OPERATING ENVIRONMENT

Toronto Hydro-Electric System Limited ("Toronto Hydro") is the electricity distributor licensed (ED-2002-0497) by the Ontario Energy Board ("OEB") to serve the City of Toronto. Toronto Hydro is the successor to the six former hydro-electric commissions of the municipalities which amalgamated on January 1, 1998 to form the City of Toronto. For information about Toronto Hydro's Corporate Structure and Governance, please refer to Exhibit 1C, Tab 2, Schedule 1.

Toronto Hydro is one of the largest municipal electrical distribution utilities in North America and serves the largest city in Canada. In 2022, Toronto Hydro distributed 24.0 terawatt-hours of electricity representing approximately 18 percent of the electricity consumed in the province of Ontario and served a peak demand of 4,276 megawatts.

Toronto Hydro serves two distinct customer demographic areas: (i) an urban centre in downtown Toronto; and (ii) a suburban area surrounding downtown Toronto, which is often referred to as the Horseshoe. Toronto Hydro has approximately 790,000 customers of various classes, ranging from residential to general service and large use.[1]

The utility's service area includes some of Canada's largest banks, the Toronto Stock Exchange, major manufacturers, and other large customers that are sensitive to service interruptions. In addition, Toronto Hydro supplies electricity to numerous healthcare and long-term care facilities, data centres, schools (including colleges and universities), Ontario's Provincial Legislature and Ministries, as well as Toronto's municipal government.

[1] Toronto has over 2,900 high-rise multi-residential condominium and apartment building accounts, many of which are "bulk-metered". Taking these bulk-metered multi-residential buildings into account, Toronto Hydro's effective customer count exceeds 1 million customers.

Toronto Hydro's distribution system consists of a mix of overhead, underground, secondary network, and stations infrastructure. These systems operate at voltages of 27.6 kV, 13.8 kV, or 4.16 kV, and distribute power through a complex network of 37 terminal stations, approximately 183,620 poles, 61,300 distribution transformers, 17,060 primary switches, 15,393 circuit kilometres of overhead primary conductors, and 13,765 circuit kilometres of underground primary cables. This network is composed of assets of varying vintages and types, reflective of the historical standards employed by the six pre-amalgamated utilities.

1. SERVICE TERRITORY

The City of Toronto is bounded by Lake Ontario to the South, Steeles Ave to the North, Mississauga (mainly Highway 427) to the West, and Scarborough/Pickering Townline to the East. A service territory map is filed at Exhibit 1C, Tab 1, Schedule 2.

2. NEIGHBOURING UTILITIES

Toronto Hydro's neighbouring electric distribution utilities are:

- To the north and west by Alectra Utilities Corporation; and
- To the east, Elexicon Energy Inc.

Toronto Hydro is not a host utility and there are no embedded utilities in Toronto Hydro's distribution service area.

3. TRANSMISSION ASSETS DEEMED DISTRIBUTION ASSETS

Toronto Hydro owns two transmission system terminal stations (two operational, one of which remains under construction) that have been deemed distribution assets, namely Cavanagh TS and Copeland TS, respectively. Toronto Hydro is not proposing any additional assets to be deemed as distribution assets as part of this application.

Toronto Hydro-Electric System Limited
EB-2023-0195
Exhibit 1C
Tab 1
Schedule 2
ORIGINAL
(1 page)

Toronto Hydro Service Territory

CORPORATE STRUCTURE AND GOVERNANCE

In accordance with section 2.1.3 of the OEB's Filing Requirements, this schedule provides information about Toronto Hydro's organizational structure and corporate governance framework.[1]

1. CORPORATE STRUCTURE

1.1 Corporate Structure and Governance

Toronto Hydro Corporation ("THC") is a holding company, the sole shareholder of which is the City of Toronto (the "Shareholder" or the "City"), which wholly owns two subsidiaries (see Figure 1, below): Toronto Hydro-Electric System Limited, a local distribution company ("LDC") which distributes electricity; and Toronto Hydro Energy Services Inc. ("TH Energy"), a company which provides street lighting and expressway lighting services in the city of Toronto (together, THC and its subsidiaries are hereby referred to as the "Company").

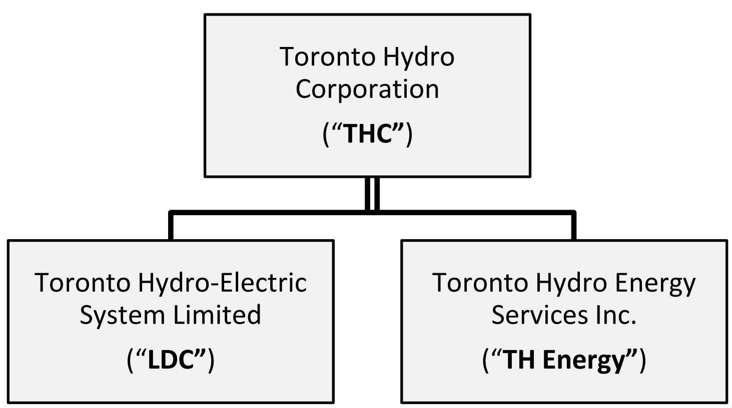

Figure 1: Toronto Hydro Corporate Organization Chart

[1] Ontario Energy Board Filing Requirements for Electricity Distribution Rate Applications, Chapter 2 (December 15, 2022).

Each of THC and its subsidiary entities have a Board of Directors, which is responsible for providing strategic guidance to management and supervising the business and affairs of their respective organizational segments. However, elements of the governance of the Company as a whole are undertaken at the THC level with its Board and its standing committees. The THC Board has specific responsibility for approving the overall business strategy and related business plan of the Company, which takes into account, among other things, the opportunities and risks of the businesses of the subsidiary entities and approves the financing strategy.

As THC has no substantive business beyond the regulated activities of LDC, having elements of the corporate governance of LDC provided at the parent company level accomplishes the same objective as having corporate governance solely at the LDC level. Additionally, the LDC Board retains adequate scope for the exercise of independent judgment within the overall framework of good corporate governance of the Company. The LDC Board oversees the operations of the utility and its regulatory and public policy activities, asset planning, customer relations functions, and compliance activities. It retains decision-making authority related to approval of any dividends by the LDC and approves its financial statements. The LDC Board also reviews and approves, in a manner consistent with the overall business plan and budget approved by the THC Board, significant corporate plans and initiatives, major acquisitions and dispositions and other significant matters of corporate strategy or policy.

This multi-layered corporate structure allows for matters of material importance to be dealt with at the most appropriate organizational level. A corporate entities relationship chart, showing the extent to which THC is represented on the LDC's Board of Directors, is shown in Figure 2 below.

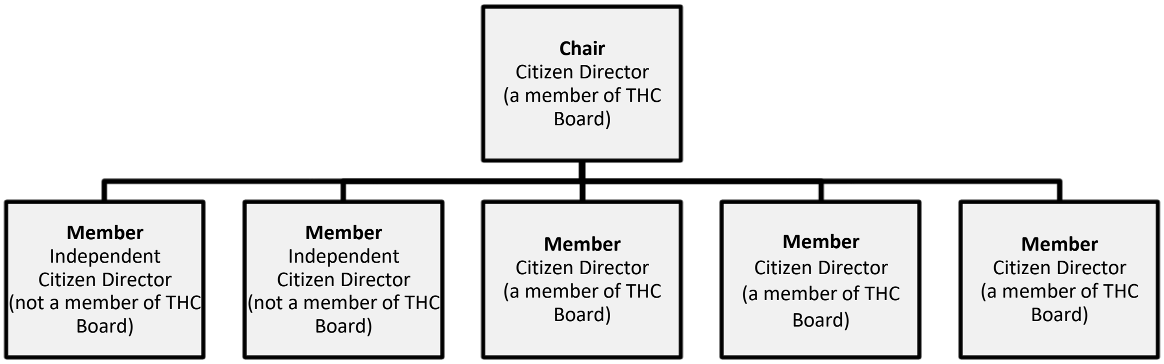

Figure 2: Toronto Hydro Corporate Entities Relationship Chart

1.2 Executive Team

THC's executive team is comprised of the Executive Vice-President and Chief Financial Officer ("CFO") and Executive Vice-President External Affairs, Corporate Development and Chief Legal Officer, both of whom are accountable to the President and Chief Executive Officer ("CEO") of THC. The CEO of THC is also the President and CEO of the LDC and of TH Energy.

The LDC's executive management team consists of the following positions that are overseen directly by the CEO:

- Executive Vice-President and Chief Financial Officer, who is also an executive member of THC and of TH Energy;
- Executive Vice-President, Planning and Chief Engineering and Modernization Officer;
- Executive Vice-President and Chief Operating Officer;
- Executive Vice-President, Customer Care and Chief Information Officer;
- Executive Vice-President and Chief Human Resources, Environment and Safety Officer; and

- Executive Vice-President, External Affairs, Corporate Development and Chief Legal Officer, who is also an executive officer of THC and of TH Energy.

2. CORPORATE GOVERNANCE

2.1 Securities Law Requirements

THC is a reporting issuer in each province of Canada and issues debentures pursuant to a short form base shelf prospectus (dated July 28, 2023). For purposes of Canadian securities regulations, THC is a "venture issuer" (i.e. a reporting issuer that does not have any of its securities listed or quoted on the TSX or other marketplace specified under the Canadian Securities Administrators' National Instrument 51-102 – *Continuous Disclosure Obligations*) and must comply with certain corporate governance and public disclosure requirements under applicable securities legislation. These requirements make the Company's operations, finances, and governance practices, on a consolidated basis, subject to scrutiny from the Ontario Securities Commission ("OSC"), the investor marketplace, and the broader public in a way not applicable to other privately-owned companies.

THC has filed an Annual Information Form ("AIF") in respect of each of the financial years ended December 31, 2004 through December 31, 2022, in accordance with National Instrument 51-102 – *Continuous Disclosure Obligations*. THC's AIF discloses material information about THC and its business to the public, including information about operations, prospects, risks, and other factors that impact the business of the Company as a whole. A copy of THC's 2022 AIF is filed at Exhibit 1C, Tab 3, Schedule 5.

In addition, to comply with National Instrument 58-101 – *Disclosure of Corporate Governance Practices*, THC provides extensive corporate governance disclosure in its AIF and annual Management Discussion and Analysis ("MD&A"). Such disclosure includes, amongst others, details about the following:

1) How the Board of Directors facilitates its exercise of independent supervision over management, including the identity and independence of its directors, and whether its directors are directors of any other reporting issuers and their identity;
2) Board of Directors' written mandate or a description of how the board delineates its roles and responsibilities;
3) Written descriptions for the chair of the Board of Directors, the chair of each board committee and the CEO;
4) Board of Directors' orientation and continuing education;
5) The promotion of a culture of ethical business conduct, including adoption of a written code for the directors, officers and employees;
6) The process for nominating new directors;
7) The process of determining CEO and director compensation;
8) Standing committees and their functions;
9) How the Board of Directors assesses whether it is performing effectively; and
10) Director term limits and other mechanisms of board renewal.

