales	**2,687.3**	2,737.8	(50.5)
Distribution revenue	**839.5**	754.2	85.3
Other	**118.7**	109.7	9.0
	3,645.5	3,601.7	43.8
Expenses			
Energy purchases	**2,735.7**	2,846.7	(111.0)
Operating expenses	**352.2**	322.5	29.7
Depreciation and amortization	**283.3**	311.4	(28.1)
	3,371.2	3,480.6	(109.4)
Finance costs	**(121.5)**	(87.6)	(33.9)
Other gains	**36.3**	—	36.3
Income before income taxes	**189.1**	33.5	155.6
Income tax expense	**(37.7)**	(8.5)	(29.2)
Net income	**151.4**	25.0	126.4
Net movements in regulatory balances	**(42.3)**	136.5	(178.8)
Net movements in regulatory balances arising from deferred taxes	**30.8**	2.4	28.4
Net income after net movements in regulatory balances	**139.9**	163.9	(24.0)

For the year ended December 31, 2023, net income after net movements in regulatory balances was lower by $24.0 million. The decrease was primarily due to lower amounts deferred into regulatory accounts ($118.3 million), higher finance costs ($33.9 million) and higher operating expenses ($29.7 million). These variances were partially offset by higher distribution revenue ($85.3 million), higher other gains ($36.3 million), lower depreciation and amortization expense ($28.1 million) and higher other revenue ($9.0 million).

Energy Sales

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

Energy Sales
Three months ended December 31, 2023 and 2022
(in millions of Canadian dollars)



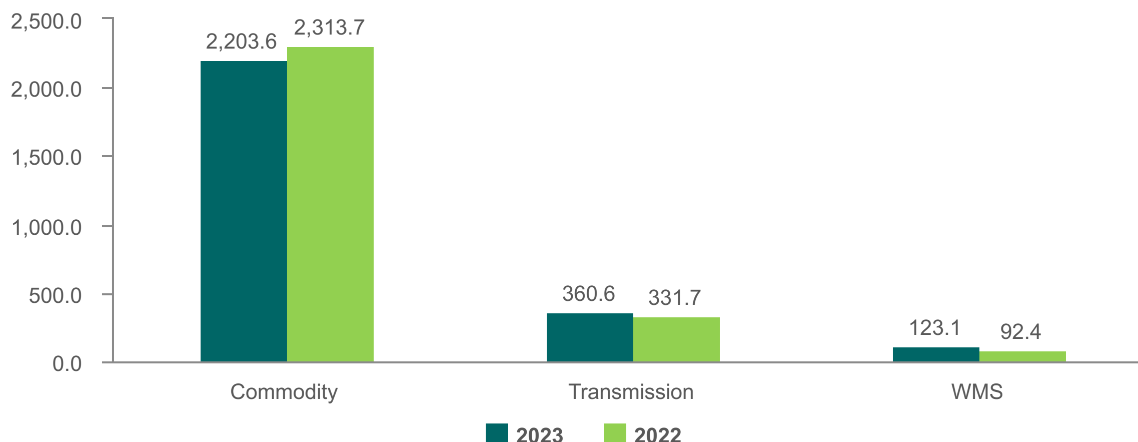
Energy sales for the three months ended December 31, 2023 were $691.4 million, compared to $601.7 million for the comparable period in 2022. The increase was due to higher commodity charges ($71.2 million), higher retail transmission charges ($9.9 million) and higher wholesale market service charges ($8.6 million).

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

	Energy Purchases $	Energy Sales $	Settlement Variances $
Commodity charges	570.0	572.3	(2.3)
Retail transmission charges	92.2	88.3	3.9
WMS charges	22.5	30.8	(8.3)
Total	684.7	691.4	(6.7)

For the three months ended December 31, 2023, LDC recognized $691.4 million in energy sales to customers and was billed $684.7 million for energy purchases from the IESO. The difference between energy sales and energy purchases represents a $6.7 million settlement variance for the period. The settlement variance was recorded as a decrease to the regulatory debit balance ($4.1 million including carrying charges on the

accumulated settlement variance balance) on the Consolidated Balance Sheets, and presented within net movements in regulatory balances on the Consolidated Statements of Income.



Energy sales for the year ended December 31, 2023 were $2,687.3 million, compared to $2,737.8 million for the comparable period in 2022. The decrease was due to lower commodity charges ($110.1 million), partially offset by higher wholesale market service charges ($30.7 million) and higher retail transmission charges ($28.9 million).

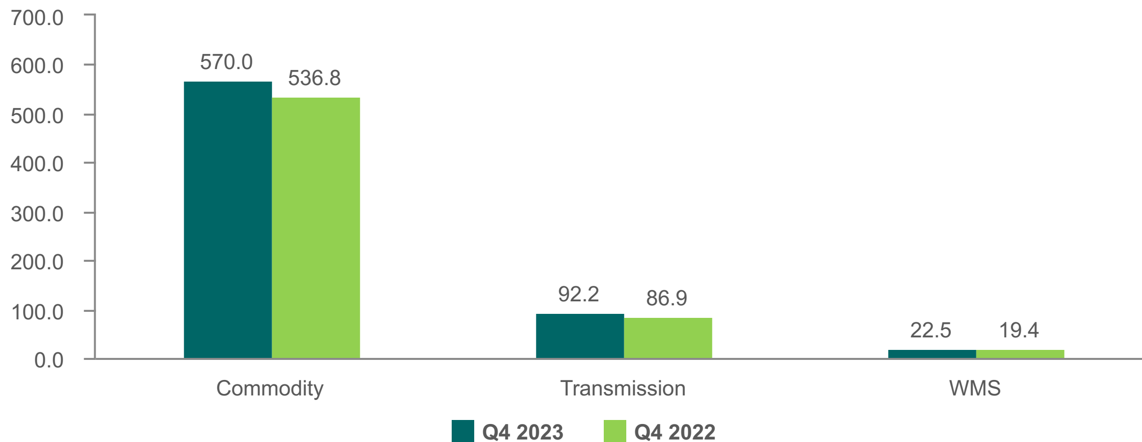
Energy Purchases, Energy Sales, and Settlement Variances
Year ended December 31, 2023
(in millions of Canadian dollars)

	Energy Purchases $	Energy Sales $	Settlement Variances $
Commodity charges	2,231.8	2,203.6	28.2
Retail transmission charges	402.0	360.6	41.4
WMS charges	101.9	123.1	(21.2)
Total	2,735.7	2,687.3	48.4

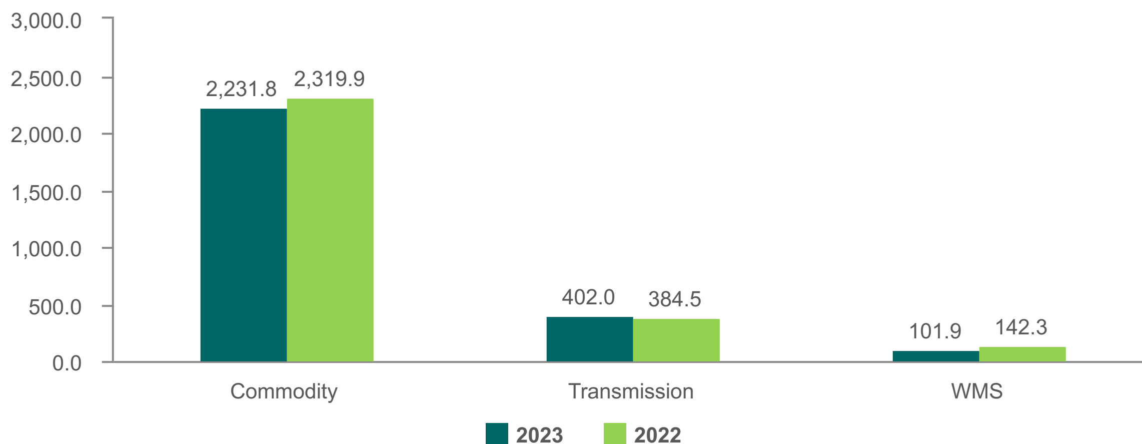
For the year ended December 31, 2023, LDC recognized $2,687.3 million in energy sales to customers and was billed $2,735.7 million for energy purchases from the IESO. The difference between energy sales and energy purchases represents a $48.4 million settlement variance for the period. The settlement variance was recorded as an increase to the regulatory debit balance ($58.5 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.

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.



Energy purchases for the three months ended December 31, 2023 were $684.7 million compared to $643.1 million for the comparable period in 2022. The increase was primarily due to higher commodity charges ($33.2 million), higher retail transmission charges ($5.3 million) and higher wholesale market service charges ($3.1 million).



Energy purchases for the year ended December 31, 2023 were $2,735.7 million compared to $2,846.7 million for the comparable period in 2022. The decrease was due to lower commodity charges ($88.1 million) and lower wholesale market service charges ($40.4 million), partially offset by higher retail transmission charges ($17.5 million).

Distribution Revenue

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

Distribution revenue for the three months and year ended December 31, 2023 was $210.4 million and $839.5 million, respectively, compared to $185.4 million and $754.2 million for the comparable periods in 2022.

The increase of $25.0 million in distribution revenue compared to the prior comparable period for the three months ended December 31, 2023 was driven by higher 2023 distribution rates ($13.5 million), higher revenue collected through OEB-approved rate riders ($9.4 million) and higher electricity consumption ($2.1 million).

The increase of $85.3 million in distribution revenue compared to the prior comparable period for the year ended December 31, 2023 was driven by higher 2023 distribution rates ($52.0 million) and higher revenue collected through OEB-approved rate riders ($32.1 million) and higher electricity consumption ($1.2 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 and year ended December 31, 2023 was $32.6 million and $118.7 million, respectively, compared to $32.0 million and $109.7 million for the comparable periods in 2022.

Other revenue for the three months ended December 31, 2023 was in line with the comparable period in 2022.

The increase in other revenue for the year ended December 31, 2023 was primarily due to higher ancillary service revenue, higher revenue from delivery of street lighting services, higher regulatory service charges and higher pole and duct rentals.

Operating Expenses

Operating expenses for the three months and year ended December 31, 2023 were $97.3 million and $352.2 million, respectively, compared to $91.9 million and $322.5 million for the comparable periods in 2022.

The increase in operating expenses for the three months and year ended December 31, 2023 was primarily due to higher costs in connection with ancillary services and higher system maintenance costs.

Depreciation and Amortization

Depreciation and amortization expense, which includes derecognition of assets removed from service, for the three months and year ended December 31, 2023 was $74.6 million and $283.3 million, respectively, compared to $88.7 million and $311.4 million for the comparable periods in 2022.

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

The decrease in depreciation and amortization expense for the year ended December 31, 2023 was primarily due to the change in useful lives which was applied prospectively resulting in a reduction of depreciation expense and certain assets being fully depreciated, partially offset by in-service asset additions and higher derecognition of assets removed from service.

Finance Costs

Finance costs for the three months and year ended December 31, 2023 were $32.2 million and $121.5 million, respectively, compared to $25.4 million and $87.6 million for the comparable periods in 2022.

The increase in finance costs for the three months ended December 31, 2023 was primarily due to a higher rate of funding from commercial paper with a weighted average interest rate of 5.19% (compared to 3.87% for the comparable period in 2022) and higher average amount of outstanding debentures, partially offset by an increase in interest income due to higher short-term interest rates.

The increase in finance costs for the year ended December 31, 2023 was primarily due to a higher rate of funding from commercial paper with a weighted average interest rate of 4.91% (compared to 2.15% for the comparable period in 2022) and higher average amount of outstanding debentures, partially offset by an increase in interest income due to higher short-term interest rates.

Other gains

Other gains for the three months and year ended December 31, 2023 were $0.7 million and $36.3 million, respectively, compared to $nil for the comparable periods in 2022.

Other gains for the three months ended December 31, 2023 were in line with the comparable period in 2022.

The increase in other gains for the year ended December 31, 2023 was primarily related to the variable consideration receivable in relation to the disposition of properties by LDC in prior years upon achievement of conditions.

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

Income tax expense and income tax recorded in net movements in regulatory balances for the three months and year ended December 31, 2023 was $2.1 million and $6.9 million, respectively, compared to $2.1 million and $6.1 million for the comparable periods in 2022.

The income tax expense and income tax recorded in net movements in regulatory balances for the three months ended December 31, 2023 was in line with the comparable period in 2022.

The increase in income tax expense and income tax recorded in net movements in regulatory balances for the year ended December 31, 2023 was primarily due to higher tax recognized on the realized gains related to the disposition of properties in prior years and lower net deductions in permanent and temporary differences between accounting and tax treatments, partially offset by lower income before taxes.

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 ($42.2 million) and increase in the regulatory credit ($39.7 million) balances for the year ended December 31, 2023 equals the sum of ($2.5 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 discussion under “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 and year ended December 31, 2023 were a charge of $23.8 million and $42.3 million, respectively, compared to a recovery of $48.1 million and $136.5 million for the comparable periods in 2022.

The charge of $23.8 million for the three months ended December 31, 2023 was primarily due to the changes to the useful lives of PP&E, amounts disposed through OEB-approved rate riders and gain on disposals resulting from the variable consideration in connection with the disposal of properties in prior years, partially offset by the settlement variance between the electricity costs billed monthly by the IESO and LDC’s billing to customers. The recovery of $48.1 million for the three months ended December 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.

The charge of $42.3 million for the year ended December 31, 2023 was primarily due to the changes to the useful lives of PP&E, gain on disposals resulting from the variable consideration in connection with the disposal of properties in prior years and amounts disposed through OEB-approved rate riders, partially offset by the settlement variance between the electricity costs billed monthly by the IESO and LDC's billing to customers. The recovery of $136.5 million for the year ended December 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 December 31, 2023.

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

	December 31, 2023 $	September 30, 2023 $	June 30, 2023 $	March 31, 2023 $
Energy sales	**691.4**	726.8	640.8	628.3
Distribution revenue	**210.4**	219.9	207.9	201.3
Other	**32.6**	27.8	31.0	27.3
Revenues	**934.4**	974.5	879.7	856.9
Net income after net movements in regulatory balances	**20.4**	39.3	36.2	44.0

	December 31, 2022 $	September 30, 2022 $	June 30, 2022 $	March 31, 2022 $
Energy sales	601.7	815.3	646.5	674.3
Distribution revenue	185.4	194.8	187.1	186.9
Other	32.0	26.2	25.8	25.7
Revenues	819.1	1,036.3	859.4	886.9
Net income after net movements in regulatory balances	16.0	55.0	45.4	47.5

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.

TORONTO HYDRO Corporation

Financial Position

The following table outlines the significant changes in the Consolidated Balance Sheet as at December 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		
Accounts receivable and unbilled revenue	**35.2**	The increase was primarily due to higher electricity consumption, higher pass through electricity costs and timing of billing and collection activities.
Other assets	**116.4**	The increase was primarily due to the agreement by the Corporation's insurers to settle two legal actions directly with the claimants on the Corporation's behalf (refer to “Legal Proceedings”) and the variable consideration receivable in relation to the disposition of properties in prior years.
PP&E and intangible assets	**453.4**	The increase was largely due to capital expenditures (refer to “Investing Activities”).
Liabilities and Equity		
Commercial paper	**66.0**	The increase was due to the issuances of commercial paper required for general corporate purposes (refer to “Liquidity and Capital Resources”).
Accounts payable and accrued liabilities	**95.9**	The increase was primarily due to the agreement by the Corporation's insurers to settle two legal actions directly with the claimants on the Corporation's behalf (refer to “Legal Proceedings”).
Debentures	**198.1**	The increase was primarily due to the issuance of Series 20 debentures ($250.0 million) and Series 21 debentures ($200.0 million), partially offset by repayment of Series 8 debentures ($250.0 million), net of issuance costs (refer to “Liquidity and Capital Resources” and “Financing Activities”).
Customer deposits	**40.7**	The increase was primarily due to expansion security deposits received.
Deferred revenue	**130.3**	The increase was mainly due to capital contributions received.