THC also provides disclosure in its AIF on the make-up of the Board of Directors (including the percentage of female directors) and attendance of directors at the Board of Directors and Committee meetings. The enhanced level of disclosure, in particular with respect to governance practices, required under securities legislation increases the transparency of the Company's operations and affairs and facilitates effective monitoring of management by the Board and stakeholders.

As a financial oversight measure, and to comply with certification requirements in National Instrument 52-109 – *Certification of Disclosure in Issuers' Annual and Interim Filings*, all of THC's interim consolidated financial statements (i.e. including LDC's financial results), interim MD&As, AIFs, annual financial statements, and annual MD&As are certified by the CEO and CFO. The CEO and CFO certify that the filings do not contain any misrepresentations and fairly present the financial condition, results of operations, and cash flows of THC as of the date of and for the periods presented in the filings. The certification process is one example of the Company's system of internal checks and balances that fosters a culture of accountability amongst senior management. THC and LDC also maintain a significant system of internal financial controls which are subject to internal and external audit to ensure that these certifications are accurate.

2.2 Shareholder Direction

As the sole shareholder of THC, the City has adopted a Shareholder Direction which establishes, amongst other things, the following objectives and fundamental principles that govern the operations of the Company:

1) To operate the Company on an efficient and commercially prudent basis;
2) To optimize the Shareholder's return on equity and operate the Company with a view to meeting the financial performance objectives of the Shareholder as set out in the Shareholder Direction;
3) To provide a reliable, effective and efficient electricity distribution system that supports the electricity demands of residents and businesses in the City;
4) To operate the Company in an environmentally responsible manner consistent with the City's energy, climate change and urban forestry objectives and, as appropriate, utilizing emerging green technologies;
5) To ensure that the business is managed in material compliance with all law; and

6) To engage in recruitment and procurement practices designed to attract employees and suppliers from the City's diverse community.

The Shareholder Direction recognizes the central role of the Board of Directors under law, and does not operate as a unanimous shareholder declaration under the Ontario's *Business Corporations Act* ("OBCA").[2] Though it reiterates the items for which shareholder approval is required under the OBCA as well as restricting some financial activities of THC, it emphasizes that the Board of Directors is responsible for determining and implementing the appropriate balance among the objectives and fundamental principles specified in the Shareholder Direction. Ultimately, the City requires THC to operate on a commercially prudent and profitable basis in compliance with law and expects the Board of Directors to provide stewardship and independently oversee management and operations in accordance with best corporate governance practices.

THC's economic relationship with the City is governed principally by a dividend policy (the "Dividend Policy"), contained within the Shareholder Direction. The Dividend Policy sets an expectation, but does not create a legal requirement, for the Board of Directors of THC to declare dividends. The LDC and THC Board of Directors keep a detailed record of the processes surrounding decisions relating to dividends paid by the respective corporation. In that regard, dividend checklists for each of the THC Board of Directors and the LDC Board of Directors have been developed (the "Dividend Checklists"). The Dividend Checklists specify that, before declaring a dividend, the directors must ensure that the applicable corporation meets statutory solvency and capital impairment tests.

[2] Business Corporations Act, RSO 1990, c B.16.

At all times, Directors are required to exercise their discretion honestly and in good faith with a view to the best interests of the relevant corporation (fiduciary duty) and exercise the care, diligence, and skill that a reasonably prudent person would exercise in comparable circumstances (duty of care). When considering the best interests of the relevant corporation, directors are may take into account the interests of various stakeholders, including shareholders, ratepayers, employees, and creditors. In the case of dividends paid by the LDC, regulated utilities are obligated to operate in a manner that balances the interests of the utility's shareholders against those of its ratepayers.

2.3 Board of Directors

THC's Board of Directors members are appointed by THC's sole shareholder, the City. No members of management sit on the THC Board. Of the eleven directors currently on the THC Board of Directors, three are Councillors of the City (including one director who is the Mayor of the City or a member of City Council whom the Mayor recommends as his or her designate and who is appointed by City Council) and are not considered independent because of their positions. Eight of the eleven directors are not elected officials or employees of the City, and have no direct or indirect material relationship with THC and are independent within the meaning of applicable Canadian securities law. The Chair of the THC Board is an independent citizen director. As at September 13, 2023, female directors constituted 54.5 percent (six of eleven) of the members of the THC Board of Directors.

No members of management sit on the LDC Board of Directors. Two of the six directors are independent, i.e. they are not elected officials or employees of the City or members of the Board of any affiliate of the LDC. Currently, four of the directors on the LDC Board of Directors are citizen directors who are also members of the Board of Directors of THC.

2.3.1 Nomination of Directors

Pursuant to the Shareholder Direction, the City appoints directors who collectively represent a range of expertise including:

1) Experience on a public utility commission or board of a major corporation or other commercial enterprise;
2) Experience or knowledge with respect to:
    a) Corporate finance;
    b) Corporate governance;
    c) Market development;
    d) Large system operation and management;
    e) Urban energy industries;
    f) Public policy issues and the law relating to the Company and the electricity industry;
    g) Environmental matters;
    h) Labour relations;
    i) Occupational health and safety issues;
3) Commercial sensitivity and acumen;
4) Independence of judgment;
5) Personal integrity; and
6) At least three directors with financial management expertise.

The Corporate Governance and Nominating Committee of the THC Board of Directors reviews a skills matrix for evaluation of all potential THC and LDC Board of Directors members. In the case of appointment of THC Directors, the matrix is provided to the City by the THC Board. The matrix's design reflects best practices for requirements for directors as recommended by the Institute of Corporate Directors.

THC appoints the LDC's Board of Directors from among the directors of THC and independent residents of Toronto who are not elected officials or employees of the City or any of its agencies or corporations. The Corporate Governance and Nominating Committee nominates independent candidates for appointment to the LDC Board of Directors for approval by the THC Board of Directors as required by the Affiliate Relationships Code, utilizing the board skills and competencies matrix developed by the Committee as well as expert external recruitment services. This ensures that the directors have a mix of competencies and skills necessary to enable LDC's Board of Directors to properly discharge their responsibilities. Pursuant to the LDC's Board of Directors Mandate, the LDC's Board of Directors is required to give due regard to the qualifications of the candidates including:

1) Experience on a public utility commission or board of a major corporation or other commercial enterprise and/or the completion of formal training in directorship / governance;
2) Experience in a regulated electricity utility sector at a senior management level;
3) Experience at an executive level in resource and performance management / compensation, including ability to appoint and evaluate the performance of the CEO and senior executives; oversee strategic human resource management, including workforce planning, compensation models, and labour relations; and oversee large scale organizational change;
4) Educational background, including university degrees and professional designations;
5) Experience or knowledge with respect to:
    a) Strategic planning, including ability to identify and critically assess strategic opportunities and threats to the organization;
    b) Risk management, including ability to assess key risks to the organization on an enterprise basis and monitor the risk management framework systems;

c) Corporate finance / accounting / audit / securities, including ability to analyze financial statements, assess financial viability, contribute to financial planning, oversee budgets, and oversee funding arrangements;
d) Corporate governance;
e) Market development, innovation and development of new strategic business lines;
f) Large system operation and management, including large-scale procurement and supply chain management;
g) Engineering and construction;
h) Urban energy industries;
i) Decarbonization and energy systems transition;
j) Public policy issues and laws relating to the Corporation and its subsidiary entities and the electricity industry;
k) Environmental matters, including experience in environmental management;
l) Occupational health and safety issues;
m) Information technology governance, including privacy, data management, digitization strategies and security;
n) Legal and regulatory compliance, including ability to monitor compliance of legal and regulatory requirements;
o) Stakeholder engagement / advocacy / communications, including ability to effectively engage and communicate to industry stakeholders and advocate on behalf of the organization; and
p) corporate governance;

6) The following interpersonal skills and attributes:
a) Leadership, including ability to make, and take responsibility for, decisions and take necessary actions in the best interest of the organization, set

appropriate Board and organizational culture and represent the organization favourably;

b) Personal integrity / ethics, including understanding and fulfilling the duties and responsibilities of a director, being transparent and declaring any activities or conduct that might be a potential conflict, and maintaining Board confidentiality;
c) Communications skills, including ability to listen constructively and appropriately debate others' viewpoints, develop and deliver cogent arguments, and communicate effectively with a broad range of stakeholders;
d) Constructive questioning, including preparedness to ask questions and challenge management and peer directors in a constructive and appropriate manner;
e) Critical and innovative thinking/decision making, including ability to critically analyze complex and detailed information, readily distill key issues, and develop innovative approaches and solutions to problems;
f) Influencing and negotiating, including ability to negotiate outcomes and influence others to agree with those outcomes and gain stakeholder support for the Board's decisions;
g) Crisis management, including ability to constructively manage crises, provide leadership around solutions and contribute to communications strategy with stakeholders;
h) Individual and team contribution, including ability to work as part of a team, and demonstrate the passion and time to make a genuine and active contribution to the Board and the organization;
i) Commercial sensitivity and acumen; and
j) Independence of judgement;

7) At least one director with financial management expertise.

2.3.2 Exercise of Independent Judgment

No members of management sit on the Boards of THC or LDC. The Board of Directors for each of THC and LDC has a number of practices and policies in place to facilitate its ability to act independently of senior management and to ensure that its behaviour and decision-making processes are objective, responsible, and effective.

- ***In Camera* Board Meetings:** Each of the Boards of Directors meets regularly in the absence of management to discuss the management of the Company. A portion of each Board and Board committee meeting is reserved for Directors to meet without management present.
- **Board of Directors Mandates:** Each the THC and LDC Board of Directors has adopted a written mandate providing clear direction on the appropriate expectations and standards to be met by Directors, including with respect to independence. For example, the mandates specifically require the Directors, in undertaking their responsibilities and overseeing and authorizing the activities of the Company, to consider the interests of its customers as well as considering and balancing the interests of such other stakeholders as appropriate in the circumstances.
- **Outside Advisors:** Under their respective mandates, each of the Board of Directors of THC and LDC is authorized to retain independent legal counsel and other outside advisors if it considers this appropriate. Each of the LDC and THC Boards also has unrestricted access to the officers of the Company and are authorized to invite officers and employees of the Company and others to attend or participate in its meetings and proceedings if it considers this appropriate.
- **Internal Audit Function***:* The internal audit department provides independent, objective assurance and consulting services designed to add value and improve the

Company's operations. The internal audit department's work is overseen by the Audit Committee of the Board of Directors of THC. To facilitate independence, the Director of Internal Audit and Compliance of LDC has unrestricted access to the President and Chief Executive Officer. Director of Internal Audit and Compliance of LDC has unrestricted access to, and ability to communicate and interact directly with, the Audit Committee, including in private meetings without management present. The Director of Internal Audit and Compliance of LDC meets independently with the members of the Audit Committee on a regular basis. The Director of Internal Audit and Compliance of LDC reports functionally to the Audit Committee and administratively (i.e. day-to-day operations) to the Chief Financial Officer.

- **Corporate Governance and Nominating Committee***:* The Corporate Governance and Nominating Committee facilitates the periodic assessment of the performance of the Board of Directors of THC and LDC and Board committees and reports the results of that assessment to the Boards.
- **Position Descriptions***:* A written position description has been developed for the Chair of each of the THC and LDC Boards which provides direction in the undertaking of these roles. In each case, the Chair is responsible for reporting to the Board, leading the directors and managing the day-to-day activities of the Board. The Chair of the Board of THC is also responsible for engaging in discussions with the Shareholder and its representatives as are necessary and desirable, maintaining an active and cooperative relationship with the affiliate Boards, the CEO and other senior management, acting as the principal interface between the Board and the CEO, and providing advice and counsel to the CEO and other senior management. The THC Board has also developed written position descriptions for the chair of each of the standing committees and the CEO.

2.3.3 Board of Directors Mandate

The Company have adopted written mandates for each of the Boards of THC, LDC and TH Energy, which are reviewed periodically and revised as required. The mandates set out the composition, responsibilities and authority of each of the Boards.

2.3.4 Orientation and Continuing Education

Upon joining the Board of Directors of THC and/or LDC, each new director is given an orientation session with a comprehensive set of materials designed to provide him/her with a summary of the key organizational, financial, regulatory, reporting, planning, and operational aspects of the Company. Orientation also engages Directors of THC and/or LDC with organizational representatives in these key areas and a key executive is appointed for ongoing responsibility with each Board and standing Committee. Directors have access to a variety of internal and external resources on topics related to THC's and LDC's businesses, as well as relating to the responsibilities of directors such as fiduciary obligations, issues of confidentiality and privilege, and public disclosure and whistleblowing requirements. Directors also have the opportunity to attend continuing education programs run by external or internal service providers such as the Institute of Corporate Directors and energy industry organizations.

2.3.5 Ethical Business Conduct

All employees, officers and directors of THC and LDC are required to comply with the principles set out in the written Code of Business Conduct and Whistleblower Procedure (the "Code"). The Code was implemented in 2004 and is periodically reviewed and re-approved by the Board of Directors of THC. The Code of Business Conduct is included in new directors' orientation materials and each director completes training connected therewith and signs an acknowledgement that he or she will comply with the Code.

2.3.6 Board Committees

THC's Board of Directors has established three standing committees to assist the THC and LDC Boards in fulfilling their responsibilities: the Audit Committee, the Corporate Governance and Nominating Committee, and the Human Resources and Environment Committee. The standing committees are each composed of at least three directors of THC.

Each committee has a written charter that establishes the committee's purpose, composition and responsibilities.

- **Audit Committee:** oversees the adequacy and effectiveness of financial reporting, accounting systems, internal financial control structures, and financial risk management systems. Among other things, the Audit Committee reviews THC's and LDC's quarterly and annual financial statements, reviews the audit plans of the external auditors, and oversees the internal audit of THC and LDC. The composition of the Audit Committee complies with the rules applicable to venture issuers as set out in National Instrument 52-110 – *Audit Committees*.
- **Corporate Governance and Nominating Committee:** advises the THC and LDC Boards of Directors with respect to matters relating to the corporate governance of the Company, including but not limited to Board and committee composition and mandates and facilitates the periodic assessment of the performance and effectiveness of the THC and LDC Boards and the standing Board committees. The Corporate Governance and Nominating Committee also nominates independent candidates for appointment to the LDC Board of Directors for approval by THC's Board of Directors. The Corporate Governance and Nominating Committee also reviews and approves all orientation and education materials and programs for new and current directors undertaken by management. The majority of the members of

the Corporate Governance and Nominating Committee are independent citizen directors who are not elected officials or employees of the City.

- **Human Resources and Environment Committee:** assists the THC and LDC Boards of Directors with the recruitment, assessment, and compensation of the CEO, oversees succession planning, reviews and approves the compensation of the executive officers, oversees executive compensation disclosure under applicable securities laws, and advises the Boards of Directors regarding the compensation structure, benefit plans and programs of the Company. The Human Resources and Environment Committee is also responsible for, among other things, reviewing and making recommendations with respect to the parameters of collective bargaining negotiations, the oversight of health and safety related functions, oversight of human resources related matters, and the oversight of environmental related matters and processes of the Company. The majority of members of the Human Resources and Environment Committee are independent citizen directors who are not elected officials or employees of the City.

FINANCIAL INFORMATION OVERVIEW

In accordance with section 2.1.8 of the OEB's Filing Requirements,[1] Exhibit 1C, Tab 3 provides the following financial information:

- Accounting standards used for general purpose financial statements and adoption date for those standards (Schedule 2);
- Toronto Hydro's audited financial statements for 2020, 2021, and 2022 (Schedule 3);
- Toronto Hydro Corporation's Management's Discussion & Analysis for 2022 (Schedule 4);
- Toronto Hydro Corporation's Annual Information Form for 2022 (Schedule 5);
- Public debt offering information (Schedule 6);
- Rating agency reports (Schedule 7);
- Existing accounting orders and departures from the Uniform System of Accounts ("USoA") (Schedule 8); and
- Toronto Hydro's Annual Report for 2022 (Schedule 9).

[1] Ontario Energy Board Filing Requirements for Electricity Distributor Rate Applications, Chapter 2 (December 15, 2022).

ACCOUNTING STANDARDS

Toronto Hydro adopted International Financial Reporting Standards ("IFRS") for financial reporting purposes in the year beginning on January 1, 2015, and the utility continues to apply these standards. The Audited Financial Statements provided in Exhibit 1C, Tab 3, Schedule 3 have been prepared in accordance with IFRS.

The OEB Accounting Procedures Handbook ("APH") directs distributors to use Modified IFRS ("MIFRS") for regulatory purposes. Toronto Hydro adopted MIFRS for regulatory purposes in the year beginning on January 1, 2015, and the utility continues to use MIFRS. This application represents Toronto Hydro's third rebasing application under MIFRS.

Toronto Hydro confirms that it has segregated the accounting of all its non-rate regulated business activities from rate regulated activities. Toronto Hydro has updated its capitalization policy since the last rebasing application, as discussed in Exhibit 2A, Tab 4, Schedule 1. The relevant changes simplify aspects of the policy, reflect updated accounting pronouncements, revise the frequency of reviews, and reflect updated titles of responsible persons.

In response to the OEB's direction in the 2020-2024 CIR Application,[1] Toronto Hydro engaged an independent expert to conduct a new depreciation study and assess the financial life estimates related to the Toronto Hydro distribution system assets. This study resulted in changes to the useful lives for certain assets. Please refer to Exhibit 2A, Tab 2, Schedule 1 and the appendices thereto for more information on these changes to depreciation and amortization practices and the study itself.

[1] EB-2018-0165, Decision and Order (December 19, 2019) at page 146.

1. Definition of Accounting Estimates [Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors [“IAS 8”]]

In February 2021, the International Accounting Standards Board (“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.

Toronto Hydro applied the amendment effective January 1, 2023 on a prospective basis. This did not have an impact on its Consolidated Financial Statements or on the revenue requirement.

2. Disclosure of Accounting Policies [Amendments to IAS 1]

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

Toronto Hydro applied the amendment effective January 1, 2023 on a prospective basis. This did not have an impact on its Consolidated Financial Statements or on the revenue requirement.

3. 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.

Toronto Hydro determined that there was no retrospective impact as the utility had interpreted the IAS 12 requirements as clarified in the amendments. Toronto Hydro applied the amendment effective January 1, 2023. This did not have an impact on its Consolidated Financial Statements or on the revenue requirement.

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

4. 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 on January 1, 2024 will not have a material impact on the Corporation's consolidated financial statements or on the revenue requirement.

AUDITED FINANCIAL STATEMENTS

In accordance with s. 2.1.8 of the OEB's Filing Requirements,[1] this schedule provides Toronto Hydro-Electric System Limited's Audited Financial Statements, as follows:

- Appendix A: 2020 Audited Financial Statements
- Appendix B: 2021 Audited Financial Statements
- Appendix C: 2022 Audited Financial Statements

[1] Ontario Energy Board, Filing Requirements for Electricity Distributor Rate Applications, Chapter 2 (December 15, 2022).

Financial Statements

Toronto Hydro-Electric System Limited

DECEMBER 31, 2020 and 2019

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

INDEPENDENT AUDITORS' REPORT

To the Shareholder of Toronto Hydro-Electric System Limited

Opinion

We have audited the accompanying financial statements of Toronto Hydro-Electric System Limited (the Entity), which comprise:

- the balance sheet as at December 31, 2020
- the statement of income for the year then ended
- the statement of comprehensive income for the year then ended
- the statement of changes in equity for the year then ended
- the statement of cash flows for the year then ended

and notes to the financial statements, including a summary of significant accounting policies (Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at December 31, 2020, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

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

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

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants
Toronto, Canada
March 3, 2021

BALANCE SHEETS

[in millions of Canadian dollars]

As at December 31	***Note***	**2020** **$**	2019 $
ASSETS			
Current			
Cash and cash equivalents		**142.0**	75.4
Accounts receivable and unbilled revenue	*4, 14[b]*	**464.7**	538.1
Income tax receivable		**11.7**	0.9
Materials and supplies		**9.8**	7.8
Other assets	*5*	**16.5**	14.0
Total current assets		**644.7**	636.2
Property, plant and equipment	*6*	**4,987.5**	4,654.5
Intangible assets	*7*	**343.1**	339.7
Other assets	*5*	**8.2**	9.4
Total assets		**5,983.5**	5,639.8
Regulatory balances	*8*	**170.4**	165.0
Total assets and regulatory balances		**6,153.9**	5,804.8
LIABILITIES AND EQUITY			
Current			
Accounts payable and accrued liabilities	*9*	**401.5**	504.0
Customer deposits		**44.9**	49.1
Deferred revenue	*10*	**17.8**	13.2
Deferred conservation credit	*3[c]*	**16.0**	9.5
Notes payable to related party	*11, 22*	**359.8**	60.0
Total current liabilities		**840.0**	635.8
Notes payable to related party	*11, 22*	**2,083.6**	2,183.9
Customer deposits		**18.7**	18.9
Deferred revenue	*10*	**537.9**	397.9
Post-employment benefits	*12*	**332.7**	334.9
Deferred tax liabilities	*20*	**47.1**	23.1
Other liabilities		**3.4**	0.5
Total liabilities		**3,863.4**	3,595.0
Equity			
Share capital	*16*	**556.3**	556.3
Retained earnings		**1,538.0**	1,422.5
Contributed surplus		**12.8**	12.8
Total equity		**2,107.1**	1,991.6
Total liabilities and equity		**5,970.5**	5,586.6
Regulatory balances	*8*	**183.4**	218.2
Total liabilities, equity and regulatory balances		**6,153.9**	5,804.8

Commitments, contingencies and subsequent events *2, 23, 24*

See accompanying notes to the financial statements.