Consolidated Balance Sheet Data
(in millions of Canadian dollars)

Balance Sheet Account	Increase (Decrease) $	Explanation of Significant Change
Post-employment benefits	**22.2**	The increase was primarily due to the remeasurement of the benefit obligation to reflect the change in the discount rate assumption from 5.1% to 4.6% as at December 31, 2023.
Deferred tax liabilities	**25.1**	The increase was driven by 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	**41.6**	The increase was due to net income after net movements in regulatory balances ($139.9 million), net of dividends paid ($98.3 million).
Regulatory Balances		
Regulatory debit balances	**42.2**	The increase was primarily related to the settlement variance between the electricity costs billed monthly by the IESO and LDC's billing to customers, deferred taxes and amounts being deferred into capital related regulatory accounts, partially offset by amounts disposed through OEB-approved rate riders.
Regulatory credit balances	**39.7**	The increase was primarily due to changes in useful lives of PP&E and the gain on disposals, partially offset by amounts being deferred into capital related regulatory accounts, net of rate riders and actuarial loss resulting from the remeasurement of post-employment benefit obligation to reflect the change in discount rate.

Liquidity and Capital Resources

The Corporation is a party to a fourth amended and restated credit agreement dated November 17, 2023 (Credit Agreement) with a syndicate of Canadian chartered banks which provides for a revolving credit facility in an amount up to $1.0 billion (Revolving Credit Facility), of which up to $210.0 million is available in the form of letters of credit. 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. Pursuant to the Credit Agreement, the maturity date of the Revolving Credit Facility was extended from September 17, 2027 to September 18, 2028. As at December 31, 2023, the Corporation was in compliance with all covenants included in its Revolving Credit Facility.

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 $100.0 million demand facility with a Canadian chartered bank for the purpose of issuing letters of credit. As at December 31, 2023, $51.3 million of letters of credit had been issued under this 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 December 31, 2023, $7.3 million had been drawn under the Working Capital Facility, compared to $12.8 million as at December 31, 2022. On the 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 $651.9 million and $1,088.5 million, respectively, as at December 31, 2023, resulting in a working capital deficit of $436.6 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 December 31, 2023	**1,000.0**	**—**	**421.0**	**579.0**
Balance as at December 31, 2022	800.0	—	355.0	445.0

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

	Three months ended December 31,		**Year ended December 31,**	
	2023 **$**	2022 $	**2023** **$**	2022 $
Working capital facility, beginning of period	**(2.4)**	(6.4)	**(12.8)**	(8.8)
Net cash provided by operating activities	**238.8**	196.3	**696.8**	469.1
Net cash used in investing activities	**(186.7)**	(198.2)	**(724.9)**	(674.6)
Net cash provided by (used in) financing activities	**(57.0)**	(4.5)	**33.6**	201.5
Working capital facility, end of period	**(7.3)**	(12.8)	**(7.3)**	(12.8)

Operating Activities

Net cash provided by operating activities for the three months and year ended December 31, 2023 was $238.8 million and $696.8 million, respectively, compared to $196.3 million and $469.1 million for the comparable periods in 2022.

The increase in net cash provided by operating activities for the three months ended December 31, 2023 was primarily due to higher net income before net movements in regulatory balances and higher customer deposits, partially offset by timing differences in the settlement of receivables and payables and lower capital contribution received.

The increase in net cash provided by operating activities for the year ended December 31, 2023 was primarily due to higher net income before net movements in regulatory balances, higher customer deposits, higher capital contributions received and higher net other non-current assets and liabilities.

Investing Activities

Net cash used in investing activities for the three months and year ended December 31, 2023 was $186.7 million and $724.9 million, respectively, compared to $198.2 million and $674.6 million for the comparable periods in 2022.

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

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

Capital Expenditures
(in millions of Canadian dollars)

	Three months ended December 31,		**Year ended December 31,**	
	2023 **$**	2022 $	**2023** **$**	2022 $
Regulated LDC				
Distribution system				
Planned [1]	**171.1**	175.0	**596.0**	560.5
Reactive [2]	**14.1**	18.2	**57.1**	51.1
Technology assets	**17.4**	20.0	**61.9**	58.3
Other [3]	**8.8**	23.9	**32.9**	43.8
Regulated capital expenditures	**211.4**	237.1	**747.9**	713.7
Unregulated capital expenditures [4]	**1.9**	2.6	**7.1**	9.0
Total capital expenditures	**213.3**	239.7	**755.0**	722.7

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

The total regulated capital expenditures for the three months and year ended December 31, 2023 were $211.4 million and $747.9 million, respectively, compared to $237.1 million and $713.7 million for the comparable periods in 2022.

For the three months ended December 31, 2023, the decrease in regulated capital expenditures was primarily due to lower spending on fleet and equipment services ($10.8 million), customer-initiated plant relocations and expansions ($7.7 million), replacement of underground infrastructure ($4.7 million), station programs ($4.7 million), control operations reinforcement program ($4.7 million), reactive capital ($4.1 million), technology assets ($2.6 million) and other programs ($1.4 million). These variances were partially offset by higher spending on customer connections ($14.9 million).

For the year ended December 31, 2023, the increase in regulated capital expenditures was primarily due to higher spending on critical capital equipment ($30.2 million), customer connections ($23.5 million), customer-initiated plant relocations and expansions ($18.8 million), replacement of overhead infrastructure ($16.3 million), facilities management and security ($12.4 million), replacement of underground infrastructure ($7.0 million), reactive capital ($6.0 million) and technology assets ($3.6 million). These variances were partially offset by lower spending on stations programs ($55.7 million), control operations reinforcement program ($11.8 million), fleet and equipment services ($11.6 million) and load demand ($4.3 million).

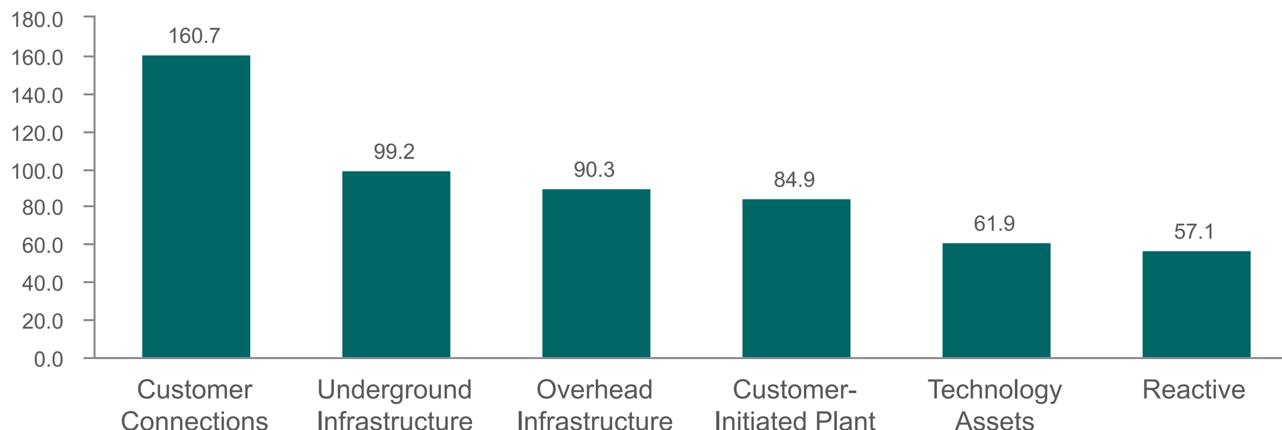
The largest capital initiatives in 2023 include the delivery of customer connections, replacement of underground and overhead infrastructures, customer-initiated plant relocations and expansions, and technology assets.

The delivery of customer connections includes spending related to new service and upgrades to existing service for specific commercial customers. For the year ended December 31, 2023, capital expenditures for the delivery of customer connections were $160.7 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 year ended December 31, 2023, capital expenditures for underground and overhead infrastructure were $99.2 million and $90.3 million, respectively.

Customer-initiated plant relocations and expansions include relocating infrastructure to accommodate construction by third parties. For the year ended December 31, 2023, capital expenditures for customer-initiated plant relocations and expansions were $84.9 million.

Technology assets include software, hardware and communication infrastructure to provide reliable technology solutions and services to support the Corporation's business activities. For the year ended December 31, 2023, capital expenditures for technology assets were $61.9 million.



Financing Activities

Net cash from financing activities for the three months and year ended December 31, 2023 was $57.0 million and $33.6 million, respectively, compared to $4.5 million and $201.5 million for the comparable periods in 2022.

The decrease in net cash used in financing activities for the three months ended December 31, 2023 was primarily due to lower proceeds from debenture issuances, higher interest and dividends paid, largely offset by higher net commercial paper issuances.

The decrease in net cash provided by financing activities for the year ended December 31, 2023 was primarily due to the repayment of the Series 8 debentures, higher interest paid, lower net commercial paper issuances in 2023 and higher dividends paid, partially offset by higher proceeds from issuance of Series 20 and Series 21 debentures.

For the three months and year ended December 31, 2023, the average aggregate outstanding borrowings under the Corporation's Revolving Credit Facility, Working Capital Facility and Commercial Paper Program were $570.5 million and $639.3 million, respectively, with a weighted average interest rate of 5.19% and 4.91% (compared to $397.2 million and $459.5 million, respectively, with a weighted average interest rate of 3.87% and 2.15% for the comparable periods in 2022).

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

On June 14, 2023, the Corporation issued $250.0 million of 4.61% senior unsecured debentures due on June 14, 2033 at a price of $999.52 per $1,000 principal amount (Series 20). The Series 20 debentures bear interest payable semi-annually in arrears. The net proceeds from the issuance of the Series 20 debentures have been used to repay certain indebtedness under the Corporation's Commercial Paper Program, to finance the Corporation's capital expenditure program and for general corporate purposes. Debenture issuance costs of $1.6 million relating to the Series 20 debentures were recorded against the carrying amount of the debentures and are amortized to finance costs using the effective interest method.

On July 27, 2023, the Corporation filed a base shelf prospectus with the securities commissions or similar regulatory authorities in each of the provinces of Canada, allowing offerings of unsecured debentures in an aggregate amount of up to $1.5 billion during the 25-month period following the date of the prospectus.

On October 12, 2023, the Corporation issued $200.0 million of 5.13% senior unsecured debentures due on October 12, 2028 at a price of $999.78 per $1,000 principal amount (Series 21). The Series 21 debentures bear interest payable semi-annually in arrears. The net proceeds from the issuance of the Series 21 debentures have been used to repay certain indebtedness under the Corporation's Commercial Paper Program. Debenture

TORONTO HYDRO Corporation

issuance costs of $1.2 million relating to the Series 21 debentures were recorded against the carrying amount of the debentures and are amortized to finance costs using the effective interest method.

As at December 31, 2023, the Corporation had debentures outstanding in the principal amount of $2.9 billion. These debentures will mature between 2026 and 2063. As at December 31, 2023, the Corporation was in compliance with all covenants included in its trust indenture and supplemental trust indentures.

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

Credit Ratings
As at December 31, 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	—	—

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

During the year ended December 31, 2023, the Board of Directors of the Corporation declared and paid dividends to the City totalling $98.3 million (2022 - $84.6 million).

On February 28, 2024, the Board of Directors of the Corporation declared a dividend in the amount of $21.0 million, payable to the City by March 28, 2024.

Summary of Contractual Obligations and Other Commitments

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

Summary of Contractual Obligations and Other Commitments
As at December 31, 2023
(in millions of Canadian dollars)

	Total	**2024**[1]	**2025 / 2026**	**2027 / 2028**	**After 2028**
	$	**$**	**$**	**$**	**$**
Commercial paper [2]	**421.0**	421.0	—	—	—
Debentures - principal repayment	**2,945.0**	—	200.0	200.0	2,545.0
Debentures - interest payments	**2,089.3**	108.8	217.6	207.4	1,555.5
Capital projects [3] and other	**12.1**	5.9	3.4	1.1	1.7
Leases	**0.1**	—	0.1	—	—
Total contractual obligations and other commitments	**5,467.5**	535.7	421.1	408.5	4,102.2

[1] Due over the period from January 1, 2024 to December 31, 2024.
[2] The notes under the Commercial Paper Program were issued at a discount and are repaid at their principal amount.
[3] Primarily relates to commitments for construction services.

TORONTO HYDRO Corporation

Corporate Developments

Changes to the Corporation's Board of Directors

Effective June 19, 2023, the City Council appointed Nicole Martin to the Board of Directors of the Corporation.

Effective August 10, 2023, the City Council appointed Councillor Dianne Saxe to the Board of Directors of the Corporation and Councillor Stephen Holyday ceased to be a Director of the Corporation.

Toronto Hydro Climate Action Plan

In April 2021, City Council requested that Toronto Hydro prepare an action plan regarding what more Toronto Hydro could do to support the City's TransformTO vision and climate action targets. Toronto Hydro submitted its Climate Action Plan in September 2021 and its first Climate Action Plan Status Report in June 2022. In July 2022, City Council adopted the recommendations of these reports, including a request that Toronto Hydro establish a new climate advisory services business. At this meeting, City Council also directed that Toronto Hydro and the City enter into a memorandum of understanding with respect to coordinating City and Climate Advisory Services' climate mitigation efforts. The memorandum of understanding was signed in April 2023 and presented to City Council in May 2023.

Climate Advisory Services is designed to facilitate reductions in GHG 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 implementation and evaluating the results. In sum, Toronto Hydro employees use their knowledge and experience to ease and support the energy transition for customers.

For the year ended December 31, 2023, costs relating to Climate Advisory Services were $4.3 million and were funded through revenues and net income within LDC, not from electricity distribution rates.

Electricity Distribution Rates

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

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

On December 19, 2019, the OEB issued its 2020-2024 CIR Decision and on February 20, 2020, the OEB issued its CIR Final Rate Order, both in relation to the rate application filed on August 15, 2018 (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.

The financial considerations of the OEB's 2020-2024 CIR Decision and Rate Order are reflected in the Consolidated Financial Statements including disclosure of approved disposition for a number of requested rate riders (see note 8 to the Consolidated Financial Statements).

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

On 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.

On August 25, 2023, LDC filed the 2024 rate application seeking the OEB's approval to finalize distribution rates and other charges for the period commencing on January 1, 2024 and ending on December 31, 2024. On December 14, 2023, the OEB issued a decision and rate order approving LDC's 2024 rates and providing for other deferral and variance account dispositions.

On November 17, 2023, LDC filed a CIR application seeking the OEB's approval of electricity distribution rates and charges effective January 1, 2025, and subsequent annual rate adjustments based on a custom index specific to LDC for the period commencing on January 1, 2026 and ending on December 31, 2029. The application requests distribution rate increases necessary to fund a capital expenditures plan of approximately $3.9 billion and an operational expenditures plan of approximately $1.9 billion over the 2025-2029 period subject to inflationary adjustments via a custom index. The rate application also seeks approval to include in LDC's rate base capital amounts that were incurred during the 2020-2024 period.

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.

Legal Proceedings

In the ordinary course of business, the Corporation and its subsidiaries are subject to various legal proceedings, actions and claims from customers, suppliers, regulators and other parties. The outcome of outstanding, pending or future proceedings cannot be predicted with certainty and could materially adversely affect the Corporation. As at the date hereof, the Corporation believes that none of these legal proceedings, actions and claims from customers, suppliers, regulators and other parties in which it is currently involved or has been involved since the beginning of the most recently completed financial year, would be expected to have a material adverse effect on the Corporation. On an ongoing basis, the Corporation and its subsidiaries assess the likelihood of any adverse judgments or outcomes as well as potential ranges of probable costs and losses. A determination of the provision required, if any, for these contingencies is made after an analysis of each individual issue. The provision may change in the future due to new developments in each matter or changes in approach, such as a change in settlement strategy. If damages were awarded under these actions, the Corporation and its subsidiaries would make a claim under any liability or other insurance policies, to the extent applicable, subject to such claim not being disputed by the insurers. Further details on legal proceedings that relate to the Corporation are set out below.