STATEMENTS OF INCOME

[in millions of Canadian dollars]

Year ended December 31	***Note***	**2020 $**	2019 $
Revenues			
Energy sales	*17*	**3,142.5**	2,779.7
Distribution revenue	*17*	**694.4**	799.2
Other	*17*	**79.8**	79.4
		3,916.7	3,658.3
Expenses			
Energy purchases		**3,150.5**	2,779.6
Operating expenses	*18*	**313.9**	295.7
Depreciation and amortization	*6, 7*	**271.2**	252.1
		3,735.6	3,327.4
Finance costs	*19*	**(80.4)**	(82.4)
Gain on disposals of property, plant and equipment		**-**	2.2
Income before income taxes		**100.7**	250.7
Income tax expense	*20*	**(28.5)**	(66.7)
Net income		**72.2**	184.0
Net movements in regulatory balances	*8*	**18.8**	(62.4)
Net movements in regulatory balances arising from deferred taxes	*8*	**25.2**	33.4
Net income after net movements in regulatory balances		**116.2**	155.0

STATEMENTS OF COMPREHENSIVE INCOME

[in millions of Canadian dollars]

Year ended December 31	***Note***	**2020 $**	2019 $
Net income after net movements in regulatory balances		**116.2**	155.0
Other comprehensive income			
Items that will not be reclassified to income or loss			
Remeasurements of post-employment benefits, net of tax [2020 - ($1.3), 2019 - $10.1]	*12*	**3.8**	(28.1)
Net movements in regulatory balances related to OCI, net of tax [2020 - ($1.3), 2019 - $10.1]	*8, 12*	**(3.8)**	28.1
Other comprehensive income, net of tax		**-**	-
Total comprehensive income		**116.2**	155.0

See accompanying notes to the financial statements.

STATEMENTS OF CHANGES IN EQUITY

[in millions of Canadian dollars]

Year ended December 31	Note	2020 $	2019 $
Share capital	*16*	**556.3**	556.3
Retained earnings, beginning of year		**1,422.5**	1,267.5
Net income after net movements in regulatory balances		**116.2**	155.0
Dividends	*16, 22*	**(0.7)**	-
Retained earnings, end of year		**1,538.0**	1,422.5
Contributed surplus		**12.8**	12.8
Total equity		**2,107.1**	1,991.6

See accompanying notes to the financial statements.

STATEMENTS OF CASH FLOWS

[in millions of Canadian dollars]

Year ended December 31	*Note*	**2020** **$**	2019 $
OPERATING ACTIVITIES			
Net income after net movements in regulatory balances		**116.2**	155.0
Net movements in regulatory balances	*8*	**(18.8)**	62.4
Net movements in regulatory balances arising from deferred taxes	*8*	**(25.2)**	(33.4)
Adjustments			
Depreciation and amortization	*6, 7*	**271.2**	252.1
Amortization of deferred revenue	*10*	**(8.2)**	(5.9)
Finance costs		**80.4**	82.4
Income tax expense		**28.5**	66.7
Post-employment benefits		**2.9**	20.8
Gain on disposals of property, plant and equipment		**-**	(2.2)
Other		**0.3**	0.9
Capital contributions received	*10*	**151.7**	127.8
Net change in other non-current assets and liabilities		**0.8**	(5.6)
Decrease in customer deposits		**(4.4)**	(11.8)
Changes in non-cash operating working capital balances	*21*	**46.0**	(83.0)
Income tax paid		**(15.0)**	(36.2)
Net cash provided by operating activities		**626.4**	590.0
INVESTING ACTIVITIES			
Purchase of property, plant and equipment	*21*	**(633.5)**	(509.5)
Purchase of intangible assets	*21*	**(40.8)**	(53.0)
Proceeds on disposals of property, plant and equipment		**0.5**	2.3
Net cash used in investing activities		**(673.8)**	(560.2)
FINANCING ACTIVITIES			
Issuance of notes payable to related party	*11*	**198.6**	397.5
Repayment of notes payable to related party	*11*	**-**	(245.1)
Repayment of lease liability		**-**	(0.2)
Dividends paid	*16*	**(0.7)**	-
Interest received		**0.7**	1.0
Interest paid		**(84.6)**	(86.1)
Net cash provided by financing activities		**114.0**	67.1
Net change in cash and cash equivalents during the year		**66.6**	96.9
Cash and cash equivalents (bank indebtedness), beginning of year		**75.4**	(21.5)
Cash and cash equivalents, end of year		**142.0**	75.4

See accompanying notes to the financial statements.

1. NATURE OF BUSINESS

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

LDC distributes electricity to customers located in the city of Toronto and is subject to rate regulation.

2. BASIS OF PRESENTATION

LDC's audited financial statements for the years ended December 31, 2020 and 2019 have been prepared in accordance with IFRS as issued by the IASB.

The financial statements are presented in Canadian dollars, LDC's functional currency, and have been prepared on the historical cost basis, except for post-employment benefits which are recorded at actuarial value.

LDC has evaluated the events and transactions occurring after the balance sheet date through March 3, 2021 when LDC's financial statements were authorized for issuance by LDC's Board of Directors, and identified the events and transactions which required recognition in the LDC's financial statements and/or disclosure in the notes to the LDC's financial statements *[note 3[a]]*.

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

3. REGULATION

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

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

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

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

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

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

a) COVID-19 Pandemic Considerations

On March 11, 2020, the World Health Organization declared that the COVID-19 outbreak was a global pandemic. On March 17, 2020, the Ontario Government declared a State of Emergency pursuant to the *Emergency Management and Civil Protection Act*. The Ontario Government renewed the declaration, as required by the legislation, until July 24, 2020. During the State of Emergency, the Ontario Government issued emergency orders under the legislation and extended them as required by the legislation. On July 24, 2020, the *Reopening Ontario (A Flexible Response to COVID-19) Act, 2020* came into effect, bringing the declared State of Emergency to an end. The *Reopening Ontario Act* also enabled the Ontario Government to extend, amend, and revoke the remaining emergency orders in order to facilitate a flexible response to the ongoing COVID-19 risks.

On March 19, 2020, the OEB extended the ban on disconnecting residential customers to July 31, 2020, in light of the COVID-19 pandemic. For the same reason, at the same time, the OEB also banned the disconnection of other low volume customers (as defined in the OEB Act) prior to July 31, 2020. In addition, LDC extended its ban on disconnecting residential and low volume customers until the transition back into the OEB's annual recurring winter disconnection ban on November 15, 2020 *[note 14[b]]*.

On March 24, 2020, the Ontario Government issued an emergency order setting TOU rates for on-peak, mid-peak, and off-peak at 10.1 cents per kWh, which prior to the emergency order was the TOU off-peak rate. That emergency order was effective through May 7, 2020. On May 6, 2020, the Ontario Government issued an emergency order extending those TOU rates through May 31, 2020. On May 30, 2020, the Ontario Government announced the COVID-19 Recovery Rate, setting a fixed TOU electricity price at 12.8 cents per kWh, 24 hours a day, seven days a week, effective June 1, 2020 until October 31, 2020. On October 13, 2020, the OEB announced new TOU rates for on-peak, mid-peak, and off-peak, that once again vary according to when electricity is used, effective November 1, 2020. There was no impact to net income to LDC.

On March 25, 2020, the OEB established a deferral account for regulatory balances to record the costs of changes to billing systems resulting from the Ontario Government's TOU emergency order, other incremental costs and lost revenues associated with the COVID-19 pandemic. On May 14, 2020, the OEB launched a consultation process to inform its decision-making with respect to how the account will operate, including eligibility requirements, and the process and timing for the disposition. On December 16, 2020, OEB staff issued a proposal with respect to the deferral account and related consultation *[note 8]*.

On August 20, 2020, the Ontario Government amended O. Reg. 95/05 *Classes of Consumers and Determination of Rates*. Accordingly, customers on the RPP have the choice to pay TOU rates or tiered rates, effective November 1, 2020. By default, RPP customers will pay TOU rates. RPP customers who choose to pay tiered rates will pay a lower rate for consumption below a monthly threshold, and a higher rate for consumption above that threshold. The tiered rates and the threshold are set by the OEB twice per year, at the same time as the OEB sets TOU rates. There was no impact to net income to LDC.

On December 15, 2020, the OEB announced new RPP TOU and tiered rates to reflect a decrease in supply cost resulting from the Ontario Government's decision to remove certain renewable generation costs from the global adjustment and funding them directly through the tax base. The reduction was accompanied by a corresponding reduction to the Ontario Electricity Rebate. There was no net income impact to LDC.

On December 22, 2020, the Ontario Government amended O. Reg. 95/05 *Classes of Consumers and Determination of Rates*, setting both the TOU rates for on-peak, mid-peak, and off-peak and tiered rates at the TOU off-peak rate of 8.5 cents per kWh. That regulatory amendment was effective through January 28, 2021, and most recently extended until February 22, 2021. On February 23, 2021, residential and small business customers resumed paying TOU and tiered pricing under the RPP at prices that were set by the OEB on December 15, 2020. There was no net income impact to LDC.

b) Electricity Distribution Rates

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

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

On July 31, 2014, LDC filed its first CIR application. The CIR mechanism is an OEB ratemaking methodology that utilizes a cost of service approach in the first year and a custom index approach in the subsequent years, for a given period. On December 29, 2015, the OEB issued a Decision approving the CIR application, and on March 1, 2016 issued a Final Rate Order ["2015-2019 CIR decision and rate order"] which began the process of LDC receiving revenue to fund its 2015-2019 investment plan and operations. Pursuant to the Decision, for each subsequent year during that period, LDC was required to file rate applications to finalize annual distribution rates on a custom index basis.