In December 2023, the Corporation's insurers entered into two agreements to settle prior legal actions directly with the claimants on the Corporation's behalf for a total of $90.0 million under the terms of the relevant insurance policies. Pursuant to the terms of applicable commercial general liability insurance policies that are in place to

cover such losses, the Corporation's insurers defended these actions and entered into two agreements to pay on the Corporation's behalf. The Corporation recorded a settlement liability and a corresponding settlement asset for the same amount in relation to the insurance settlements to reflect the underlying obligation to the claimants.

Share Capital

Share capital consists of the following:

(in millions of Canadian dollars)	**2023 $**	2022 $
Authorized		
The authorized share capital of the Corporation consists of an unlimited number of common shares without par value.		
Issued and outstanding		
1,200 common shares, of which all were fully paid.	**817.8**	817.8

Transactions with Related Parties

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

Transactions with Related Parties
(in millions of Canadian dollars)

	Year ended December 31,	
	2023 $	2022 $
Revenues	**285.1**	271.4
Operating expenses and capital expenditures	**8.7**	0.6
Dividends declared and paid	**98.3**	84.6

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

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

	As at December 31,	
	2023	2022
	$	$
Accounts receivable and unbilled revenue	**32.6**	40.0
Accounts payable and accrued liabilities	**3.8**	6.7
Customer deposits	**16.0**	9.8

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

Controls and Procedures

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

Risk Management and Risk Factors

Toronto Hydro faces various risks that could impact the achievement of its strategic objectives. It adopts an enterprise-wide approach to risk management, based on an overall enterprise risk philosophy, and consolidates the various outlooks of risk across the enterprise via a risk governance structure. The Board annually reviews Toronto Hydro's risk philosophy and is responsible for approving any new enterprise risk areas. Key risks and associated mitigation strategies are periodically reviewed by the Executive and Senior Leadership Team.

The Corporation's ERM framework utilizes industry best practices and international guidelines, and enables the attainment of its strategic goals and objectives through a systematic, disciplined approach towards identifying, evaluating, treating, monitoring and reporting of risks.

Toronto Hydro's key risk areas are described in the following sections. The strategic risk areas are identified as the governance, oversight and franchise risks, while the key functional risks are the financial, cybersecurity, safety, operations, human capital and compliance risks. There can be no assurance that any steps Toronto Hydro takes to manage risks will avoid future loss.

Governance Risk

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

The Corporation is a government-controlled enterprise whose sole shareholder is the City. The operations of Toronto Hydro are influenced by the broad by-law enactment and enforcement powers of the City. The City is also responsible for developing policies and municipal initiatives of general application and there is no guarantee that such policies, including climate change and energy policies, will align with Toronto Hydro's strategic objectives or long-term financial health. The City may also implement additional requirements relating to reduction in GHG

emissions and adaptation to climate change as part of initiatives such as the City's TransformTO. In this respect, City Council passed resolutions in 2022 to support the implementation of Toronto Hydro's climate action plan to assist the City in meeting its 2040 net zero GHG emission objective, and the City and Toronto Hydro have entered into a Memorandum of Understanding concerning these matters. The City, as sole shareholder, may require Toronto Hydro to make additional investments in infrastructure and/or undertake activities which necessitate additional time, money and effort to be expended related to compliance with the City's TransformTO that are inconsistent with Toronto Hydro's proposed climate action plan. Additionally, due to its authority to put in place oversight bodies which may have or be given jurisdiction over Toronto Hydro as a government-controlled enterprise, the City may also empower certain of its agencies to investigate or audit Toronto Hydro, which could lead to significant reputational, operational or financial harm.

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

As the Corporation's sole shareholder, the City has set out the governing objectives and principles, including financial objectives, for the Corporation through the Shareholder Direction. Under the Shareholder Direction, the City has the power to direct Toronto Hydro to conduct its affairs and govern its operations in accordance with such rules, policies, directives or objectives as are directed by City Council from time to time, subject to applicable law. Certain conflicts may arise where the City's goals and objectives in implementing such rules, policies, directives or objectives differ from or amend the Shareholder Direction principles, create new governing objectives and principles, or restrict the ability of the Board to oversee the operations of the Corporation and management's ability to take strategic or functional action, and therefore could materially adversely affect Toronto Hydro's business, operations, financial condition or prospects. The City may not provide or support equity investment or net income reinvestment in the Corporation to enable Toronto Hydro to maintain the financial objectives under the Shareholder Direction as it undertakes its strategic plan and implements OEB-approved rate decisions and orders. Additionally, as sole shareholder of the Corporation, the City may not appoint directors on a timely basis with sufficient competencies and experiences to provide effective strategic direction to and oversight of Toronto Hydro.

Toronto Hydro engages on a systematic basis with the City Mayor, City Councillors, the City Manager's office, and other departments and agencies to ensure a sharing of perspectives on the vital interests of Toronto Hydro and its customers.

Oversight Risk

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

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

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

- the OEB will approve LDC's electricity distribution rates at levels that will permit LDC to maintain safe and reliable service to its customers and earn a commercially reasonable rate of return on the investment in the business;

- the OEB will approve and permit recovery through rates of past and future expenditures incurred by LDC in providing distribution services to customers, including costs arising from an increased inflationary environment and pass-through costs, including those relating to the electricity commodity, in either case as fully as expected and in a timely manner or at all;

- governmental authorities will pursue net zero GHG policies that optimally utilize electrification or adequately support local distribution companies in facilitating electrification;

- the OEB will approve and permit recovery through rates of past and future expenditures incurred by LDC in preparing for or expanding electricity distribution service to meet increased electricity demand or other requirements resulting from net zero GHG emission policies and growth in the City;

- the OEB will adopt other rate-setting principles, formulae, inputs and cost recovery methodologies in a manner consistent with well-established regulatory principles that result in rates that properly support LDC's activities;

- the regulatory instruments that are made available to LDC will be sufficient to address LDC's operations, needs and circumstances in respect of future applications for electricity distribution rates; and

- the OEB, IESO or other governmental authority will not permit, enable or facilitate other parties in providing distribution services in LDC's licensed area, or permit loads within LDC's service area to become served by a means other than through LDC's electricity distribution system.

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

Additionally, the policy priorities of provincial and federal governments and regulatory bodies beyond those specifically applicable to the climate change and energy space, including policies of more general application, and the implementation of policies by such bodies, may impact Toronto Hydro's ability to deliver effective and efficient operations, meet business objectives, report on its activities and capitalize upon new opportunities. Developments and changes in any of the laws, rules, regulations, policies, permits, or directives applicable to the businesses carried on by Toronto Hydro, and the manner of implementation and application of the same, could materially adversely affect Toronto Hydro. This may include developments with respect to labour and employment laws, changes to accounting standards and financial reporting requirements and environmental obligations, among others. This may also include changes to public safety rules, such as restrictive measures affecting the mobility or availability of human and/or non-human resources associated with infectious diseases or other adverse public health developments.

Financial Risk

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

Market Economic Risk

Toronto Hydro is directly and indirectly subject to various macroeconomic and local market forces, which could have material adverse impacts. As a consequence of uncertainties in the recovery of economic and market conditions in a post COVID-19 world, LDC remains exposed to inflationary pressures, an elevated interest rate cost environment, indeterminate levels of customer consumption, credit risk with respect to customer non-payment of electricity bills, and related challenging operating and infrastructure development costs. The current, and potential future, uncertain economic climate affected by factors including but not limited to 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 negative impact on the Corporation's operating results and financial position.

Capital Structure

Toronto Hydro strives to target an optimal capital structure and cash to debt ratio range to access capital markets at the lowest rates. This is necessary for Toronto Hydro to finance its capital plans, including those related to meeting increased electricity demand resulting from net zero GHG emission policies (such as the City's TransformTO). Toronto Hydro relies on debt financing through the Corporation's MTN Program, CP Program and existing credit facilities to finance Toronto Hydro's daily operations, repay existing indebtedness, and fund capital expenditures. The Corporation's ability to arrange sufficient and cost-effective debt financing could be materially adversely affected by a number of domestic and local factors, including financial market conditions, inflationary pressure, Bank of Canada policy decisions, regulatory processes that affect the timeliness for the approval and clearance of variance accounts, and macroeconomic concerns around the health of the economy and consumer. In addition, any of the above factors are also affected by financial and geopolitical events in the global economy. Toronto Hydro's business, operations, financial condition or prospects, or compliance with its contractual debt covenants, in each case could be materially adversely affected by the ratings assigned to the Corporation or the debentures issued under the Corporation's MTN Program by credit rating agencies, the rating assigned to short-term borrowings under the CP Program by a credit rating agency, and the Corporation's access to and availability of the debt capital and commercial paper markets. In the event the Corporation is unable to maintain a sufficient credit rating for its CP Program, the Corporation's ability to access short-term capital and pay its obligations as they become due could be materially adversely affected. In addition, if the Corporation cannot maintain attractive credit ratings for its MTN Program, debt capital under such program may become too costly or availability may be restricted, which could materially adversely affect the Corporation's financial health and performance. There can be no assurance that debt or equity financing will be available or sufficient to meet Toronto Hydro's requirements, objectives, or strategic opportunities. If and when financing is available, there can be no assurance that it will be on acceptable terms to Toronto Hydro. As the City is the sole shareholder of the Corporation, it is dependent on the City for new equity, the timing and amount of which is subject to availability. Therefore, the Corporation's debt to equity capital structure may not be maintained at an optimal level in alignment with the OEB's deemed capital structure for rate making purposes (60% debt:40% equity) as further indebtedness is incurred to finance Toronto Hydro's capital program and climate action plan.

Credit and Liquidity Risk

LDC is exposed to credit risk with respect to customer non-payment of electricity bills. Actions by the provincial government or regulatory authorities may impede LDC's ability to mitigate the risk of customer non-payment using means normally permitted by law at certain times of the year, including security deposits (i.e., letters of credit, surety bonds, cash deposits or lock-box arrangements, under terms prescribed by the OEB), late payment penalties, pre-payment, pre-authorized payment, load limiters or disconnection. LDC may have no option in certain cases but to assume the amount of any default, whether in whole or in part, and LDC's security interest or other measures, if any, may not provide sufficient protection. Increases in outstanding receivables due to reduced or delayed customer payments as a result of economic conditions could also contribute to liquidity risk for LDC as it continues to be charged for electricity commodity, transmission and other charges, which are intended to be flow-through items to customers. The global economic situation continues to be dynamic and uncertain and the ultimate duration and magnitude of the impact on Toronto Hydro's business cannot be determined with certainty at this time.

Demand Risk

Toronto Hydro's financial health and performance may also be adversely affected by events or measures, as well as changes in economic, policy, customer preference or technological conditions, that reduce the demand for electricity. Such events or measures may include, but are not limited to, closures of businesses and other institutions such as schools and government operations as a result of extreme storms and other weather conditions, natural disasters, terrorism, and pandemics. A reduction in demand for grid-supplied electricity distribution may also arise from conservation measures. Additionally, the adoption by customers of newer technologies in the electricity industry, including those related to self-generation, could reduce customer demand

for grid-supplied electricity distribution. Toronto Hydro is focused on investing in its infrastructure to modernize the grid to drive resiliency, reliability, customer effectiveness and efficiency.

Interest Rate Risk

Toronto Hydro is exposed to short-term interest rate risk on the short-term borrowings under its CP Program and Working Capital Facility, as well as customer deposits, while most of its remaining obligations for the recently completed financial year were either non-interest bearing or bear fixed interest rates, and its financial assets for the recently completed financial year were predominately short-term in nature and mostly non-interest bearing. Toronto Hydro seeks to manage interest rate risk by monitoring its mix of fixed and floating rate instruments, and taking action as necessary to maintain an appropriate balance as established under its treasury policies. Toronto Hydro estimates that a 25 basis point increase (decrease) in short-term interest rates, with all other variables held constant, would result in an increase (decrease) of approximately $1.3 million to annual finance costs.

Toronto Hydro is also exposed to fluctuations in interest rates for the valuation of its post-employment benefit obligations. Toronto Hydro estimates that a 100 basis point increase in the discount rate used to value these obligations would decrease the accrued benefit obligation of Toronto Hydro, as at December 31, 2023, by $31.4 million, and a 100 basis point decrease in the discount rate would increase the accrued benefit obligation, as at December 31, 2023, by $39.0 million.

Foreign Exchange Risk

As at December 31, 2023, Toronto Hydro had limited exposure to the changing values of foreign currencies. While Toronto Hydro purchases goods and services which are payable in United States dollars, and purchases United States currency to meet the related commitments when required, the value of such purchases is not significant to Toronto Hydro and as such the impact of foreign exchange fluctuations would not be expected to have a material effect on the consolidated financial statements.

Franchise Risk

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

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

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

economy in general. Toronto Hydro also faces the risk of its franchise being diminished by the possibility of an overall reduction in the use of electricity in its service territory.

There can be no assurance that the future nature, prevalence, or effects of these forms of competition, arising from the transition to net zero GHG emissions or otherwise, will be comparable to current or historic experience. Failure to effectively review and understand our external and internal environment and take appropriate action could lead to missed business opportunities and loss of competitive advantage. In particular, the clean energy transition to net zero GHG emitting energy sources may create both risks and opportunities and there can be no guarantee that Toronto Hydro has the correct strategic direction to capitalize on the associated policy changes or technological advancements or that it will be able to effectively mitigate losses from these developments.

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

Cybersecurity Risk

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

Toronto Hydro's ability to operate effectively is also in part dependent on the development, maintenance and management of complex information technology and operational technology systems across the electricity distribution grid, as well as Toronto Hydro's financial, customer billing and business systems.

LDC's electricity distribution infrastructure and technology systems are potentially vulnerable to damage or interruption from cyber attacks, breaches or other compromises, which could result in business interruption, service disruptions, theft of intellectual property and confidential information (about customers, suppliers, counterparties and employees), additional regulatory scrutiny, litigation and reputational damage. The cybersecurity threat landscape is continually evolving and actors are using more sophisticated methods to penetrate information technology systems. In particular, the utilities sector, as operators of critical infrastructure and providers of essential services with large customer bases, is a target for cybersecurity activity. Toronto Hydro has implemented security controls substantially aligned with industry best practices and standards, including the National Institute of Standards and Technology Cybersecurity Framework and the OEB's Ontario Cyber Security Framework, and maintains cyber insurance. Even with these measures in place, since the techniques used to obtain unauthorized access, disable or degrade service, or sabotage systems change frequently and may only be detected once a cyber incident has initiated, Toronto Hydro may be unable to anticipate these techniques or to implement adequate preventative measures on a timely basis. Cyber attacks, breaches or other compromises of electricity distribution infrastructure and technology systems could result in service disruptions and system failures, including as a result of a failure to provide electricity to customers, property damage, data corruption, and/or loss of confidential employee, supplier, counterparty or customer information. A significant breach could have a material adverse effect on the financial performance of Toronto Hydro or its reputation and standing with customers, regulators and in the financial markets. It could also expose Toronto Hydro to third-party claims.

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

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

Safety Risk

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

Toronto Hydro's work environment can be inherently hazardous, thereby creating a risk to the health and safety of both the public and employees, as well as possible resultant operational and/or financial impacts. Utility infrastructure is vulnerable to natural disasters such as earthquakes, floods, hurricanes, or wildfires. These events could damage or destroy infrastructure, disrupting essential services and compromising public safety. As utility infrastructure ages, it may deteriorate, leading to potential hazards.

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

The nature of the work performed in electrical utilities operations requires that employees receive extensive training on health and safety, including the use of personal protective equipment and the implementation of workplace safety procedures and protocols. This is due to the hazards inherent to electrical utilities work, which, depending on the required task, can include electrical contact, arc flash, working in confined spaces, fires or explosions, slips, trips and falls, motor vehicle incidents, occupational illnesses, and biological hazards such as infectious diseases.

Toronto Hydro is subject to compliance with provincial health and safety legislation. Findings of a failure to comply with these requirements could result in penalties and reputational risk. Toronto Hydro's management approach to occupational health and safety is to meet, and often where possible, exceed legal compliance requirements and seek to eliminate or safeguard known occupational hazards and risks.

Operations Risk

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

Asset Management Risk

Toronto Hydro may be unable to maintain reasonable levels of reliability for its customers due to failure of existing distribution infrastructure and assets (including assets not directly involved in electricity distribution such as facilities and information technology systems), access to the supply of electricity from the provincial and local generation and transmission systems, and the inability to replace or expand distribution infrastructure in an optimal timeframe.

LDC estimates that over a quarter of its electricity distribution assets have already exceeded or will reach the end of their expected operating lives over the next five years (i.e., by 2029). Asset condition assessment demographics also indicate substantial asset investment needs for a number of critical assets during this period. At the same time, Toronto is one of the fastest growing cities in North America and LDC must make additions and upgrades to keep pace with urban intensification, new connections and electrification, optimize flexibility of connection to generation and transmission systems, including DERs, and ensure good stewardship of the

distribution system in a manner that accounts for a changing climate. Further, extreme weather is no longer an infrequent experience, and has instead become a regular condition of operating a distribution system. Toronto Hydro has experienced several extreme weather events in recent years, including ice storms, freezing rain, extreme wind and flooding, that have led to a significant number of customers experiencing electricity outages and challenges to maintaining access to electricity supply from the transmission system.

In addition, as the City, provincial government and the Government of Canada implement policies and programs to respond and adapt to climate change, including greater electrification through the adoption of electric vehicles, DERs, building heating and cooling retrofits and energy efficiency/demand management technologies, the pressures and demands on Toronto Hydro's system are expected to increase significantly. Such factors drive a need for incremental capital expenditures for system upgrades and new technologies to increase grid capacity and resilience in order to reliably handle increased loads, higher power quality requirements and multi-directional flows. As Toronto Hydro adopts novel technologies or equipment to enhance the capabilities of its electricity distribution grid, despite system contingency, there can be no guarantee that these technologies or equipment will be effective or that they will not increase the incidence or duration of outages.

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

Toronto Hydro's equipment performance will degrade should Toronto Hydro become subject to significant unforeseen equipment failures, or is unable to access sufficient supplies or human resources. Such degradation may compromise the reliability of distribution assets, climate change readiness, the ability to deliver sufficient electricity and/or customer supply security, including in response to government net zero GHG policies and public goals, and increase the costs of operating and maintaining these assets. Similarly, there is no certainty that regional planning efforts controlled by external governing agencies and regulators will address all electricity supply matters as identified by LDC.

Business Interruption Risk

Toronto Hydro may be unable to maintain continuing and sustainable business operations, or recover from business interruption, after the impact of a major or critical incident. Toronto Hydro's operations are exposed to the effects of natural and other unexpected occurrences, including, but not limited to, extreme storm and other weather conditions, natural disasters, loss of the supply of electricity from the provincial and local generation and transmission system, as well as terrorism and pandemics. LDC is also exposed to risks that informational and operational technology systems may not operate as anticipated, including as a result of a cybersecurity incident, and could result in sustained interruptions to key systems that would have a substantial impact on continuing normal business operations. Costs and operational changes, associated with such business interruption events may have a material adverse effect on Toronto Hydro's business and operations in both the short and longer term. These impacts may also include limiting Toronto Hydro's ability to build, repair and maintain capital infrastructure, with resultant impacts on reliability and revenue.

Although Toronto Hydro's facilities and operations are constructed, operated and maintained with such occurrences in mind, there can be no assurance that they will successfully withstand such occurrences in all circumstances. Any major damage to Toronto Hydro's facilities or interruption of Toronto Hydro's operations arising from these occurrences could result in lost revenues and repair costs that can be substantial. Although Toronto Hydro has maintained insurance which it considers to be consistent with industry practice, there is no guarantee that insurance will continue to be available at reasonable rates for certain types of coverage and policy limits. If Toronto Hydro sustained a large uninsured loss caused by natural or other unexpected occurrences, LDC may apply to the OEB for the recovery of the loss related to the electricity distribution system. There can be no assurance that the OEB would approve, in whole or in part, such an application.

Supply Chain Risk

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

Disruptions to Toronto Hydro's supply chain, driven by the geopolitical environment, terrorist attacks, inflation, shifts in demand, and labour shortages, may result in increased lead times, increased costs, and more variability in on-time and in-full deliveries for key assets like transformers, cables, and switchgear. These capacity concerns may affect grid reliability, storm management and recovery, or lead to delays or cancellation of electrification projects.

Customer Management Risk

Toronto Hydro may also fail to accurately measure customer electricity consumption, respond to and address customer service issues or bill customers correctly or on time (including meter to cash management). As a result of net zero GHG emissions policies, LDC may need to accelerate capital investments to accommodate increasing electrification. These system enhancements may lead to material customer bill increases and a more challenging customer relationship environment for Toronto Hydro, as well as customer backlash against the energy transition and related expenditures by Toronto Hydro. Any of these consequences could have a material adverse effect on Toronto Hydro.

Physical Security Risk

Toronto Hydro also faces external threats to its physical and perimeter security. This includes the security of Toronto Hydro's facilities including office buildings and distribution stations. In order to safeguard its assets and staff, Toronto Hydro has developed policies and guidelines around physical and perimeter security and facilities related emergency preparedness.

Human Capital Risk

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

Toronto Hydro is subject to the risk that human resources with the necessary knowledge, skills and education may not be available to support Toronto Hydro's future talent requirements. This risk could be heightened in economic conditions where inflation rates are elevated as this may result in pressure on wages and salaries, and where employee expectations with respect to work-life balance and flexibility are evolving.

Furthermore, Toronto Hydro expects that labour force availability for certain positions will be restricted, resulting in increased competition and turnover for certain skilled employees, which may negatively impact knowledge management and business continuity at Toronto Hydro.

Development and retention of talent to meet the evolving needs of the business, particularly those related to the adoption of new technologies central to a modernized distribution grid requires Toronto Hydro to focus on a series of proactive activities and programs to mitigate these risks, such as strategic workforce planning, promotion of apprenticeship programs, diversity and inclusiveness awareness and training, investments in colleges and universities, succession planning, knowledge transfer and a robust training program. The failure to attract, retain and deploy qualified personnel for Toronto Hydro's business could have a material adverse effect on Toronto Hydro.

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

Toronto Hydro's ability to operate successfully in the electricity industry in Ontario will continue to depend in part on its ability to make changes to existing work processes and conditions in order to adapt to changing circumstances, including limitations and restrictions placed on human resources as a result of external environment factors such as infectious diseases or erosion of social cohesion. Toronto Hydro's ability to make such changes or adapt, in turn, will continue to depend in part on its relationship with its labour unions, including negotiating collective bargaining agreements with the Society of United Professionals and PWU. There can be no assurance that Toronto Hydro will be able to secure the support of its labour unions. There can also be no assurance that Toronto Hydro will be able to secure collective agreements without work stoppages by its unionized work forces.

Toronto Hydro's ability to develop its work processes to meet changing circumstances, deliver upon grid modernization and address electrification, also depends on its ability to access adequate resources from its external contractor community with advanced developed skills. Toronto Hydro's ability to successfully access and benefit from third party service providers will depend, in part, on minimizing any disruption that may be caused by competitive market and other factors, including infectious diseases. If such disruption occurs, there may be a material adverse effect on Toronto Hydro's business and operations.

Compliance Risk

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

Toronto Hydro is subject to the risk that it may not be in material compliance with applicable future laws, rules, regulations and policies at all times. Constraints on access to human and materials resources due to competitive market factors and global supply chain challenges may create risk of completion of compliance activities in accordance with mandated timelines. Failure by Toronto Hydro to comply with applicable laws, rules, regulations and policies may subject Toronto Hydro to civil or regulatory proceedings that could have a material adverse effect on Toronto Hydro. The OEB may not allow recovery in rates for the costs of coming into or maintaining compliance with these laws, rules, regulations and policies.

Use of Judgements and Estimates

The preparation of the Corporation's Consolidated Financial Statements in accordance with IFRS Accounting Standards 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 Consolidated Financial Statements, and the reported revenues and expenses for the year. The estimates are based on historical experience, current conditions and various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities as well as for identifying and assessing the accounting treatment with respect to commitments and contingencies. Actual results could differ from those estimates, including changes as a result of future decisions made by the OEB, the IESO, the Ontario Ministry of Energy, or the Ontario Ministry of Finance. Due to current uncertain economic conditions, the estimates and judgments made by management in the preparation of the Corporation's Consolidated Financial Statements are subject to uncertainty. Management has analyzed the impact of the uncertain economic conditions on its estimates and adjusted the expected credit loss allowance as at December 31, 2023 *(note 15(b))*. The extent of the future impact of the uncertain economic conditions on the Corporation's financial results and business operations is not known at this time.

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

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

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

Material Accounting Policies

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

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 Consolidated 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", "budgets", "can", "committed", "continual", "could", "estimates", "expects", "focus", "forecasts", "further notice", "future", "impact", "increasingly", "intends", "may", "might", "once", "plans", "propose", "projects", "schedule", "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 "Investing Activities"; 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 "Financing Activities"; the City's climate-related objectives, including TransformTO, and Toronto Hydro's climate action plan and relevant City strategies and programs as described in the section entitled "Toronto Hydro Climate Action Plan"; Climate Advisory Services and its ability to facilitate reductions in GHG emissions by reducing stakeholder-identified barriers as described in the section entitled "Toronto Hydro Climate Action Plan"; any judgements, assumptions and estimates that management had to make in the preparation of the Consolidated Financial Statements as described in the section entitled "Use of Judgments and Estimates"; the Corporation's assessment of the impact on adoption of the amendments to IAS 1, IAS 8 and IAS 12, if any, as described in the sections entitled "Changes in Accounting Standards" and "Future Accounting Pronouncements"; and the assumptions and statements regarding the estimated useful lives and related depreciation expense as described in note 6 of the Notes to the Consolidated Financial Statements risk

that the City may require the Corporation to make additional investments in infrastructure to assist in achieving the City's climate-related objectives as described in the section entitled "Governance Risk"; risk that future changes to Ontario's electricity regulatory model, manner of regulation, and/or broader climate change and energy policy framework does not align with Toronto Hydro's business direction and could materially adversely affect Toronto Hydro's strategic goals and financial results as described in the section entitled "Oversight Risk"; the impact on Toronto Hydro's operating results and financial position in the future due to uncertain economic factors, including macroeconomic factors and local market forces such as inflationary pressures, an elevated interest rate cost environment, indeterminate levels of customer consumption, and a global recession, as described in the section entitled "Financial Risk"; the Corporation's reliance on debt financing through its MTN Program, CP Program or existing credit facilities to finance Toronto Hydro's daily operations, repayment of existing indebtedness, and funding of capital expenditures as described in the section entitled "Financial Risk"; the continued ability of the Corporation to arrange sufficient and cost-effective debt financing in order to meet its short-term and long-term obligations as described in the section entitled "Financial Risk"; increases in liquidity risk due to reduced or delayed customer payments as a result of economic conditions as described in the section entitled "Financial Risk"; the impact on Toronto Hydro's financial health and performance due to changes in economic, policy, customer preference or technological conditions that reduce the demand for electricity as described in the section entitled "Financial Risk"; the effect of changes in interest rates and discount rates on future revenue requirements and future post-employment benefit obligations, respectively, as described in the section entitled "Financial Risk"; the pervasiveness of competition and the presence of alternatives to Toronto Hydro's distribution services, and the resultant effects on LDC's distribution business as described in the section entitled "Franchise Risk"; Toronto Hydro's focus on increasing its automation and interactivity, and the incorporation of a greater level of technology and information systems into its infrastructure as described in the section entitled "Cybersecurity Risk"; risk that aging infrastructure may lead to potential hazards as described in the section entitled "Safety Risk"; risk that serious workplace incidents arising from workplace hazards can cause and/or contribute to critical injuries, fatal injuries, and occupational illnesses as described in the section entitled "Safety Risk"; the impact of a failure to comply with provincial health and safety legislations on the Corporation as described in the section entitled "Safety Risk"; risk that Toronto Hydro is not able to effectively meet the needs of its customers and a growing city, and maintain the security and reliability of the distribution grid at acceptable levels as described in the section entitled "Operations Risk"; the estimation that over a quarter of Toronto Hydro's electricity distribution assets have already exceeded or will reach the end of their expected operating lives over the next five years (i.e., by 2029) as described in the section entitled "Operations Risk"; risk that Toronto Hydro's equipment performance may degrade in the event that it becomes subject to significant unforeseen equipment failures, or is unable to access sufficient supplies or human resources as described in the section entitled "Operations Risk"; risk that Toronto Hydro may be unable to maintain continuing and sustainable business operations, or recover from business interruption after an incident that is beyond normal operations as described in the section entitled "Operations Risk"; risk that informational and operational technology systems may not operate as anticipated, including as a result of a cybersecurity incident as described in the section entitled "Operations Risk"; the impact of disruptions to the Corporation's supply chain, driven by the geopolitical environment, terrorist attacks, inflation, shifts in demand, and labour shortages on Toronto Hydro's financial performance and reliability as described in the section entitled "Operations Risk"; risk that Toronto Hydro is unable to maintain necessary resource talent and skilled resources as described in the section entitled "Human Capital Risk"; risk that Toronto Hydro does not meet its material compliance obligations under legal and regulatory instruments as described in the section entitled "Compliance Risk"; constraints on access to human and materials resources due to global supply chain challenges as described in the section entitled "Compliance Risk"; and the expectation that none of the legal actions and claims as described in the section entitled "Legal Proceedings" would have a material adverse effect on the Corporation and the ability to claim under applicable liability insurance policies and/or pay any damages with respect to legal actions and claims as described in the section entitled "Legal Proceedings".

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

TORONTO HYDRO Corporation

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 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 historical seasonal trends, terrorism and pandemics, and LDC's limited insurance coverage for losses resulting from these events; 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 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; risk that Toronto Hydro is not able to arrange sufficient and cost-effective debt financing to repay maturing debt and to fund capital expenditures and other obligations; risk that the Corporation is unable to maintain its financial health and performance at acceptable levels; risk that insufficient debt or equity financing will be available to meet the Corporation's requirements, objectives, or strategic opportunities; risk of downgrades to the Corporation's credit rating; risks related to the timing and extent of changes in prevailing interest rates and discount rates and their effect on future revenue requirements and future post-employment benefit obligations; risks arising from inflation, the course of the economy and other general macroeconomic factors; risk associated with the impairment to the Corporation's image in the community, public confidence or brand; risk associated with the Corporation failing to meet its material compliance obligations under legal and regulatory instruments; risk that the presence or release of hazardous or harmful substances could lead to claims by third parties and/or governmental orders, and other factors which are discussed in more detail under the section entitled "Risk Management and Risk Factors" in this MD&A.

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 of this MD&A. These factors are not intended to represent a complete list of the factors that could affect the Corporation; however, these factors should be considered carefully and readers should not place undue reliance on forward-looking information made herein. Furthermore, the forward-looking information contained herein is dated as of the date of this MD&A or as of the date specified in this MD&A, as the case may be, and the Corporation has no intention and undertakes no obligation to update or revise any forward-looking information, whether as a result of new information, future events or otherwise, except as required by law.

Selected Annual Information

The following table sets forth selected annual financial information for the three years ended December 31, 2023, 2022 and 2021. This information has been derived from the Corporation's Consolidated Financial Statements.