On August 31, 2018, LDC filed its 2019 rate application seeking OEB's approval to finalize distribution rates and other charges for the period commencing on January 1, 2019 and ending on December 31, 2019. On December 13, 2018, the OEB issued a Decision and Rate Order approving LDC's 2019 rates and providing for other deferral and variance account dispositions. This was the final annual rate application to finalize distribution rates in the 2015-2019 period.

On December 19, 2019, the OEB issued its 2020-2024 CIR Decision and on February 20, 2020, the OEB issued its CIR Final Rate Order, both in relation to the rate application filed on August 15, 2018 ["2020-2024 CIR decision and rate order"]. The 2020-2024 CIR decision and rate order approved a revenue requirement of $750.2 million for 2020, and rates calculated on that basis. The rates for 2020 were implemented on March 1, 2020, with an effective date of January 1, 2020. The financial considerations of the OEB's 2020-2024 CIR decision and rate order are reflected in the financial statements including disclosure of approved disposition for a number of requested rate riders *[note 8]*.

c) CDM Activities

On March 21, 2019, the Government of Ontario issued ministerial directives to the IESO related to the delivery of CDM programs. Previously, LDC and other distributors delivered the CDM programs; under the new directives, the IESO became responsible for delivering the CDM programs.

Under its ECA with the IESO, LDC had a joint CDM plan with Oakville Hydro Electricity Distribution Inc. for the delivery of CDM programs over the 2015-2020 period. As part of implementing its new mandate, the IESO terminated the ECA effective June 20, 2019. LDC was required to cease marketing and business development for all CDM programs immediately and make commercially reasonable efforts to wind down the delivery of programs. Under the ECA, LDC was entitled to reimbursement from the IESO of its eligible expenses and administrative costs relating to the wind-down of its role in the CDM programs. Participant agreements with customers for many of the CDM programs that were in effect before April 1, 2019 remained in effect notwithstanding the termination of the ECA and LDC remains responsible for its obligations under such agreements. On July 22, 2020, the Government of Ontario issued ministerial directives to the IESO directing it to extend the deadline by which participants are to complete the projects from December 31, 2020 to June 30, 2021. Amounts received from the IESO for the funding of the projects under the participant agreements, but not yet spent, are presented on the balance sheets under current liabilities as deferred conservation credit.

[All tabular amounts in millions of Canadian dollars]

4. ACCOUNTS RECEIVABLE AND UNBILLED REVENUE

Accounts receivable and unbilled revenue consist of the following:

	2020 $	2019 $
Unbilled revenue	**228.0**	267.7
Trade receivables	**183.0**	215.6
Due from related parties *[note 22]*	**39.1**	44.8
Other	**14.6**	10.0
	464.7	538.1

5. OTHER ASSETS

Other assets consist of the following:

	2020 $	2019 $
Prepaid expenses	**15.2**	12.8
Deferred financing costs	**1.2**	1.5
Other	**8.3**	9.1
Total other assets	**24.7**	23.4
Less: Current portion of other assets relating to:		
Prepaid expenses	**15.2**	12.8
Deferred financing costs	**0.4**	0.4
Other	**0.9**	0.8
Current portion of other assets	**16.5**	14.0
Non-current portion of other assets	**8.2**	9.4

[All tabular amounts in millions of Canadian dollars]

6. PROPERTY, PLANT AND EQUIPMENT

PP&E consist of the following:

	Distribution assets $	Land and buildings $	Equipment and other $	Construction in progress $	Total $
Cost					
Balance as at January 1, 2019	4,080.8	409.6	226.1	422.2	5,138.7
Additions/(Transfers), net	414.6	19.1	35.1	57.2	526.0
Disposals and retirements	(30.3)	(1.8)	(13.0)	—	(45.1)
Balance as at December 31, 2019	4,465.1	426.9	248.2	479.4	5,619.6
Additions/(Transfers), net	**486.0**	**13.5**	**38.4**	**31.0**	**568.9**
Disposals and retirements	**(31.2)**	**(0.6)**	**(1.2)**	**—**	**(33.0)**
Balance as at December 31, 2020	**4,919.9**	**439.8**	**285.4**	**510.4**	**6,155.5**
Accumulated depreciation					
Balance as at January 1, 2019	618.7	51.0	119.1	—	788.8
Depreciation	156.4	15.3	25.1	—	196.8
Disposals and retirements	(7.0)	(0.5)	(13.0)	—	(20.5)
Balance as at December 31, 2019	768.1	65.8	131.2	—	965.1
Depreciation	**169.9**	**15.6**	**26.9**	**—**	**212.4**
Disposals and retirements	**(8.1)**	**(0.2)**	**(1.2)**	**—**	**(9.5)**
Balance as at December 31, 2020	**929.9**	**81.2**	**156.9**	**—**	**1,168.0**
Carrying amount					
Balance as at December 31, 2019	3,697.0	361.1	117.0	479.4	4,654.5
Balance as at December 31, 2020	**3,990.0**	**358.6**	**128.5**	**510.4**	**4,987.5**

As at December 31, 2020, “Land and buildings” included right-of-use assets related to leases of land and office space with cost of $7.6 million [December 31, 2019 - $7.6 million], accumulated depreciation of $0.8 million [December 31, 2019 - $0.6 million], and carrying amount of $6.8 million [December 31, 2019 - $7.0 million]. For the year ended December 31, 2020, LDC recorded depreciation expense of $0.2 million [2019 - $0.3 million] related to the right-of-use assets.

For the year ended December 31, 2020, borrowing costs in the amount of $2.9 million [2019 - $3.2 million] were capitalized to PP&E with an average interest rate of 3.19% [2019 - 3.57%].

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

[All tabular amounts in millions of Canadian dollars]

7. INTANGIBLE ASSETS

Intangible assets consist of the following:

	Computer software $	Contributions $	Software in development $	Contributions for work in progress $	Total $
Cost					
Balance as at January 1, 2019	207.8	164.1	15.0	39.5	426.4
Additions/(Transfers), net	27.8	25.2	6.7	6.4	66.1
Other	—	(12.7)	—	—	(12.7)
Balance as at December 31, 2019	235.6	176.6	21.7	45.9	479.8
Additions/(Transfers), net	**29.1**	**(0.3)**	**(1.1)**	**12.1**	**39.8**
Balance as at December 31, 2020	**264.7**	**176.3**	**20.6**	**58.0**	**519.6**
Accumulated amortization					
Balance as at January 1, 2019	96.8	10.7	—	—	107.5
Amortization	25.8	6.8	—	—	32.6
Balance as at December 31, 2019	122.6	17.5	—	—	140.1
Amortization	**29.3**	**7.1**	**—**	**—**	**36.4**
Balance as at December 31, 2020	**151.9**	**24.6**	**—**	**—**	**176.5**
Carrying amount					
Balance as at December 31, 2019	113.0	159.1	21.7	45.9	339.7
Balance as at December 31, 2020	**112.8**	**151.7**	**20.6**	**58.0**	**343.1**

For the year ended December 31, 2020, borrowing costs in the amount of $1.7 million [2019 - $0.5 million] were capitalized to intangible assets with an average interest rate of 3.19% [2019 - 3.57%].

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

"Contributions" represent payments made to HONI for dedicated infrastructure in order to receive connections to transmission facilities. The remaining amortization period for computer software ranges from less than one year to eight years. The remaining amortization period for contributions ranges from eight to 24 years.

[All tabular amounts in millions of Canadian dollars]

8. REGULATORY BALANCES

Debit balances consist of the following:

	January 1, 2020 $	Balances arising in the period $	Recovery/ reversal $	Other movements $	December 31, 2020 $	Remaining recovery/ reversal period (months)	Carrying charges applicable
OPEB net actuarial loss	**86.3**	**(5.1)**	**(5.7)**	**—**	**75.5**	note 8[a]	—
Deferred taxes	**21.4**	**26.5**	**—**	**—**	**47.9**	note 8[b]	—
LRAM	**35.9**	**(1.8)**	**(0.9)**	**—**	**33.2**	note 8[c]	(1)
Settlement variances	**—**	**8.2**	**4.1**	**(8.9)**	**3.4**	note 8[d]	(1)
OPEB cash versus accrual	**7.1**	**—**	**(6.2)**	**—**	**0.9**	note 8[e]	—
Foregone revenue	**2.8**	**—**	**—**	**(2.8)**	**—**	note 8[f]	—
IFRS transitional adjustments	**—**	**—**	**0.8**	**(0.8)**	**—**	note 8[g]	—
Other	**11.5**	**1.2**	**(3.2)**	**—**	**9.5**	24	(1)
	165.0	**29.0**	**(11.1)**	**(12.5)**	**170.4**		

	January 1, 2019 $	Balances arising in the period $	Recovery/ reversal $	Other movements $	December 31, 2019 $	Remaining recovery/ reversal period (months)	Carrying charges applicable
OPEB net actuarial loss	48.1	38.2	—	—	86.3	note 8[a]	—
LRAM	29.0	18.8	(11.9)	—	35.9	note 8[c]	(1)
Deferred taxes	—	23.3	—	(1.9)	21.4	note 8[b]	—
OPEB cash versus accrual	5.4	1.7	—	—	7.1	note 8[e]	—
Foregone revenue	23.2	—	(20.4)	—	2.8	note 8[f]	—
IFRS transitional adjustments	7.0	—	—	(7.0)	—	note 8[g]	—
Stranded meters	3.6	—	—	(3.6)	—	note 8[n]	(1)
Named properties	1.6	—	(1.5)	—	0.1	note 8[o]	—
Capital contributions	0.5	—	(0.5)	—	—	note 8[p]	—
Other	7.5	3.9	—	—	11.4	34	(1)
	125.9	85.9	(34.3)	(12.5)	165.0		

(1) Carrying charges were added to the regulatory balance in accordance with the OEB's direction, at a rate of 2.18% for January 1, 2020 to June 30, 2020 and 0.57% for July 1, 2020 to December 31, 2020 [January 1, 2019 to March 31, 2019 - 2.45%, April 1, 2019 to December 31, 2019 - 2.18%].