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

	2023 **$**	2022 $	2021 $
Year Ended December 31			
Total revenues [1]	**3,645.5**	3,601.7	3,567.1
Net income after net movements in regulatory balances [1]	**139.9**	163.9	141.0
As at December 31			
Total assets and regulatory balances [2]	**7,594.5**	6,947.0	6,413.8
Total debentures [2,3]	**2,927.2**	2,729.1	2,430.7
Other non-current financial liabilities [4]	**55.4**	21.6	27.5
Total equity [2]	**2,103.6**	2,062.0	1,982.7
Dividends [5]	**98.3**	84.6	70.3

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

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

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

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

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

Additional Information

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

Toronto, Canada

March 1, 2024

CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022

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

MANAGEMENT'S REPORT

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

The preparation of the Consolidated Financial Statements necessarily involves the use of estimates and assumptions based on management's judgments, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods. Estimates and assumptions are based on historical experience, current conditions and various other assumptions believed to be reasonable in the circumstances, with critical analysis of the significant accounting policies followed by the Corporation as described in Note 25 to the Consolidated Financial Statements. The preparation of the Consolidated Financial Statements includes information regarding the estimated impact of future events and transactions. Actual results in the future may differ materially from the present assessment of this information because future events and circumstances may not occur as expected. The Consolidated Financial Statements have been prepared within reasonable limits of materiality in light of information available up to March 1, 2024.

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

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

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

On behalf of Toronto Hydro Corporation's management:

"Anthony Haines"	*"Celine Arsenault"*
Anthony Haines	Céline Arsenault
President and Chief Executive Officer	Executive Vice-President and Chief Financial Officer

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

INDEPENDENT AUDITOR'S REPORT

To the Shareholder of Toronto Hydro Corporation

Opinion

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

- the consolidated balance sheets as at December 31, 2023 and December 31, 2022
- the consolidated statements of income for the years then ended
- the consolidated statements of comprehensive income for the years then ended
- the consolidated statements of changes in equity for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of material accounting policy information

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2023 and December 31, 2022, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board.

Basis for Opinion

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

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

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

© 2024 KPMG LLP, an Ontario limited liability partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

Other Information

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

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

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

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

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

We have nothing to report in this regard.

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

The engagement partner on the audit resulting in this auditor's report is David Denis Kerrigan Brownridge.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants
Toronto, Canada
March 1, 2024

TORONTO HYDRO Corporation

CONSOLIDATED BALANCE SHEETS

(in millions of Canadian dollars)

As at December 31	Note	2023 $	2022 $
ASSETS			
Current			
Accounts receivable and unbilled revenue	*4, 15(b)*	**536.8**	501.6
Materials and supplies		**8.5**	8.2
Other assets	*5*	**106.6**	16.4
Total current assets		**651.9**	526.2
Property, plant and equipment	*6*	**6,201.0**	5,756.5
Intangible assets	*7*	**396.2**	387.3
Other assets	*5*	**40.3**	14.1
Total assets		**7,289.4**	6,684.1
Regulatory balances	*8*	**305.1**	262.9
Total assets and regulatory balances		**7,594.5**	6,947.0
LIABILITIES AND EQUITY			
Current			
Working capital facility	*9*	**7.3**	12.8
Commercial paper	*9*	**421.0**	355.0
Accounts payable and accrued liabilities	*10*	**559.1**	463.2
Income tax payable		**1.4**	0.4
Customer deposits		**60.0**	54.8
Deferred revenue	*11*	**28.8**	29.6
Deferred conservation credit	*3(b)*	**10.9**	16.8
Debentures	*12, 15*	**—**	249.9
Total current liabilities		**1,088.5**	1,182.5
Debentures	*12, 15*	**2,927.2**	2,479.2
Customer deposits		**50.7**	15.2
Deferred revenue	*11*	**868.1**	737.0
Post-employment benefits	*13*	**252.2**	230.0
Deferred tax liabilities	*20*	**109.7**	84.6
Other liabilities		**4.7**	6.4
Total liabilities		**5,301.1**	4,734.9
Equity			
Share capital	*16*	**817.8**	817.8
Retained earnings		**1,285.8**	1,244.2
Total equity		**2,103.6**	2,062.0
Total liabilities and equity		**7,404.7**	6,796.9
Regulatory balances	*8*	**189.8**	150.1
Total liabilities, equity and regulatory balances		**7,594.5**	6,947.0

Commitments, contingencies and subsequent events *23, 24, 26*

ON BEHALF OF THE BOARD:

"David McFadden"
David McFadden, Director

"Michael Nobrega"
Michael Nobrega, Director

See accompanying notes to the consolidated financial statements.

TORONTO HYDRO Corporation

CONSOLIDATED STATEMENTS OF INCOME

(in millions of Canadian dollars)

Year ended December 31	***Note***	**2023** **$**	2022 $
Revenues			
Energy sales	*17*	**2,687.3**	2,737.8
Distribution revenue	*17*	**839.5**	754.2
Other	*17*	**118.7**	109.7
		3,645.5	3,601.7
Expenses			
Energy purchases		**2,735.7**	2,846.7
Operating expenses	*18*	**352.2**	322.5
Depreciation and amortization	*6, 7*	**283.3**	311.4
		3,371.2	3,480.6
Finance costs	*19*	**(121.5)**	(87.6)
Other gains	*8(g)*	**36.3**	—
Income before income taxes		**189.1**	33.5
Income tax expense	*20*	**(37.7)**	(8.5)
Net income		**151.4**	25.0
Net movements in regulatory balances	*8*	**(42.3)**	136.5
Net movements in regulatory balances arising from deferred taxes	*8, 20*	**30.8**	2.4
Net income after net movements in regulatory balances		**139.9**	163.9

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in millions of Canadian dollars)

Year ended December 31	***Note***	**2023** **$**	2022 $
Net income after net movements in regulatory balances		**139.9**	163.9
Other comprehensive income			
Items that will not be reclassified to income or loss			
Remeasurements of post-employment benefits, net of tax (2023 - $5.1, 2022 - ($20.3))	*13*	**(14.0)**	56.3
Net movements in regulatory balances related to OCI, net of tax (2023 - $5.1, 2022 - ($20.3))	*8, 13*	**14.0**	(56.3)
Other comprehensive income, net of tax		**—**	—
Total comprehensive income		**139.9**	163.9

See accompanying notes to the consolidated financial statements.

TORONTO HYDRO Corporation

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(in millions of Canadian dollars)

Year ended December 31	***Note***	**2023** **$**	2022 $
Share capital	*16*	**817.8**	817.8
Retained earnings, beginning of year		**1,244.2**	1,164.9
Net income after net movements in regulatory balances		**139.9**	163.9
Dividends	*16, 22*	**(98.3)**	(84.6)
Retained earnings, end of year		**1,285.8**	1,244.2
Total equity		**2,103.6**	2,062.0

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions of Canadian dollars)

Year ended December 31	*Note*	**2023** **$**	2022 $
OPERATING ACTIVITIES			
Net income after net movements in regulatory balances		**139.9**	163.9
Net movements in regulatory balances	*8*	**42.3**	(136.5)
Net movements in regulatory balances arising from deferred taxes	*8, 20*	**(30.8)**	(2.4)
Adjustments			
Depreciation and amortization	*6, 7*	**283.3**	311.4
Amortization of deferred revenue	*11*	**(17.1)**	(18.1)
Finance costs	*19*	**121.5**	87.6
Income tax expense	*20*	**37.7**	8.5
Post-employment benefits		**3.1**	—
Other gains	*8(g)*	**(36.3)**	—
Other		**0.7**	0.3
Capital contributions received	*11*	**120.6**	85.8
Net change in other non-current assets and liabilities		**(2.1)**	(20.9)
Increase (decrease) in customer deposits		**40.7**	(2.4)
Changes in non-cash operating working capital balances	*21(a)*	**(2.8)**	(5.6)
Income tax paid		**(3.9)**	(2.5)
Net cash provided by operating activities		**696.8**	469.1
INVESTING ACTIVITIES			
Purchase of property, plant and equipment	*21(b)*	**(681.4)**	(615.4)
Purchase of intangible assets	*21(b)*	**(56.2)**	(59.6)
Proceeds from variable consideration		**11.0**	—
Proceeds on disposals of property, plant and equipment		**1.7**	0.4
Net cash used in investing activities		**(724.9)**	(674.6)
FINANCING ACTIVITIES			
Increase in commercial paper, net of repayments	*9*	**66.0**	80.0
Dividends paid	*16*	**(98.3)**	(84.6)
Proceeds from issuance of debentures	*12*	**449.9**	299.8
Debt issuance costs paid	*12*	**(2.8)**	(2.1)
Repayment of debentures	*12*	**(250.0)**	—
Interest paid		**(131.2)**	(91.6)
Net cash provided by financing activities		**33.6**	201.5
Net change in cash and cash equivalents during the year		**5.5**	(4.0)
Working capital facility, beginning of year		**(12.8)**	(8.8)
Working capital facility, end of year		**(7.3)**	(12.8)

See accompanying notes to the consolidated financial statements.

1. NATURE OF BUSINESS

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

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

2. BASIS OF PRESENTATION

The Corporation's audited consolidated financial statements for the years ended December 31, 2023 and 2022 (Consolidated Financial Statements) have been prepared in accordance with IFRS Accounting Standards as issued by the IASB.

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

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

3. REGULATION

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

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

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

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

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

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

a) Electricity distribution rates

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

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

On December 19, 2019, the OEB issued its 2020-2024 CIR Decision and on February 20, 2020, the OEB issued its CIR Final Rate Order, both in relation to the rate application filed on August 15, 2018 (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. The financial considerations of the OEB's 2020-2024 CIR Decision and Rate Order are reflected in the Consolidated Financial Statements including disclosure of approved disposition for a number of requested rate riders (*note 8)*.

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

On 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.

On August 25, 2023, LDC filed the 2024 rate application seeking the OEB's approval to finalize distribution rates and other charges for the period commencing on January 1, 2024 and ending on December 31, 2024. On December 14, 2023, the OEB issued a decision and rate order approving LDC's 2024 rates and providing for other deferral and variance account dispositions.

On November 17, 2023, LDC filed a CIR application seeking the OEB's approval of electricity distribution rates and charges effective January 1, 2025, and subsequent annual rate adjustments based on a custom index specific to LDC for the period commencing on January 1, 2026 and ending on December 31, 2029 (2025-2029 CIR Application).

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. ACCOUNTS RECEIVABLE AND UNBILLED REVENUE

Accounts receivable and unbilled revenue consist of the following:

	2023 $	2022 $
Unbilled revenue	**261.4**	255.4
Trade receivables	**213.7**	188.1
Due from related parties *(note 22)*	**32.6**	40.0
Other	**29.1**	18.1
Total accounts receivable and unbilled revenue	**536.8**	501.6

5. OTHER ASSETS

Other assets consist of the following:

	2023 $	2022 $
Settlement asset [(1)]	**90.0**	—
Prepaid expenses	**31.5**	29.1
Other receivables [(2)]	**23.8**	—
Deferred financing costs	**1.6**	1.4
Total other assets	**146.9**	30.5
Less: Current portion of other assets relating to:		
Settlement asset [(1)]	**90.0**	—
Prepaid expenses	**16.2**	16.1
Deferred financing costs	**0.4**	0.3
Current portion of other assets	**106.6**	16.4
Non-current portion of other assets	**40.3**	14.1

[(1)] Relates to settlement of two legal actions by the Corporation's insurers *(note 24).*
[(2)] Includes variable consideration receivable in relation to the disposition of a property in a prior year and recognized upon achievement of conditions *(note 8(g)).*

6. 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, 2021	5,406.2	462.9	434.5	502.2	6,805.8
Additions	—	—	—	651.5	651.5
Transfers into service	525.0	22.2	53.1	(600.3)	—
Disposals, retirements and other	(34.2)	—	(1.4)	—	(35.6)
Balance as at December 31, 2022	5,897.0	485.1	486.2	553.4	7,421.7
Additions	**—**	**—**	**—**	**702.4**	**702.4**
Transfers into service	**556.9**	**47.5**	**62.6**	**(667.0)**	**—**
Disposals, retirements and other	**(42.8)**	**0.5**	**(18.9)** [1]	**—**	**(61.2)**
Balance as at December 31, 2023	**6,411.1**	**533.1**	**529.9**	**588.8**	**8,062.9**
Accumulated depreciation					
Balance as at December 31, 2021	1,104.3	97.2	227.1	—	1,428.6
Depreciation	195.2	16.9	34.0	—	246.1
Disposals, retirements and other	(8.3)	—	(1.2)	—	(9.5)
Balance as at December 31, 2022	1,291.2	114.1	259.9	—	1,665.2
Depreciation	**153.8**	**24.3**	**34.0**	**—**	**212.1**
Disposals, retirements and other	**(11.9)**	**0.6**	**(4.1)**	**—**	**(15.4)**
Balance as at December 31, 2023	**1,433.1**	**139.0**	**289.8**	**—**	**1,861.9**
Carrying amount					
Balance as at December 31, 2022	4,605.8	371.0	226.3	553.4	5,756.5
Balance as at December 31, 2023	**4,978.0**	**394.1**	**240.1**	**588.8**	**6,201.0**

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

As at December 31, 2023, “Land and buildings” included right-of-use assets related to leases of land and office space with cost of $7.6 million (2022 - $7.6 million), accumulated depreciation of $1.1 million (2022 - $1.0 million) and carrying amount of $6.5 million (2022 - $6.6 million).

For the year ended December 31, 2023, borrowing costs in the amount of $5.9 million (2022 - $5.5 million) were capitalized to PP&E with an average interest rate of 3.85% (2022 - 3.13%).

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 $50.8 million for the year ended December 31, 2023. Assuming the assets are held until the end of their estimated useful lives and there were no new additions, changes, or disposals and retirements after 2022 to the affected assets, the depreciation expense is expected to be reduced by a similar amount in future years.

7. 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, 2021	290.2	194.9	27.4	60.4	572.9
Additions	—	—	46.1	25.1	71.2
Transfers into service	29.4	72.8	(29.4)	(72.8)	—
Balance as at December 31, 2022	319.6	267.7	44.1	12.7	644.1
Additions	**—**	**—**	**50.0**	**2.6**	**52.6**
Transfers into service	**32.3**	**0.3**	**(32.3)**	**(0.3)**	**—**
Balance as at December 31, 2023	**351.9**	**268.0**	**61.8**	**15.0**	**696.7**
Accumulated amortization					
Balance as at December 31, 2021	182.6	32.3	—	—	214.9
Amortization	31.8	10.1	—	—	41.9
Balance as at December 31, 2022	214.4	42.4	—	—	256.8
Amortization	**32.6**	**11.1**	**—**	**—**	**43.7**
Balance as at December 31, 2023	**247.0**	**53.5**	**—**	**—**	**300.5**
Carrying amount					
Balance as at December 31, 2022	105.2	225.3	44.1	12.7	387.3
Balance as at December 31, 2023	**104.9**	**214.5**	**61.8**	**15.0**	**396.2**

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

For the year ended December 31, 2023, borrowing costs in the amount of $1.5 million (2022 - $1.3 million) were capitalized to intangible assets with an average interest rate of 3.85% (2022 - 3.13%).

The remaining amortization period for computer software ranges from less than one year to five years. The remaining amortization period for contributions ranges from five to 24 years.

8. REGULATORY BALANCES

Debit balances consist of the following:

	2022 $	Balances arising in the period $	Recovery/ reversal $	Other movements $	2023 $	Remaining recovery/ reversal period (months)	Carrying charges applicable
Settlement variances	**168.4**	**58.5**	**(50.5)**	**0.8**	**177.2**	note 8(a)	(1)
Deferred taxes	**86.6**	**25.7**	**—**	**—**	**112.3**	note 8(b)	—
Externally driven capital	**—**	**5.5**	**—**	**(0.5)**	**5.0**	note 8(c)	(1)
LRAM	**1.9**	**—**	**—**	**—**	**1.9**	note 8(d)	(1)
Other	**6.0**	**2.3**	**0.1**	**0.3**	**8.7**	—	(1)
Total	**262.9**	**92.0**	**(50.4)**	**0.6**	**305.1**		

	2021 $	Balances arising in the period $	Recovery/ reversal $	Other movements $	2022 $	Remaining recovery/ reversal period (months)	Carrying charges applicable
Settlement variances	58.5	111.6	(1.5)	(0.2)	168.4	note 8(a)	(1)
Deferred taxes	63.9	22.7	—	—	86.6	note 8(b)	—
LRAM	4.2	—	(2.3)	—	1.9	note 8(d)	(1)
OPEB net actuarial loss	48.1	—	—	(48.1)	—	note 8(i)	—
Other	6.7	3.4	(3.9)	(0.2)	6.0	—	(1)
Total	181.4	137.7	(7.7)	(48.5)	262.9		

(1) 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, 4.98% for April 1, 2023 to September 30, 2023 and 5.49% for October 1, 2023 to December 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%; October 1, 2022 to December 31, 2022 - 3.87%).