[All tabular amounts in millions of Canadian dollars]

Credit balances consist of the following:

	January 1, 2020 $	Balances arising in the period $	Recovery/ reversal $	Other movements $	December 31, 2020 $	Remaining recovery/ reversal period (months)	Carrying charges applicable
Capital-related revenue requirement	**77.1**	**0.8**	**—**	**—**	**77.9**	note 8[h]	(1)
Gain on disposal	**61.8**	**0.8**	**(25.1)**	**—**	**37.5**	note 8[i]	(1)
Derecognition	**32.8**	**0.4**	**—**	**—**	**33.2**	note 8[j]	(1)
Development charges	**10.9**	**3.9**	**—**	**—**	**14.8**	note 8[k]	(1)
Tax-related variances	**11.4**	**(0.2)**	**—**	**—**	**11.2**	note 8[l]	(1)
Settlement variances	**8.9**	**—**	**—**	**(8.9)**	**—**	note 8[d]	(1)
Accounts receivable credits	**3.4**	**0.1**	**—**	**—**	**3.5**	note 8[m]	(1)
Foregone revenue	**—**	**4.0**	**(0.3)**	**(2.8)**	**0.9**	note 8[f]	—
IFRS transitional adjustments	**0.8**	**—**	**—**	**(0.8)**	**—**	note 8[g]	—
Other	**11.1**	**2.3**	**(9.0)**	**—**	**4.4**	12 - 48	(1)
	218.2	**12.1**	**(34.4)**	**(12.5)**	**183.4**		

	January 1, 2019 $	Balances arising in the period $	Recovery/ reversal $	Other movements $	December 31, 2019 $	Remaining recovery/ reversal period (months)	Carrying charges applicable
Capital-related revenue requirement	56.5	20.6	—	—	77.1	note 8[h]	(1)
Gain on disposal	61.8	1.3	(1.3)	—	61.8	note 8[i]	(1)
Derecognition	21.8	11.0	—	—	32.8	note 8[j]	(1)
Tax-related variances	1.1	10.9	(0.6)	—	11.4	note 8[l]	(1)
Development charges	7.9	3.0	—	—	10.9	note 8[k]	(1)
Settlement variances	19.2	(0.4)	(9.9)	—	8.9	note 8[d]	(1)
Accounts receivable credits	—	3.4	—	—	3.4	note 8[m]	(1)
IFRS transitional adjustments	—	—	7.8	(7.0)	0.8	note 8[g]	—
Stranded meters	—	—	4.0	(3.6)	0.4	note 8[n]	(1)
Deferred taxes	1.9	—	—	(1.9)	—	note 8[b]	—
Smart meters	0.3	—	(0.3)	—	—	—	—
Other	7.7	3.0	—	—	10.7	1 - 48	(1)
	178.2	52.8	(0.3)	(12.5)	218.2		

(1) Carrying charges were added to the regulatory balance in accordance with the OEB's direction, at a rate of 2.18% for January 1, 2020 to June 30, 2020 and 0.57% for July 1, 2020 to December 31, 2020 [January 1, 2019 to March 31, 2019 - 2.45%, April 1, 2019 to December 31, 2019 - 2.18%].

The "Balances arising in the period" column consists of new additions to regulatory balances (for both debits and credits). The "Recovery/reversal" column consists of amounts disposed through OEB-approved rate riders. The "Other movements" column consists of impairment and reclassification between the regulatory debit and credit balances. In addition, the "Other movements" column includes reclassification of regulatory deferral accounts considered to be insignificant into the "Other" categories. There was no impairment recorded for the year ended December 31, 2020.

[All tabular amounts in millions of Canadian dollars]

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

	2020 $	2019 $
Total movements per regulatory debit balances table	**5.4**	39.1
Total movements per regulatory credit balances table	**34.8**	(40.0)
Total net movements	**40.2**	(0.9)
Net movements per financial statements:		
Net movements in regulatory balances	**18.8**	(62.4)
Net movements in regulatory balances arising from deferred taxes	**25.2**	33.4
Net movements in regulatory balances related to OCI, net of tax	**(3.8)**	28.1
Total net movements per financial statements	**40.2**	(0.9)

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

The regulatory balances of LDC consist of the following:

a) OPEB net actuarial loss

This regulatory balance accumulates the actuarial gains and losses arising from changes in actuarial assumptions and experience adjustments recognized in OCI. The balance arising during the year ended December 31, 2020 of $5.1 million is related to the actuarial gain recorded for the year [2019 - $38.2 million actuarial loss] *[note 12[a]]*. The net position is an actuarial loss recoverable in future rates.

In the 2020-2024 CIR decision and rate order, the OEB approved partial recovery of the balance amounting to $6.4 million over a 10-month period commencing on March 1, 2020.

b) Deferred taxes

This regulatory balance relates to both deferred tax amounts reclassified under IFRS 14 *Regulatory Deferral Accounts* ["IFRS 14"] *[note 25[a]]* 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 reclassified under IFRS 14 include the deferred tax asset related to regulatory balances of $8.3 million (debits) as at December 31, 2020 [December 31, 2019 - $6.1 million (debits)], and the recognition of a regulatory balance in respect of additional temporary differences for which a deferred tax amount was recognized of $14.3 million (credits) as at December 31, 2020 [December 31, 2019 - $5.5 million (credits)].

The deferred tax amount related to the expected future impact to electricity distribution rates was $53.9 million (debits) as at December 31, 2020 [December 31, 2019 - $20.8 million (debits)].

c) 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. Approved variances for 2017 were recovered through OEB-approved rate riders over 12 months commencing on January 1, 2019.

As part of OEB's decision and rate order approving LDC's 2021 rates, OEB approved recovery of $33.1 million related to 2018 and 2019 variances over a 12-month period commencing January 1, 2021.

d) 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. Approved variances up to 2017, including carrying charges forecasted to the end of 2018, were disposed through OEB-approved rate riders over 12 months commencing on January 1, 2019.

In the 2020-2024 CIR decision and rate order, the OEB approved disposition of $7.5 million related to the 2018 settlement variances over a 22-month period commencing on March 1, 2020. As part of OEB's decision and rate order approving LDC's 2021 rates, OEB approved recovery of $25.3 million related to 2019 settlement variances over a 12-month period commencing January 1, 2021.

e) OPEB cash versus accrual

This regulatory balance relates to the difference between LDC's forecasted OPEB costs determined on an accrual basis and the cash payments made under the OPEB plans. In the 2015-2019 CIR decision and rate order, the OEB directed LDC to track the difference as a temporary arrangement, pending the OEB's conclusion on the sector-wide policy consultation it initiated on the regulatory treatment of pension and OPEB costs. On September 14, 2017, the OEB issued its final report on the consultation and established the use of the accrual accounting method as the default method on which to set rates for OPEB costs.

In the 2020-2024 CIR decision and rate order, the OEB approved recovery of the 2019 balance over a 10-month period commencing on March 1, 2020 and recovery of OPEB costs on an accrual basis.

f) Foregone revenue

This regulatory balance relates to the revenue that LDC would have recovered in 2015 and 2016 if new OEB-approved rates were implemented as of May 1, 2015 and January 1, 2016, respectively. In the 2015-2019 CIR decision and rate order, the OEB approved foregone revenue rate riders over 46 months commencing on March 1, 2016 for May 1, 2015 to December 31, 2015 based on approved 2015 rates and for January 1, 2016 to February 29, 2016 based on approved 2016 rates.

The 2020 balance arising of $4.0 million is revenue to be returned to customers, related to January and February 2020 as a result of implementing new OEB-approved rates on March 1, 2020. In the 2020-2024 CIR decision and rate order, the OEB approved the disposition of 2020 foregone revenue over a 22-month period commencing on March 1, 2020.

g) IFRS transitional adjustments

This regulatory balance relates to the differences arising from accounting policy changes for PP&E and intangible assets due to the transition from US GAAP to IFRS in 2014, primarily related to derecognition of certain assets and additional capitalized borrowing costs. In the 2015-2019 CIR decision and rate order, the OEB approved recovery of the forecasted balance over 46 months commencing on March 1, 2016.

In the 2020-2024 CIR decision and rate order, the OEB approved disposition of the 2019 balance for the difference between the forecasted and actual IFRS transitional adjustments over a 10-month period commencing on March 1, 2020.

h) Capital-related revenue requirement

This regulatory balance relates to the asymmetrical variance between the cumulative 2015 to 2019 capital-related revenue requirement included in rates and the actual capital-related revenue requirement over the same period. The cumulative 2015 to 2019 capital-related revenue requirement included in rates exceeded the actual capital-related revenue requirement over the same rate period. LDC applied for disposition of this account in order to return the balance to customers through a rate rider.

In the 2020-2024 CIR decision and rate order, the OEB approved disposition of the 2019 balance over a 24-month period commencing on January 1, 2023.

i) Gain on disposal

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

As part of the 2015-2019 CIR decision and rate order, LDC agreed to a rate rider that would pass the total forecasted net gains along with future tax savings on the first two properties back to customers, effective from March 1, 2016 to December 31, 2018. The gain on disposal of the two properties was realized by LDC in 2015 and 2018, respectively. In the second quarter of 2017, LDC realized a gain in connection with the disposal of the third property.

In the 2020-2024 CIR decision and rate order, the incremental balance related to the actual realized gain and tax savings that exceeded the approved rate riders in connection with the disposal of the first two LDC properties was approved for disposition over a 22-month period commencing on March 1, 2020. The OEB also approved disposition of the actual realized gain and tax savings in connection with the disposal of the third property over a 22-month period commencing on March 1, 2020.

j) Derecognition

This regulatory balance relates to the difference between the revenue requirement on derecognition of PP&E and intangible assets included in the OEB-approved rates and the actual amounts of derecognition.

In the 2020-2024 CIR decision and rate order, the OEB approved disposition of the 2019 balance over a 12-month period commencing on January 1, 2022.

k) Development charges

This regulatory balance relates to excess expansion deposits retained by LDC where the requested number of connections or electricity demand were not met by the connecting customer. Pursuant to the OEB's Distribution System Code, LDC may collect expansion deposits from specific customers to guarantee the payment of additional costs relating to expansion projects. During the customer connection horizon, LDC has an obligation to annually return the expansion deposit to the connecting customer in proportion to the actual connections or electricity demand that occurred in that year. If the number of connections or electricity demand requested by the customer do not materialize by the end of the connection horizon, LDC retains the excess expansion deposit not otherwise returned to the connecting customer.

In the 2020-2024 CIR decision and rate order, the OEB approved disposition of the 2019 balance over a 48-month period commencing on January 1, 2021.

l) Tax-related variance accounts

The regulatory balance arose primarily from the revenue requirement impact of accelerated capital cost allowance deductions from the Accelerated Investment Incentive tax measure which received Royal Assent on June 21, 2019. In the 2020-2024 CIR decision and rate order, the OEB approved the disposition of the 2019 balance over a 24-month period commencing on January 1, 2023.

In addition, the balance includes a residual credit balance that arose from favourable income tax reassessments on certain prior year tax positions received, which differed from those assumed in previous applications for electricity distribution rates.