Credit balances consist of the following:

	2022	Balances arising in the period	Recovery/ reversal	Other movements	2023	Remaining recovery/ reversal period (months)	Carrying charges applicable
	$	$	$	$	$		
Useful life changes	—	**62.7**	—	—	**62.7**	note 8(e)	(1)
Capital-related revenue requirement	**79.7**	**2.9**	**(37.3)**	**2.4**	**47.7**	note 8(f)	(1)
Gain on disposals	**2.2**	**32.2**	—	—	**34.4**	note 8(g)	(1)
Development charges	**13.7**	**1.1**	**(2.6)**	—	**12.2**	note 8(h)	(1)
OPEB net actuarial gain	**28.5**	**(19.1)**	—	—	**9.4**	note 8(i)	—
Tax-related variances	**12.5**	**1.0**	**(5.3)**	**0.3**	**8.5**	note 8(j)	(1)
Renewable enabling investments	**3.0**	**1.7**	—	—	**4.7**	note 8(k)	—
Smart metering entity	**2.6**	**1.6**	**(0.5)**	—	**3.7**	note 8(l)	(1)
Accounts receivable credits	**1.9**	**0.1**	**(0.9)**	—	**1.1**	note 8(m)	(1)
Derecognition	**3.2**	**(0.1)**	**(2.4)**	—	**0.7**	note 8(n)	(1)
Other	**2.8**	**4.1**	**(0.1)**	**(2.1)**	**4.7**	0 - 12	(1)
Total	**150.1**	**88.2**	**(49.1)**	**0.6**	**189.8**		

	2021	Balances arising in the period	Recovery/ reversal	Other movements	2022	Remaining recovery/ reversal period (months)	Carrying charges applicable
	$	$	$	$	$		
Capital-related revenue requirement	78.3	1.4	—	—	79.7	note 8(f)	(1)
Gain on disposals	4.7	—	(2.5)	—	2.2	note 8(g)	(1)
Development charges	15.2	1.2	(2.6)	(0.1)	13.7	note 8(h)	(1)
OPEB net actuarial gain	—	76.6	—	(48.1)	28.5	note 8(i)	—
Tax-related variances	11.2	1.3	—	—	12.5	note 8(j)	(1)
Renewable enabling investments	1.7	1.3	—	—	3.0	note 8(k)	—
Smart metering entity	0.5	2.1	—	—	2.6	note 8(l)	(1)
Accounts receivable credits	2.8	0.1	(0.9)	(0.1)	1.9	note 8(m)	(1)
Derecognition	33.4	1.0	(31.2)	—	3.2	note 8(n)	(1)
Other	3.4	0.1	(0.5)	(0.2)	2.8	24	(1)
Total	151.2	85.1	(37.7)	(48.5)	150.1		

(1) 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, 4.98% for April 1, 2023 to September 30, 2023 and 5.49% for October 1, 2023 to December 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%; October 1, 2022 to December 31, 2022 - 3.87%).

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. There was no impairment recorded for the year ended December 31, 2023.

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

	2023 $	2022 $
Total movements in regulatory debit balances	**42.2**	81.5
Total movements in regulatory credit balances	**(39.7)**	1.1
Total net movements	**2.5**	82.6
Net movements per financial statements:		
Net movements in regulatory balances	**(42.3)**	136.5
Net movements in regulatory balances arising from deferred taxes	**30.8**	2.4
Net movements in regulatory balances related to OCI, net of tax	**14.0**	(56.3)
Total net movements per financial statements	**2.5**	82.6

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

The regulatory balances consist of the following:

a) Settlement variances

This account includes the variances between amounts charged by LDC to customers, based on regulated rates, and the corresponding cost of electricity and non-competitive electricity service costs incurred by LDC. LDC has deferred the variances between the costs incurred and the related recoveries in accordance with the criteria set out in the accounting principles prescribed by the OEB.

As part of the OEB's decision and rate order approving LDC's 2023 rates, the OEB approved recovery of $53.1 million related to 2020 and 2021 settlement variances over a 12-month period commencing January 1, 2023. As part of the OEB's decision and rate order approving LDC's 2024 rates, the OEB approved recovery of $110.5 million related to 2022 settlement variances over a 12-month period commencing January 1, 2024.

b) Deferred taxes

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

The amounts recorded under IFRS 14 include the deferred tax asset related to regulatory balances of $33.8 million (debits) as at December 31, 2023 (2022 - $29.6 million (debits)) and the recognition of a regulatory balance in respect of additional temporary differences for which a deferred tax amount was recognized of $28.3

million (credits) as at December 31, 2023 (2022 - $20.6 million (credits)). The deferred tax amount related to the expected future impact to electricity distribution rates was $106.8 million (debits) as at December 31, 2023 (2022 - $77.6 million (debits)).

c) Externally driven capital

This account captures the differences between the forecasted revenue requirement amounts included in rates related to capital expenditure and resulting derecognition for third party-initiated relocation and expansion projects, and the actual revenue requirement associated with these types of projects. LDC is seeking disposition of the balance in the 2025-2029 CIR Application *(note 3(a))*. The timing of disposition of the balance is currently unknown.

d) Lost revenue adjustment mechanism

This regulatory balance relates to the difference between the level of CDM program activities included in LDC's load forecast used to set approved rates and the actual impact of CDM activities achieved. The timing of disposition of the balance is currently unknown.

e) Useful life changes

This account captures the cumulative revenue requirement impact for the benefit of customers as directed by the OEB for 2023 and 2024 related to the change in estimate of the useful lives of certain items of PP&E *(note 6).* As at December 31, 2023, the regulatory balance relates to the difference between the revenue requirement included in rates charged to customers in 2023 and the actual revenue requirement based on the updated useful lives. LDC is seeking disposition of the balance in the 2025-2029 CIR Application *(note 3(a))*. The timing of disposition of the balance is currently unknown.

f) Capital-related revenue requirement

This regulatory balance relates to the asymmetrical variance between the cumulative 2015 to 2019 capital-related revenue requirement included in rates and the actual capital-related revenue requirement over the same period. The cumulative 2015 to 2019 capital-related revenue requirement included in rates exceeded the actual capital-related revenue requirement over the same rate period. In the 2020-2024 CIR Decision and Rate Order, the OEB approved disposition of $81.8 million related to the 2019 balance over a 24-month period commencing on January 1, 2023.

g) Gain on disposals

This regulatory balance consists of the net of amounts disposed through the OEB-approved rate riders offset by the related tax savings (credits) and the after-tax gain realized on the sale of three significant LDC properties between 2015 and 2018.

The balance arising in the gain on disposals account for the year ended December 31, 2023 was related to the realized gain of $36.3 million and mainly related to the variable consideration recognized for the disposition of properties in prior years upon achievement of conditions. As at December 31, 2023, the amount recognized in the regulatory account in connection with the disposition of properties was $32.2 million, net of tax and selling costs, and inclusive of carrying charges. The realized gain and tax savings for the disposition of the properties were previously recorded to this regulatory account and approved for disposition by the OEB. LDC is seeking disposition of the balance in the 2025-2029 CIR Application *(note 3(a))*. The timing of disposition of the balance is currently unknown.

h) Development charges

This regulatory balance relates to excess expansion deposits retained by LDC where the requested number of connections or electricity demand were not met by the connecting customer. Pursuant to the OEB's Distribution System Code, LDC may collect expansion deposits from specific customers to guarantee the payment of additional costs relating to expansion projects. During the customer connection horizon, LDC has an obligation to annually return the expansion deposit to the connecting customer in proportion to the actual connections or electricity demand that occurred in that year. If the number of connections or electricity demand requested by the customer do not materialize by the end of the connection horizon, LDC retains the excess expansion deposit not otherwise returned to the connecting customer. In the 2020-2024 CIR Decision and Rate Order, the OEB approved disposition of $11.1 million related to the 2019 balance over a 48-month period commencing on January 1, 2021. LDC is seeking disposition of the balance in the 2025-2029 CIR Application *(note 3(a))*. The timing of disposition of the balance is currently unknown.

i) OPEB net actuarial gains/losses

This regulatory balance accumulates the actuarial gains and losses arising from changes in actuarial assumptions and experience adjustments recognized in OCI. The balance arising during the year ended December 31, 2023 of $19.1 million is the actuarial loss recorded for the year (2022 - $76.6 million actuarial gain) *(note 13(d))*. The net position is an actuarial gain to be disposed in future rates. In the 2020-2024 CIR Decision and Rate Order, the OEB approved partial recovery of the balance amounting to $6.4 million. LDC is seeking disposition of a portion of the balance in the 2025-2029 CIR Application *(note 3(a))*. The timing of disposition of the balance is currently unknown.

j) Tax-related variances

The regulatory balance arose primarily from the revenue requirement impact of accelerated capital cost allowance deductions from the Accelerated Investment Incentive tax measure which received Royal Assent on June 21, 2019. In the 2020-2024 CIR Decision and Rate Order, the OEB approved disposition of $11.6 million related to the 2019 balance over a 24-month period commencing on January 1, 2023. In addition, the balance includes the revenue requirement impact of additional capital cost allowance deductions from the Immediate Expensing tax measure which received Royal Assent in June 2022. LDC is seeking disposition of the balance related to the Immediate Expensing tax measure in the 2025-2029 CIR Application *(note 3(a))*. The timing of disposition of the balance is currently unknown

k) Renewable enabling investments

This account captures the variance between LDC's revenue requirement required to support the portion of the investments that are eligible for the provincial rate protection, and the actual provincial rate protection amounts collected monthly from the IESO. LDC is seeking disposition of the balance in the 2025-2029 CIR Application *(note 3(a))*. The timing of disposition of the balance is currently unknown.

l) Smart metering entity

This account captures amounts paid to the IESO (through the smart metering entity charge) and amounts recovered from customers through the distribution rate rider for the smart metering entity charge. As part of the OEB's decision and rate order approving LDC's 2023 rates, the OEB approved disposition of $0.5 million related to 2020 and 2021 variances over a 12-month period commencing January 1, 2023. As part of the OEB's decision and rate order approving LDC's 2024 rates, the OEB approved disposition of $2.2 million related to 2022 variances over a 12-month period commencing January 1, 2024.

m) Accounts receivable credits

This regulatory account relates to closed customer accounts with unclaimed credit balances. In the 2020-2024 CIR Decision and Rate Order, the OEB approved disposition of $3.5 million related to the 2019 balance over a 48-month period commencing on January 1, 2021.

n) Derecognition

This regulatory balance relates to the difference between the revenue requirement on derecognition of PP&E and intangible assets included in the OEB-approved rates and the actual amounts of derecognition. In the 2020-2024 CIR Decision and Rate Order, the OEB approved disposition of $34.2 million related to the 2019 balance over a 12-month period commencing on January 1, 2022.

9. SHORT-TERM BORROWINGS

The Corporation is a party to a fourth amended and restated credit agreement dated November 17, 2023 (Credit Agreement) with a syndicate of Canadian chartered banks which provides for a revolving credit facility in an amount up to $1.0 billion (Revolving Credit Facility), of which up to $210.0 million is available in the form of letters of credit. 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. Pursuant to the Credit Agreement, the maturity date of the Revolving Credit Facility was extended from September 17, 2027 to September 18, 2028. Borrowings under the Revolving Credit Facility bear interest at fluctuating rates plus an applicable margin based on the Corporation's credit rating.

The Corporation has a commercial paper program allowing unsecured short-term promissory notes (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 $100.0 million demand facility with a Canadian chartered bank for the purpose of issuing letters of credit.

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

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 December 31, 2023	**1,000.0**	**—**	**421.0**	**579.0**
Balance as at December 31, 2022	800.0	—	355.0	445.0

For the year ended December 31, 2023, the average aggregate outstanding borrowings under the Corporation's Revolving Credit Facility, Working Capital Facility and Commercial Paper Program were $639.3 million (2022 - $459.5 million) with a weighted average interest rate of 4.91% (2022 - 2.15%).

As at December 31, 2023, $7.3 million had been drawn under the Working Capital Facility (2022 – $12.8 million) and $51.3 million of letters of credit had been issued (2022 – $57.6 million).

10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consist of the following:

	2023 $	2022 $
Trade payables	**281.1**	259.8
Accrued liabilities and other [1]	**251.7**	175.3
Accrued interest	**22.5**	21.4
Due to related parties *(note 22)*	**3.8**	6.7
Total accounts payable and accrued liabilities	**559.1**	463.2

[1] Includes settlement liability of $90.0 million *(note 24).*

11. DEFERRED REVENUE

Deferred revenue consists of the following:

	2023 $	2022 $
Capital contributions, beginning of year	**761.8**	664.1
Capital contributions received [1]	**162.8**	115.7
Disposals and retirements [2]	**(16.8)**	—
Amortization	**(17.1)**	(18.1)
Other	**—**	0.1
Capital contributions, end of year	**890.7**	761.8
Other deferred revenue, beginning of year	**4.8**	4.1
Other deferred revenue	**11.0**	15.4
Revenue recognized	**(9.6)**	(14.7)
Other deferred revenue, end of year	**6.2**	4.8
Total deferred revenue	**896.9**	766.6
Less: Current portion of deferred revenue relating to:		
Capital contributions	**23.1**	24.8
Other deferred revenue	**5.7**	4.8
Current portion of deferred revenue	**28.8**	29.6
Non-current portion of deferred revenue	**868.1**	737.0

[1] Includes non-cash contributions of $42.2 million (2022 – $29.9 million).
[2] Includes $14.2 million related to amounts received in advance as the asset pertaining to a finance lease was derecognized *(note 6).*

12. DEBENTURES

Debentures consist of the following:

	2023 $	2022 $
Senior unsecured debentures		
Series 6 – 5.54% due May 21, 2040	**200.0**	200.0
Series 8 – 2.91% due April 10, 2023	**—**	250.0
Series 9 – 3.96% due April 9, 2063	**245.0**	245.0
Series 10 – 4.08% due September 16, 2044	**200.0**	200.0
Series 11 – 3.55% due July 28, 2045	**200.0**	200.0
Series 12 – 2.52% due August 25, 2026	**200.0**	200.0
Series 13 – 3.485% due February 28, 2048	**200.0**	200.0
Series 14 – 2.43% due December 11, 2029	**200.0**	200.0
Series 15 – 2.99% due December 10, 2049	**200.0**	200.0
Series 16 – 1.50% due October 15, 2030	**200.0**	200.0
Series 17 – 2.47% due October 20, 2031	**150.0**	150.0
Series 18 – 3.27% due October 18, 2051	**200.0**	200.0
Series 19 – 4.95% due October 13, 2052	**300.0**	300.0
Series 20 – 4.61% due June 14, 2033	**250.0**	—
Series 21 – 5.13% due October 12, 2028	**200.0**	—
Total debentures	**2,945.0**	2,745.0
Less: Unamortized debt issuance costs	**16.4**	14.6
Unamortized discount/premium	**1.4**	1.3
Current portion of debentures	**—**	249.9
Long-term portion of debentures	**2,927.2**	2,479.2

All debentures of the Corporation rank equally.

On October 13, 2022, the Corporation issued $300.0 million of 4.95% senior unsecured debentures due on October 13, 2052 at a price of $999.22 per $1,000 principal amount (Series 19). The Series 19 debentures bear interest payable semi-annually in arrears. Debt issuance costs of $2.1 million relating to the Series 19 debentures were recorded against the carrying amount of the debentures in the fourth quarter of 2022 and are amortized to finance costs using the effective interest method.

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

On June 14, 2023, the Corporation issued $250.0 million of 4.61% senior unsecured debentures due on June 14, 2033 at a price of $999.52 per $1,000 principal amount (Series 20). The Series 20 debentures bear interest payable semi-annually in arrears. Debenture issuance costs of $1.6 million relating to the Series 20 debentures were recorded against the carrying amount of the debentures and are amortized to finance costs using the effective interest method.

On July 27, 2023, the Corporation filed a base shelf prospectus with the securities commissions or similar regulatory authorities in each of the provinces of Canada, allowing offerings of unsecured debentures in an aggregate amount of up to $1.5 billion during the 25-month period following the date of the prospectus.

On October 12, 2023, the Corporation issued $200.0 million of 5.13% senior unsecured debentures due on October 12, 2028 at a price of $999.78 per $1,000 principal amount (Series 21). The Series 21 debentures bear interest payable semi-annually in arrears. Debenture issuance costs of $1.2 million relating to the Series 21 debentures were recorded against the carrying amount of the debentures and are amortized to finance costs using the effective interest method.

The Corporation may redeem all or part of its outstanding debentures at any time prior to maturity at a price equal to the greater of the Canada Yield Price (determined in accordance with the terms of the debentures) and par, plus accrued and unpaid interest up to and excluding the date fixed for redemption. Also, the Corporation may, at any time and from time to time, purchase debentures for cancellation, in the open market, by tender or by private contract, at any price agreed upon with the holder of the debentures being purchased. The debentures contain certain covenants which, subject to certain exceptions, restrict the ability of the Corporation and LDC to create security interests, incur additional indebtedness or dispose of all or substantially all of their assets.

13. EMPLOYEE FUTURE BENEFITS

Multi-employer pension plan

The Corporation's eligible employees participate in a defined benefit pension plan through OMERS. As at December 31, 2023, OMERS had disclosed that the plan was 97.0% funded (2022 - 95.0%). The Corporation is not able to assess the implications, if any, of OMERS' strategy to address the funding shortfall or of the withdrawal of other participating entities from the OMERS plan on its future contributions. For the year ended December 31, 2023, the Corporation's contributions were $18.6 million (2022 - $16.7 million), representing less than five percent of total contributions to the OMERS plan. The Corporation expects to contribute approximately $23.6 million to the OMERS plan in 2024.

Post-employment benefits

a) Benefit obligation

	2023 $	2022 $
Balance, beginning of year	**230.0**	306.6
Current service cost	**1.8**	3.1
Interest cost	**11.6**	9.2
Benefits paid	**(10.4)**	(10.4)
Past service cost	**—**	1.9
Experience loss [1]	**2.7**	2.9
Actuarial loss arising from changes in demographic assumptions [1]	**—**	1.9
Actuarial (gain) loss arising from changes in financial assumptions [1] [2]	**16.5**	(85.2)
Balance, end of year	**252.2**	230.0

[1] Actuarial loss on accumulated sick leave credits and other retirement plans of $0.1 million (2022 - $3.8 million gain) is recognized in benefit cost *(note 13(c))* and actuarial loss on medical, dental and life insurance benefits of $19.1 million (2022 - $76.6 million gain) is recognized in OCI *(note 13(d)).*
[2] Reflects the impact of the change in discount rate from 5.1% to 4.6% *(note 13(e)).*

b) Amounts recognized in regulatory balances

As at December 31, 2023, the amount recognized in regulatory balances related to accumulated actuarial gains and losses was $9.4 million (credits) (2022 - $28.5 million (credits)) *(note 8(i))*.

c) Benefit cost recognized

	2023 $	2022 $
Current service cost	**1.8**	3.1
Interest cost	**11.6**	9.2
Past service cost	**—**	1.9
Actuarial (gain) loss on other employee benefits *(note 13(a))*	**0.1**	(3.8)
Benefit cost	**13.5**	10.4
Capitalized to PP&E and intangible assets	**5.9**	3.6
Charged to operating expenses	**7.6**	6.8

d) *Amounts recognized in OCI*

	2023 $	2022 $
Actuarial gain (loss) (*note 13(a))*	**(19.1)**	76.6
Income tax (expense) recovery in OCI (*note 20)*	**5.1**	(20.3)
Remeasurements of post-employment benefits, net of tax	**(14.0)**	56.3
Net movements in regulatory balances related to OCI, net of tax	**14.0**	(56.3)
OCI, net of tax	**—**	—

e) *Significant assumptions*

	2023 %	2022 %
Discount rate used in the calculation of:		
Benefit obligation as at December 31	**4.6**	5.1
Assumed medical and dental cost trend rates as at December 31:		
Rate of increase in dental care costs assumed for next year	**4.0**	4.0
Rate of increase in health care costs assumed for next year	**5.2**	5.1

f) *Sensitivity analysis*

Significant actuarial assumptions for benefit obligation measurement purposes are discount rate and assumed medical and dental cost trend rates. The weighted average duration of the benefit obligation as at December 31, 2023 was 14.0 (2022 - 13.0). The sensitivity analysis below has been determined based on reasonably possible changes of the assumptions, in isolation of one another, occurring at the end of the reporting period. This analysis may not be representative of the actual change since it is unlikely that changes in the assumptions would occur in isolation of one another as some of the assumptions may be correlated.

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

	Change in assumption	2023 $	2022 $
Benefit obligation		**252.2**	230.0
Discount rate	1% ↑	**(31.4)**	(27.1)
	1% ↓	**39.0**	33.3
Medical and dental cost trend rate	1% ↑	**34.4**	25.0
	1% ↓	**(27.6)**	(21.7)

14. CAPITAL MANAGEMENT

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

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

The Corporation monitors forecasted cash flows, capital expenditures, debt repayment and key credit ratios similar to those used by key rating agencies. The Corporation manages capital by preparing short-term and long-term cash flow forecasts. In addition, the Corporation accesses debt capital markets as required to help fund some of the periodic net cash outflows and to maintain available liquidity. There have been no changes in the Corporation's approach to capital management during the year. As at December 31, 2023, the Corporation's definition of capital included equity, borrowings under its Working Capital Facility, Commercial Paper Program and Revolving Credit Facility, long-term debt and obligations under leases, including the current portion thereof, and has remained unchanged from the definition as at December 31, 2022. As at December 31, 2023, equity amounted to $2,103.6 million (2022 - $2,062.0 million), and borrowings under its Working Capital Facility, Commercial Paper Program and Revolving Credit Facility, long-term debt and obligations under leases, including the current portion thereof, amounted to $3,355.6 million (2022 - $3,097.1 million).

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

The Corporation's debt arrangements also include restrictive covenants such as limitations on designated subsidiary indebtedness, and restrictions on mergers and dispositions of designated subsidiaries. As at December 31, 2023 and December 31, 2022, the Corporation was in compliance with all covenants included in its trust indenture, supplemental trust indentures and Revolving Credit Facility agreement.

15. FINANCIAL INSTRUMENTS

a) Fair value

As at December 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 *(note (25(j))*. The fair value of customer deposits approximates their carrying amount taking into account interest accrued on the outstanding balance. 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 values of the debentures are based on the present value of contractual cash flows, discounted at the Corporation's current borrowing rate for similar debt instruments.

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

	2023 $		2022 $	
	Carrying amount	Fair value [1]	Carrying amount	Fair value [1]
Senior unsecured debentures				
Series 6 – 5.54% due May 21, 2040	**198.9**	**224.3**	198.9	214.2
Series 8 – 2.91% due April 10, 2023	**—**	**—**	249.9	248.7
Series 9 – 3.96% due April 9, 2063	**243.5**	**221.4**	243.4	202.3
Series 10 – 4.08% due September 16, 2044	**198.6**	**189.2**	198.5	178.1
Series 11 – 3.55% due July 28, 2045	**198.6**	**174.6**	198.5	163.5
Series 12 – 2.52% due August 25, 2026	**199.6**	**192.8**	199.5	186.9
Series 13 – 3.485% due February 28, 2048	**198.6**	**171.5**	198.6	160.4
Series 14 – 2.43% due December 11, 2029	**199.2**	**184.6**	199.1	176.6
Series 15 – 2.99% due December 10, 2049	**198.7**	**155.8**	198.7	144.8
Series 16 – 1.50% due October 15, 2030	**198.8**	**171.0**	198.7	160.5
Series 17 – 2.47% due October 20, 2031	**149.2**	**134.2**	149.2	126.9
Series 18 – 3.27% due October 18, 2051	**198.6**	**163.1**	198.5	151.9
Series 19 – 4.95% due October 13, 2052	**297.7**	**324.8**	297.6	305.4
Series 20 – 4.61% due June 14, 2033	**248.4**	**258.2**	—	—
Series 21 – 5.13% due October 12, 2028	**198.8**	**210.2**	—	—
Total	**2,927.2**	**2,775.7**	2,729.1	2,420.2

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

b) Financial risks

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

Credit risk

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

The Corporation's exposure to credit risk primarily relates to accounts receivable and unbilled revenue. The Corporation is exposed to credit risk with respect to customer non-payment of electricity bills. 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 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.

LDC obtains security instruments from certain customers in accordance with direction provided by the OEB. As at December 31, 2023, LDC held security deposits in the amount of $110.7 million (2022 - $70.0 million), of which $75.4 million (2022 - $36.7 million) was related to security deposits on offers to connect to guarantee the payment of additional costs related to expansion projects. The Corporation's security instruments may not provide sufficient protection from counterparties defaulting on their obligations. As at December 31, 2023, there were no significant concentrations of credit risk with respect to any customer. The credit risk and mitigation strategies with respect to unbilled revenue are the same as those for accounts receivable.

The Corporation did not have any single customer that generated more than 10% of total consolidated revenue for the years ended December 31, 2023 and December 31, 2022.

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

	2023 $	2022 $
Accounts receivable, gross		
Outstanding for not more than 30 days	**213.7**	188.2
Outstanding for more than 30 days and not more than 120 days	**36.8**	30.5
Outstanding for more than 120 days	**28.6**	36.7
Total accounts receivable, gross	**279.1**	255.4
Unbilled revenue, gross	**286.9**	278.3
Expected credit loss allowance	**(29.2)**	(32.1)
Total accounts receivable and unbilled revenue	**536.8**	501.6

Unbilled revenue represents amounts for which the Corporation has a contractual right to receive cash through future billings and are unbilled at period-end. Unbilled revenue is considered in conjunction with accounts receivable and is included in the expected credit loss allowance as at December 31, 2023 and December 31, 2022.

The Corporation has a broad base of customers. As at December 31, 2023 and December 31, 2022, the Corporation's accounts receivable and unbilled revenue which were not past due or impaired were assessed by management to have no significant collection risk.

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

	2023 $	2022 $
Balance, beginning of year	**(32.1)**	(33.5)
Additional expected credit loss allowance	**(7.5)**	(4.6)
Write-offs, net of recoveries	**10.4**	6.0
Balance, end of year	**(29.2)**	(32.1)

c) Market risks

Interest rate risk

The Corporation is exposed to fluctuations in interest rates for the valuation of its post-employment benefit obligations *(note 13(f))*. The Corporation is also exposed to short-term interest rate risk on the net of cash and cash equivalents, short-term borrowings under its Revolving Credit Facility, Working Capital Facility and Commercial Paper Program (*note 9)* and customer deposits. The Corporation manages interest rate risk by monitoring its mix of fixed and floating rate instruments, and taking action as necessary to maintain an appropriate balance.

As at December 31, 2023, aside from the post-employment benefit obligations, most of the Corporation's remaining obligations were either non-interest bearing or bear fixed interest rates. Its financial assets were predominately short-term in nature and mostly non-interest bearing. The Corporation estimates that a 25 basis point increase (decrease) in short-term interest rates, with all other variables held constant, would result in an increase (decrease) of approximately $1.3 million to annual finance costs.

Liquidity risk

The Corporation is exposed to liquidity risk related to its ability to fund its obligations as they become due. The Corporation monitors and manages its liquidity risk to ensure access to sufficient funds to meet operational and financial requirements. The Corporation has access to credit facilities and debt capital markets and monitors cash balances daily. The Corporation's objective is to ensure that sufficient liquidity is on hand to meet obligations as they become due while minimizing finance costs. The Corporation relies on debt financing through the debt capital markets and existing credit facilities to finance its daily operations, repay existing indebtedness and fund capital expenditures. The current challenging economic climate affected by factors including, but not limited to, 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.

Liquidity risks associated with financial commitments are as follows:

	2023					
	Due within 1 year $	Due within 2 years $	Due within 3 years $	Due within 4 years $	Due within 5 years $	Due after 5 years $
Working Capital Facility	7.3	—	—	—	—	—
Commercial paper [(1)]	421.0	—	—	—	—	—
Accounts payable and accrued liabilities [(2)]	536.6	—	—	—	—	—
Obligations under leases	—	0.1	—	—	—	—
Senior unsecured debentures						
Series 6 – 5.54% due May 21, 2040	—	—	—	—	—	200.0
Series 9 – 3.96% due April 9, 2063	—	—	—	—	—	245.0
Series 10 – 4.08% due September 16, 2044	—	—	—	—	—	200.0
Series 11 – 3.55% due July 28, 2045	—	—	—	—	—	200.0
Series 12 – 2.52% due August 25, 2026	—	—	200.0	—	—	—
Series 13 – 3.485% due February 28, 2048	—	—	—	—	—	200.0
Series 14 – 2.43% due December 11, 2029	—	—	—	—	—	200.0
Series 15 – 2.99% due December 10, 2049	—	—	—	—	—	200.0
Series 16 – 1.50% due October 15, 2030	—	—	—	—	—	200.0
Series 17 – 2.47% due October 20, 2031	—	—	—	—	—	150.0
Series 18 – 3.27% due October 18, 2051	—	—	—	—	—	200.0
Series 19 – 4.95% due October 13, 2052	—	—	—	—	—	300.0
Series 20 – 4.61% due June 14, 2033	—	—	—	—	—	250.0
Series 21 – 5.13% due October 12, 2028	—	—	—	—	200.0	—
Interest payments on debentures	108.8	108.8	108.8	103.7	103.7	1,555.5
Total	1,073.7	108.9	308.8	103.7	303.7	4,100.5

(1) The notes under the Commercial Paper Program were issued at a discount and are repaid at their principal amount.
(2) Accounts payable and accrued liabilities exclude $22.5 million of accrued interest on debentures included within "Interest payments on debentures".

Inflation risk

The general rate of inflation in Canada decreased significantly in 2023 compared to 2022. However, the inflation rate continues to remain higher than the Bank of Canada's target rate of 2.0%. 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 Corporation remains exposed to inflationary pressures and a higher interest rate environment, which could have a material adverse effect on the Corporation's business, financial condition or results of operations. The Corporation closely monitors market trends and seeks to mitigate cost impacts through various measures, including project management, procurement and other management actions.

Foreign exchange risk

As at December 31, 2023, the Corporation had limited exposure to the changing values of foreign currencies. While the Corporation purchases goods and services which are payable in United States dollars, and purchases United States currency to meet the related commitments when required, the value of such purchases is not significant to the Corporation and as such the impact of foreign exchange fluctuations would not be expected to have a material effect on the consolidated financial statements.

16. SHARE CAPITAL

Share capital consists of the following:

	2023 $	2022 $
Authorized		
The authorized share capital of the Corporation consists of an unlimited number of common shares without par value.		
Issued and outstanding		
1,200 common shares, of which all were fully paid.	**817.8**	817.8

Dividends

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

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

During the year ended December 31, 2023, the Board of Directors of the Corporation declared and paid dividends to the City totalling $98.3 million (2022 - $84.6 million).