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 the 2019 balance over a 48-month period commencing on January 1, 2021.

n) Stranded meters and smart meters

These regulatory balances relate to the provincial government's decision to install smart meters throughout Ontario.

In the 2015-2019 CIR decision and rate order, the OEB approved LDC's request for recovery of the forecasted net book value of the stranded meters as at December 31, 2014 over 46 months commencing on March 1, 2016.

The OEB ruling on smart meters permitted the recovery in principle of LDC's allowed cost of capital on smart meters since 2008, with a rate order issued to this effect. This allowed LDC to recover the incremental revenue requirement associated with these assets for the period during which they remained outside of rate base.

In the 2020-2024 CIR decision and rate order, the OEB approved disposition of the 2019 balance for the difference between the forecasted and actual net book value of stranded meters as at December 31, 2014 over a 48-month period commencing on January 1, 2021.

o) Named properties

As part of 2010 rates, LDC had forecasted net gains on certain properties which were planned for sale between 2007 and 2011. This regulatory balance relates to the excess of those forecasted net gains over the actual net gains realized upon the sale of the named properties. In the 2015-2019 CIR decision and rate order, the OEB approved disposition of this variance over 46 months commencing on March 1, 2016.

p) Capital contributions

This regulatory balance relates to the difference between amounts included in rates for HONI capital contributions and actual contributions made in 2010 and 2011. In the 2015-2019 CIR decision and rate order, the OEB approved disposition of this variance over 46 months commencing on March 1, 2016.

[All tabular amounts in millions of Canadian dollars]

q) COVID-19 emergency

On March 25, 2020, the OEB established the COVID-19 Emergency Deferral Account in recognition that distributors will incur incremental costs and lost revenues resulting from the COVID-19 pandemic. The OEB accounting guidance specified that incremental bad debt expense can be included in COVID-19 Emergency Deferral Account. On May 14, 2020, the OEB launched a consultation process to inform its decision-making with respect to how the account will operate, including eligibility requirements, and the process and timing for the disposition. As at September 30, 2020 the balance recorded as a regulatory debit balance in the COVID-19 Emergency Deferral Account was $17.7 million and represented management's best estimate of the incremental bad debt expense as a result of the COVID-19 pandemic expected to be probable of recovery.

On December 16, 2020, OEB staff issued a proposal, which provided an update on the OEB's most recent orientation in the policy consultation. Based on this information, management believes there is high uncertainty in regards to the recoverability of costs and lost revenues related to government and OEB customer relief actions, and therefore a low probability of recovery. Consequently, the balance of $17.7 million that was previously deferred to the COVID-19 Emergency Deferral Account for incremental bad debt expense was reversed such that no amount was deferred as at December 31, 2020. LDC continues to track lost revenues related to lower commercial electricity consumption, direct relief provided to customers through reduction of late payment charges, incremental bad debt expense and costs directly related to the implementation of safety measures as a result of the COVID-19 pandemic but no amounts have been recorded in the COVID-19 Emergency Deferral Account as at December 31, 2020.

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consist of the following:

	2020 $	2019 $
Trade payables	**250.2**	306.4
Accrued liabilities	**104.9**	150.3
Due to related parties *[note 22]*	**45.0**	45.8
Other	**1.4**	1.5
	401.5	504.0

[All tabular amounts in millions of Canadian dollars]

10. DEFERRED REVENUE

Deferred revenue consists of the following:

	2020 $	2019 $
Capital contributions, beginning of year	**410.0**	288.2
Capital contributions received	**151.7**	127.8
Amortization	**(8.2)**	(5.9)
Other	**(0.1)**	(0.1)
Capital contributions, end of year	**553.4**	410.0
Other deferred revenue, beginning of year	**1.1**	1.9
Other deferred revenue received	**15.6**	10.0
Revenue recognized	**(14.4)**	(10.8)
Other deferred revenue, end of year	**2.3**	1.1
Total deferred revenue	**555.7**	411.1
Less: Current portion of deferred revenue relating to:		
Capital contributions	**15.5**	12.1
Other deferred revenue	**2.3**	1.1
Current portion of deferred revenue	**17.8**	13.2
Non-current portion of deferred revenue	**537.9**	397.9

11. NOTES PAYABLE TO RELATED PARTY

Notes payable to related party consist of the following:

	2020 $	2019 $
Notes payable to related party:		
5.59% Long-term note payable to the Corporation due May 21, 2040	**200.0**	200.0
3.59% Long-term note payable to the Corporation due November 18, 2021	**300.0**	300.0
2.96% Long-term note payable to the Corporation due April 10, 2023	**250.0**	250.0
4.01% Long-term note payable to the Corporation due April 9, 2063	**200.0**	200.0
4.13% Long-term note payable to the Corporation due September 16, 2044	**200.0**	200.0
3.60% Long-term note payable to the Corporation due July 28, 2045	**200.0**	200.0
3.988% Long-term note payable to the Corporation due April 9, 2063	**45.0**	45.0
2.572% Long-term note payable to the Corporation due August 25, 2026	**200.0**	200.0
3.535% Long-term note payable to the Corporation due February 28, 2048	**200.0**	200.0
2.488% Long-term note payable to the Corporation due December 11, 2029	**200.0**	200.0
3.042% Long-term note payable to the Corporation due December 10, 2049	**200.0**	200.0
1.55% Long-term note payable to the Corporation due October 15, 2030	**200.0**	—
6.16% Demand note payable to the Corporation due on demand	**45.0**	45.0
3.32% Demand note payable to the Corporation due on the earlier of demand and January 1, 2022	**15.0**	15.0
Total notes payable to related party	**2,455.0**	2,255.0
Less: Unamortized debt issuance costs	**11.6**	11.1
Current portion of notes payable to related party *[note 22]*	**359.8**	60.0
Long-term portion of notes payable to related party *[note 22]*	**2,083.6**	2,183.9

[All tabular amounts in millions of Canadian dollars]

All notes payable to the Corporation are unsecured, rank equally and will be settled in cash.

On November 12, 2019, LDC issued two promissory notes to the Corporation. The principal amounts of the promissory notes are $200.0 million payable on December 11, 2029, which bears interest at a rate of 2.488% per annum, and $200.0 million payable on December 10, 2049, which bears interest at a rate of 3.042% per annum. Interest is calculated and payable semi-annually in arrears on June 11 and December 11, and June 10 and December 10 of each year, respectively for both promissory notes.

On October 15, 2020, LDC issued a promissory note to the Corporation. The principal amount of the promissory note is $200.0 million payable on October 15, 2030, which bears interest at a rate of 1.55% per annum. Interest is calculated and payable semi-annually in arrears on April 15 and October 15.

12. EMPLOYEE FUTURE BENEFITS

Multi-employer pension plan

LDC's eligible employees participate in a defined benefit pension plan through OMERS. As at December 31, 2020, the OMERS plan was 97.0% funded [December 31, 2019 - 97.0%]. OMERS has a strategy to return the plan to a fully funded position. LDC is not able to assess the implications, if any, of this strategy or of the withdrawal of other participating entities from the OMERS plan on its future contributions. For the year ended December 31, 2020, LDC's contributions were $17.6 million [2019 - $18.0 million], representing less than five percent of total contributions to the OMERS plan. LDC expects to contribute approximately $18.1 million to the OMERS plan in 2021.

Post-employment benefits

a) Benefit obligation

	2020 $	2019 $
Balance, beginning of year	**334.9**	275.9
Current service cost	**4.2**	3.0
Interest cost	**9.8**	10.2
Benefits paid	**(11.7)**	(10.6)
Past service cost (1)	**1.0**	11.2
Experience loss (gain) (2)	**(6.3)**	1.4
Actuarial gain arising from changes in demographic assumptions (2)	**(27.2)**	—
Actuarial loss arising from changes in financial assumptions (2) (3)	**28.0**	39.6
Transfer from related parties	**—**	4.2
Balance, end of year	**332.7**	334.9

(1) An arbitration process was ongoing prior to December 31, 2019 with respect to certain employees of LDC. As a result of the arbitrator's decision received on March 3, 2020, LDC recorded an estimated past service cost relating to the existence of a post-employment benefit obligation as at December 31, 2019. The plan amendment details were finalized in 2020 and were included as a component of the past service cost as at December 31, 2020. The related obligations will be supported by a letter of credit.
(2) Actuarial loss (gain) on accumulated sick leave credits of ($0.5) million [2019 - $2.8 million] is recognized in benefit cost *[note 12[c]]* and $0.1 million in transfer from related parties [2019 - $nil], and actuarial loss (gain) on medical, dental and life insurance benefits of ($5.1) million [2019 - $38.2 million] is recognized in OCI *[note 12[d]]*.
(3) Reflects the impact of change in discount rate *[note 12[e]]*.

b) Amounts recognized in regulatory balances

As at December 31, 2020, the amount recognized in regulatory balances related to accumulated net actuarial loss was $75.5 million [December 31, 2019 - $86.3 million] *[note 8[a]]*.

[All tabular amounts in millions of Canadian dollars]

c) *Benefit cost recognized*

	2020 $	2019 $
Current service cost	**4.2**	3.0
Interest cost	**9.8**	10.2
Past service cost *[note 12[a]]*	**1.0**	11.2
Actuarial loss (gain) on other employee benefits *[note 12[a]]*	**(0.5)**	2.8
Benefit cost	**14.5**	27.2
Capitalized to PP&E and intangible assets	**6.4**	7.6
Charged to operating expenses	**8.1**	19.6

d) *Amounts recognized in OCI*

	2020 $	2019 $
Actuarial loss (gain) *[note 12[a]]*	**(5.1)**	38.2
Income tax expense (recovery) in OCI *[note 20]*	**1.3**	(10.1)
Remeasurements of post-employment benefits, net of tax	**(3.8)**	28.1
Net movements in regulatory balances related to OCI, net of tax	**3.8**	(28.1)
OCI, net of tax	**—**	—

e) *Significant assumptions*

	2020 %	2019 %
Discount rate used in the calculation of:		
Benefit obligation as at December 31	**2.50**	3.00
Assumed medical and dental cost trend rates as at December 31:		
Rate of increase in dental costs assumed for next year	**4.00**	4.00
Rate of increase in medical costs assumed for next year	**5.00**	5.00

f) *Sensitivity analysis*

Significant actuarial assumptions for benefit obligation measurement purposes are discount rate and assumed medical and dental cost trend rates. The weighted average duration of the benefit obligation as at December 31, 2020 was 17.0 [2019 - 17.3]. The sensitivity analysis below has been determined based on reasonably possible changes of the assumptions, in isolation of one another, occurring at the end of the reporting period. This analysis may not be representative of the actual change since it is unlikely that changes in the assumptions would occur in isolation of one another as some of the assumptions may be correlated.