17. REVENUES

Revenues consist of the following:

	2023 $	2022 $
Revenue from contracts with customers		
Energy sales	**2,687.3**	2,737.8
Distribution revenue	**839.5**	754.2
Street lighting services	**20.1**	19.3
Pole and duct rentals	**19.1**	17.9
Ancillary services revenue	**17.9**	21.2
Other regulatory service charges	**10.5**	9.2
Capital contributions - energy storage systems	**1.4**	1.4
Miscellaneous	**19.8**	10.9
Revenue from other sources		
Capital contributions - developers and other	**15.7**	16.7
Other	**14.2**	13.1
Total revenues	**3,645.5**	3,601.7

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

	2023 $	2022 $
Residential service (1)	**1,006.2**	1,007.8
General service (2)	**2,323.2**	2,309.8
Large users (3)	**197.4**	174.4
Total energy sales and distribution revenue	**3,526.8**	3,492.0

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

18. OPERATING EXPENSES

Operating expenses consist of the following:

	2023 $	2022 $
Salaries and benefits	**237.3**	214.9
External services	**184.5**	169.8
Materials and supplies	**31.2**	25.9
Other support costs [1]	**30.8**	30.6
Less: Capitalized costs	**(131.6)**	(118.7)
Total operating expenses	**352.2**	322.5

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

For the year ended December 31, 2023, the Corporation recognized operating expenses of $22.1 million related to materials and supplies used to service electricity distribution assets (2022 - $16.0 million).

19. FINANCE COSTS

Finance costs consist of the following:

	2023 $	2022 $
Interest income	**7.1**	2.8
Interest expense		
Interest on long-term debt	**(98.4)**	(83.5)
Interest on short-term debt	**(33.4)**	(11.8)
Other interest	**(4.2)**	(1.9)
Capitalized borrowing costs	**7.4**	6.8
Total finance costs	**(121.5)**	(87.6)

20. INCOME TAXES

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

	2023 $	2022 $
Rate reconciliation before net movements in regulatory balances		
Income before income taxes	**189.1**	33.5
Statutory Canadian federal and provincial income tax rate	**26.5 %**	26.5 %
Expected income tax expense	**(50.1)**	(8.9)
Non-taxable amounts	**22.1**	1.0
Gain on disposals of PP&E	**(3.6)**	—
Other	**(6.1)**	(0.6)
Income tax expense	**(37.7)**	(8.5)
Effective tax rate	**19.9 %**	25.4 %
Rate reconciliation after net movements in regulatory balances		
Net income after net movements in regulatory balances, before income tax [1]	**146.8**	170.0
Statutory Canadian federal and provincial income tax rate	**26.5 %**	26.5 %
Expected income tax expense	**(38.9)**	(45.1)
Temporary differences recoverable in future rates	**40.7**	37.6
Gain on disposals of PP&E	**(3.6)**	—
Other	**(5.1)**	1.4
Income tax expense and income tax recorded in net movements in regulatory balances	**(6.9)**	(6.1)
Effective tax rate	**4.7 %**	3.6 %

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

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

	2023 $	2022 $
Income tax expense	**(37.7)**	(8.5)
Income tax recorded in net movements in regulatory balances	**30.8**	2.4
Income tax expense and income tax recorded in net movements in regulatory balances	**(6.9)**	(6.1)
Income tax (expense) recovery in OCI *(note 13(d))*	**5.1**	(20.3)
Income tax (expense) recovery in OCI recorded in net movements in regulatory balances	**(5.1)**	20.3
Income tax in OCI	**—**	—

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

	2023 $	2022 $
Current tax expense		
Current year	**(7.5)**	(8.0)
Deferred tax recovery		
Origination and reversal of temporary differences	**0.6**	1.9
Income tax expense and income tax recorded in net movements in regulatory balances	**(6.9)**	(6.1)

Deferred tax assets (liabilities) consist of the following:

	2022 $	Recognized in net income $	Recognized in OCI $	2023 $
PP&E and intangible assets	**(173.5)**	**(44.5)**	**—**	**(218.0)**
Post-employment benefits	**61.0**	**0.7**	**5.1**	**66.8**
Tax credit carryforward	**3.5**	**2.5**	**—**	**6.0**
Other taxable temporary differences	**24.4**	**11.1**	**—**	**35.5**
Total	**(84.6)**	**(30.2)**	**5.1**	**(109.7)**

	2021 $	Recognized in net income $	Recognized in OCI $	2022 $
PP&E and intangible assets	(143.6)	(29.9)	—	(173.5)
Post-employment benefits	81.3	—	(20.3)	61.0
Tax credit carryforward	1.8	1.7	—	3.5
Other taxable temporary differences	(3.3)	27.7	—	24.4
Total	(63.8)	(0.5)	(20.3)	(84.6)

As at December 31, 2023, the Corporation had accumulated net capital losses of $18.7 million (2022 - $18.7 million), which are available to offset capital gains in future years. As at December 31, 2023, the Corporation had accumulated non-capital losses of $21.1 million for income tax purposes (2022 - $0.6 million), which are available to offset net income in future years before expiring ($0.6 million expires in 2042 and $20.5 million expires in 2043).

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

	2023 $	2022 $
Deductible temporary differences	**6.6**	6.7
Net capital losses	**5.0**	5.0
Non-capital losses	**5.6**	0.2
Total	**17.2**	11.9

21. CONSOLIDATED STATEMENTS OF CASH FLOWS

a) Changes in non-cash operating working capital

Changes in non-cash operating working capital consist of the following:

	2023 $	2022 $
Accounts receivable and unbilled revenue	**(21.1)**	(42.6)
Income tax receivable	**—**	2.4
Materials and supplies	**(0.3)**	1.7
Other current assets	**(90.2)**	2.6
Accounts payable and accrued liabilities	**114.5**	20.3
Income tax payable	**1.0**	0.4
Deferred revenue	**(0.8)**	4.5
Deferred conservation credit	**(5.9)**	5.1
Total changes in non-cash operating working capital	**(2.8)**	(5.6)

b) Reconciliation of additions to PP&E and intangible assets

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

	2023 $	2022 $
Purchase of PP&E, cash basis	**681.4**	615.4
Net change in accounts payable and accruals related to PP&E	**(8.9)**	4.8
Non-cash contributed assets	**28.6**	29.9
Other	**1.3**	1.4
Additions to PP&E	**702.4**	651.5
Purchase of intangible assets, cash basis	**56.2**	59.6
Net change in accounts payable and accruals related to intangible assets	**(3.6)**	11.6
Additions to intangible assets	**52.6**	71.2

c) Changes in liabilities arising from financing activities

Changes in liabilities arising from financing activities are as follows:

	2022 $	Cash flows [1] $	Non-cash changes $	2023 $
Year ended December 31				
Commercial paper *(note 9)*	**355.0**	**66.0**	**—**	**421.0**
Dividends payable *(note 16)*	**—**	**(98.3)**	**98.3**	**—**
Debentures *(note 12)*	**2,729.1**	**197.1**	**1.0**	**2,927.2**
Accrued interest and other [2]	**21.6**	**(131.2)**	**132.2**	**22.6**
Total	**3,105.7**	**33.6**	**231.5**	**3,370.8**

	2021 $	Cash flows [1] $	Non-cash changes $	2022 $
Year ended December 31				
Commercial paper *(note 9)*	275.0	80.0	—	355.0
Dividends payable *(note 16)*	—	(84.6)	84.6	—
Debentures *(note 12)*	2,430.7	297.7	0.7	2,729.1
Accrued interest and other [2]	18.3	(91.6)	94.9	21.6
Total	2,724.0	201.5	180.2	3,105.7

[1] Cash inflows and cash outflows arising from commercial paper borrowings and debentures are presented on a net basis.
[2] Accrued interest is included within accounts payable and accrued liabilities *(note 10)*.

22. RELATED PARTY TRANSACTIONS

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

Transactions with Related Parties	2023 $	2022 $
Revenues	**285.1**	271.4
Operating expenses and capital expenditures	**8.7**	0.6
Dividends declared and paid *(note 16)*	**98.3**	84.6

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

Amounts Due to/from Related Parties	2023 $	2022 $
Accounts receivable and unbilled revenue *(note 4)*	**32.6**	40.0
Accounts payable and accrued liabilities *(note 10)*	**3.8**	6.7
Customer deposits	**16.0**	9.8

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

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

	2023 $	2022 $
Short-term employee benefits	**5.3**	4.9
Post-employment benefits	**2.6**	2.3
Total	**7.9**	7.2

23. COMMITMENTS

As at December 31, 2023, the future minimum payments for capital projects and other commitments were as follows:

	Capital projects [1] and other $
Less than one year	**5.9**
Between one and five years	**4.5**
More than five years	**1.7**
Total amount of future minimum payments [2]	**12.1**

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

24. CONTINGENCIES

Legal Proceedings

In the ordinary course of business, the Corporation and its subsidiaries are subject to various legal proceedings, actions and claims from customers, suppliers, regulators and other parties. The outcome of outstanding, pending or future proceedings cannot be predicted with certainty and could materially adversely affect the Corporation. As at the date hereof, the Corporation believes that none of these legal proceedings, actions and claims from customers, suppliers, regulators and other parties in which it is currently involved or has been involved since the beginning of the most recently completed financial year, would be expected to have a material adverse effect on the Corporation. On an ongoing basis, the Corporation and its subsidiaries assess the likelihood of any adverse judgments or outcomes as well as potential ranges of probable costs and losses. A determination of the provision required, if any, for these contingencies is made after an analysis of each individual issue. The provision may change in the future due to new developments in each matter or changes in approach, such as a change in settlement strategy. If damages were awarded under these actions, the Corporation and its subsidiaries would make a claim under any liability or other insurance policies, to the extent applicable, subject to such claim not being disputed by the insurers. Further details on legal proceedings that relate to the Corporation are set out below.

In December 2023, the Corporation's insurers entered into two agreements to settle prior legal actions directly with the claimants on the Corporation's behalf for a total of $90.0 million under the terms of the relevant insurance policies. Pursuant to the terms of applicable commercial general liability insurance policies that are in place to cover such losses, the Corporation's insurers defended these actions and entered into two agreements to pay on the Corporation's behalf. The Corporation recorded a settlement liability *(note 10)* and a corresponding settlement asset *(note 5)* for the same amount in relation to the insurance settlements to reflect the underlying obligation to the claimants.

25. SUMMARY OF MATERIAL ACCOUNTING POLICIES

a) Basis of consolidation

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

b) Regulation

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

Regulatory Balances

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

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

c) Cash and cash equivalents

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

d) Accounts receivable and unbilled revenue

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

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

The Corporation measures the expected credit loss allowance at an amount equal to the lifetime expected credit losses for all trade receivables that result from transactions with customers and do not contain a significant financing component. A provision matrix is used by the Corporation to measure the lifetime expected credit losses of accounts receivable from individual customers. Loss rates are calculated using a 'roll rate' method based on the probability of a trade receivable progressing through successive stages of delinquency to write-off and are based on the average of actual credit loss experience over the past three years, as it more accurately reflects anticipated credit loss. Roll rates are calculated separately for exposures based on customer account status. The Corporation also adjusts the expected credit loss allowance in efforts to account for current economic conditions and events (including forward-looking macroeconomic data) and historical information (including credit agency reports, if available) *(note 15(b))*. The Corporation considers the reasons for the accounts being past due, the characteristics of existing accounts, reasonable and supportable forecasts and other considerations that may affect the collectability of the reported amounts.

e) Property, plant and equipment

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

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

Distribution assets:	
Distribution lines	1.5% to 5.0%
Transformers	2.9% to 4.0%
Meters	2.5% to 6.7%
Stations	2.0% to 10.0%
Buildings	1.5% to 20.0%
Equipment and other:	
Street lighting assets	1.7% to 5.0%
Other capital assets	4.0% to 25.0%

Construction in progress relates to assets not currently available for use and therefore is not depreciated. The depreciation method and useful lives are reviewed at each financial year-end and adjusted if appropriate. There are no residual values for items of PP&E.

f) Intangible assets

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

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

Computer software	10.0% to 25.0%
Contributions	4.0%

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

g) Impairment of non-financial assets

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

h) Capitalized borrowing costs

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

i) Revenue recognition

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

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

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

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

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

Revenues from the delivery of street lighting and expressway lighting services are recognized as the services are rendered. Revenue from the delivery of street lighting and expressway lighting services is recorded on a gross basis as the Corporation is acting as the principal. The Corporation has the primary responsibility for the delivery of street lighting and expressway lighting services to the City even though it may engage other parties to perform some of the services on its behalf. The Corporation bills the fixed annual fee on a monthly basis. Periodically, the Corporation may be entitled to additional consideration for its delivery of street lighting and expressway lighting services which is accounted for as variable consideration.

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

Revenues and costs associated with CDM programs are presented using the net basis of accounting and are recorded in accordance with IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*. Cost efficiency incentives related to the CDM programs, included as part of other revenue, are recognized when it is probable that future economic benefits will flow to the entity and the amount can be reasonably measured.

The Corporation has not incurred any additional costs to obtain or fulfill contracts with its customers from the above-mentioned revenue generating activities. Variable consideration under a contract is recorded only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the associated uncertainty is subsequently resolved.

j) Financial instruments

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

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

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

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

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

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

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

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

k) Fair value measurements

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

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

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

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

l) Employee benefits

(i) Short-term employee benefits

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

(ii) Multi-employer pension plan

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

employee benefit expense in the consolidated statements of income in the period when the service is rendered by the employee, since it is not practicable to determine the Corporation's portion of pension obligations or of the fair value of plan assets.

(iii) Post-employment benefits

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

The cost of providing benefits under the benefit plans is actuarially determined using the projected unit credit method, which incorporates management's best estimate of future salary levels, retirement ages of employees, health care costs, and other actuarial factors. Past service cost is recognized when a plan amendment or curtailment occurs. Changes in actuarial assumptions and experience adjustments give rise to actuarial gains and losses. Actuarial gains and losses on post-employment benefits other than sick leave credits are recognized in OCI as they arise, and are subsequently reclassified from OCI to a regulatory balance on the consolidated balance sheets. Actuarial gains and losses on accumulated sick leave credits are recognized in the consolidated statements of income in the period in which they arise.

The measurement date used to determine the present value of the benefit obligation is December 31 of the applicable year. The latest actuarial valuation was performed as at January 1, 2022.

m) Customer deposits

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

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

n) Income taxes

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

The Corporation and each of its subsidiaries are MEUs for purposes of the PILs regime contained in the Electricity Act. The Electricity Act provides that an MEU that is exempt from tax under the ITA and the TA is required to make PILs to the Ontario Electricity Financial Corporation. These payments are calculated in accordance with the ITA and the TA as modified by regulations made under the Electricity Act and related regulations. This effectively results in the Corporation and each of its subsidiaries paying income taxes equivalent to what would be imposed under the ITA and the TA.

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

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

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

o) Use of judgments and estimates

The preparation of the Corporation's Consolidated Financial Statements in accordance with IFRS Accounting Standards 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 Consolidated Financial Statements, and the reported revenues and expenses for the year. The estimates are based on historical experience, current conditions and various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities as well as for identifying and assessing the accounting treatment with respect to commitments and contingencies. Actual results could differ from those estimates, including changes as a result of future decisions made by the OEB, the IESO, the Ontario Ministry of Energy, or the Ontario Ministry of Finance. Due to current uncertain economic conditions, the estimates and judgments made by management in the preparation of the Corporation's Consolidated Financial Statements are subject to uncertainty. Management has analyzed the impact of the uncertain economic conditions on its estimates and adjusted the expected credit loss allowance as at December 31, 2023 *(note 15(b))*. The extent of the future impact of the uncertain economic conditions on the Corporation's financial results and business operations is not known at this time.

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

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

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

p) 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 Consolidated Financial Statements.

q) 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.

26. SUBSEQUENT EVENTS

The Corporation has evaluated the events and transactions occurring after the consolidated balance sheet date through to March 1, 2024 when the Corporation's Consolidated Financial Statements were authorized for issuance by the Corporation's Board of Directors, and has identified the following events and transactions which required recognition in the Consolidated Financial Statements and/or disclosure in the notes to the Consolidated Financial Statements.

Dividends

On February 28, 2024, the Board of Directors of the Corporation declared a dividend in the amount of $21.0 million, payable to the City by March 28, 2024.