[All tabular amounts in millions of Canadian dollars]

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

	Change in assumption	2020 $	2019 $
Benefit obligation		**332.7**	334.9
Discount rate	1% ↑	**(49.9)**	(50.5)
	1% ↓	**64.0**	64.9
Medical and dental cost trend rate	1% ↑	**40.6**	41.4
	1% ↓	**(35.9)**	(37.0)

13. CAPITAL MANAGEMENT

LDC's main objectives when managing capital are to:

- ensure ongoing access to funding to maintain, refurbish and expand the electricity distribution system;
- ensure sufficient liquidity is available (either through cash and cash equivalents or borrowings from TH Energy or the Corporation) to meet the needs of the business; and
- minimize finance costs while taking into consideration current and future industry, market and economic risks and conditions.

LDC monitors forecasted cash flows, capital expenditures, debt repayment and key credit ratios similar to those used by key rating agencies. LDC manages capital by preparing short-term and long-term cash flow forecasts. In addition, LDC borrows from TH Energy or the Corporation as required to help fund some of the periodic net cash outflows and to maintain available liquidity. There have been no changes in LDC's approach to capital management during the year. As at December 31, 2020, LDC's definition of capital included equity, bank indebtedness, borrowings through the Corporation and obligations under leases, including the current portion thereof, and has remained unchanged from the definition as at December 31, 2019. As at December 31, 2020, equity amounted to $2,107.1 million [December 31, 2019 - $1,991.6 million], and bank indebtedness, borrowings through the Corporation and obligations under leases, including the current portion thereof, amounted to $2,443.7 million [December 31, 2019 - $2,244.2 million].

14. FINANCIAL INSTRUMENTS

a) Recognition and measurement

As at December 31, 2020 and December 31, 2019, the fair values of cash and cash equivalents, accounts receivable and unbilled revenue, 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 amounts taking into account interest accrued on the outstanding balance. Obligations under leases are measured based on a discounted cash flow analysis and approximate the carrying amounts as management believes that the fixed interest rates are representative of current market rates.

[All tabular amounts in millions of Canadian dollars]

The carrying amounts and fair values of LDC's notes payable to related party consist of the following:

	2020 $		2019 $	
	Carrying amount	**Fair value** [1]	**Carrying amount**	**Fair value** [1]
Notes payable to the Corporation				
5.59% due May 21, 2040	**198.9**	**292.9**	198.9	277.8
3.59% due November 18, 2021	**299.8**	**308.3**	299.6	308.3
2.96% due April 10, 2023	**249.6**	**263.8**	249.5	256.4
4.01% due April 9, 2063	**198.8**	**272.5**	198.7	242.6
4.13% due September 16, 2044	**198.5**	**256.3**	198.5	238.4
3.60% due July 28, 2045	**198.8**	**238.5**	198.7	220.5
3.988% due April 9, 2063	**44.7**	**61.0**	44.7	54.3
2.572% due August 25, 2026	**199.2**	**217.7**	199.1	203.6
3.535% due February 28, 2048	**198.7**	**238.7**	198.7	219.4
2.488% due December 11, 2029	**199.0**	**197.6**	198.9	200.4
3.042% due December 10, 2049	**198.7**	**220.4**	198.6	200.8
1.55% due October 15, 2030	**198.7**	**200.8**	—	—
Demand note payable to the Corporation due on demand	**45.0**	**45.0**	45.0	45.0
Demand note payable to the Corporation due on the earlier of demand and January 1, 2022	**15.0**	**15.4**	15.0	15.4
	2,443.4	**2,828.9**	2,243.9	2,482.9

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

b) Financial risks

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

Credit risk

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

LDC's exposure to credit risk primarily relates to accounts receivable and unbilled revenue. LDC is subject to credit risk with respect to customer non-payment of electricity bills. As a result of the COVID-19 pandemic and material disruptions to businesses and the economy, LDC's credit risk has increased due to some customers not being able to pay their electricity bills when due, and LDC's security interest or other protective measures, if any, provided to LDC, such as letters of credit, cash deposits or pre-authorized payments may not be sufficient. LDC considers the current economic and credit conditions to determine the loss allowance of its accounts receivable and unbilled revenue. Given the high degree of uncertainty caused by the COVID-19 pandemic, the estimates and judgments made by management in the preparation of the expected credit loss allowance are subject to a high degree of estimation uncertainty. Based on LDC's current estimates and assumptions, including but not limited to recent trend for customer collections and current and forecasted economic conditions, LDC adjusted the expected credit loss provision to account for the higher level of expected customer defaults at the balance sheet date. LDC continues to actively monitor its exposure to credit risk and as at December 31, 2020, recorded an incremental provision of $17.2 million to its expected credit loss allowance as a result of the COVID-19 pandemic.

[All tabular amounts in millions of Canadian dollars]

LDC obtains security instruments from certain customers in accordance with direction provided by the OEB. As at December 31, 2020, LDC held security deposits in the amount of $63.6 million [December 31, 2019 - $68.0 million], of which $33.4 million [December 31, 2019 - $35.2 million] was related to security deposits on offers to connect to guarantee the payment of additional costs related to expansion projects. LDC's security instruments may not provide sufficient protection from counterparties defaulting on their obligations. As at December 31, 2020, 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.

LDC did not have any single customer that generated more than 10% of total revenue for the years ended December 31, 2020 and December 31, 2019.

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

	2020 $	2019 $
Accounts receivable, gross		
Outstanding for not more than 30 days	**164.9**	200.3
Outstanding for more than 30 days and not more than 120 days	**51.2**	44.3
Outstanding for more than 120 days	**25.5**	13.1
Total accounts receivable, gross	**241.6**	257.7
Unbilled revenue, gross	**253.3**	292.0
Loss allowance	**(30.2)**	(11.6)
Total accounts receivable and unbilled revenue	**464.7**	538.1

Unbilled revenue represents amounts for which LDC has a contractual right to receive cash through future billings and are unbilled at period-end. Unbilled revenue is considered in conjunction with accounts receivable and is included in the loss allowance as at December 31, 2020 and December 31, 2019.

LDC has a broad base of customers. As at December 31, 2020 and December 31, 2019, LDC'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 loss allowance balances for accounts receivable and unbilled revenue is as follows:

	2020 $	2019 $
Balance, beginning of year	**(11.6)**	(10.6)
Loss allowance	**(22.7)**	(6.0)
Write-offs	**4.4**	5.2
Recoveries of previously written-off balances	**(0.3)**	(0.2)
Balance, end of year	**(30.2)**	(11.6)

For the year ended December 31, 2020, LDC recorded an incremental loss allowance primarily related to commercial electricity customers as a result of the COVID-19 pandemic.

c) Market risks

Interest rate risk

LDC is exposed to fluctuations in interest rates for the valuation of its post-employment benefit obligations *[note 12[f]]*. LDC is also exposed to short-term interest rate risk on the net of cash and cash equivalents and customer deposits. Notes payable to related party bear interest based on the prevailing market conditions at the time of issuance.

As at December 31, 2020, aside from the valuation of its post-employment benefit obligations, LDC was exposed to interest rate risk predominately from cash and cash equivalents and customer deposits, while most of its remaining obligations were either non-interest bearing or bear fixed interest rates, and its financial assets were predominately short-term in nature and mostly non-interest bearing. LDC estimates that a 25 basis point increase (decrease) in short-term interest rates, with all other variables held constant, would result in an increase (decrease) of approximately $0.2 million to annual finance costs.

Liquidity risk

LDC is exposed to liquidity risk related to its ability to fund its obligations as they become due. LDC monitors and manages its liquidity risk to ensure access to sufficient funds to meet operational and financial requirements. LDC has access to credit facilities and borrowings through the Corporation and monitors cash balances daily. LDC's objective is to ensure that sufficient liquidity is on hand to meet obligations as they fall due while minimizing finance costs. LDC relies on debt financing from borrowings through the Corporation and existing credit facilities to finance its daily operations, repay existing indebtedness, and fund capital expenditures. The current challenging economic climate affected by factors including but not limited to the effects of the COVID-19 pandemic may lead to material adverse changes in cash flows, working capital levels and/or debt balances, which may also have a direct negative impact on LDC's operating results and financial position in the future. Accordingly, LDC continues to monitor and adapt its response plan as the economic climate evolves.

[All tabular amounts in millions of Canadian dollars]

Liquidity risks associated with financial commitments are as follows:

2020	Due within 1 year $	Due within 2 years $	Due within 3 years $	Due within 4 years $	Due within 5 years $	Due after 5 years $
Accounts payable and accrued liabilities [(1)]	382.3	—	—	—	—	—
Obligations under leases	—	—	0.1	0.1	0.1	—
Long-term notes payable to the Corporation						
5.59% due May 21, 2040	—	—	—	—	—	200.0
3.59% due November 18, 2021	300.0	—	—	—	—	—
2.96% due April 10, 2023	—	—	250.0	—	—	—
4.01% due April 9, 2063	—	—	—	—	—	200.0
4.13% due September 16, 2044	—	—	—	—	—	200.0
3.60% due July 28, 2045	—	—	—	—	—	200.0
3.988% due April 9, 2063	—	—	—	—	—	45.0
2.572% due August 25, 2026	—	—	—	—	—	200.0
3.535% due February 28, 2048	—	—	—	—	—	200.0
2.488% due December 11, 2029	—	—	—	—	—	200.0
3.042% due December 10, 2049	—	—	—	—	—	200.0
1.55% due October 15, 2030	—	—	—	—	—	200.0
Demand note payable to the Corporation due on demand	45.0	—	—	—	—	—
Demand note payable to the Corporation due on the earlier of demand and January 1, 2022	15.0	—	—	—	—	—
Interest payments on long-term notes payable and demand notes payable	82.9	70.5	66.5	62.8	62.8	1,176.7
	825.2	70.5	316.6	62.9	62.9	3,021.7

[(1)] Accounts payable and accrued liabilities exclude $19.2 million of accrued interest on long-term notes payable and demand notes payable included within “Interest payments on long-term notes payable and demand notes payable”.

Foreign exchange risk

As at December 31, 2020, LDC had limited exposure to the changing values of foreign currencies. While LDC purchases goods and services which are payable in US dollars, and purchases US currency to meet the related commitments when required, the impact of these transactions is not material to the financial statements.

15. FINANCIAL ASSISTANCE

As at December 31, 2020, $32.9 million [December 31, 2019 - $33.2 million] of letters of credit had been issued by the Corporation, on behalf of LDC, under its $75.0 million demand facility mainly to support LDC’s prudential requirements with the IESO.

[All tabular amounts in millions of Canadian dollars]

16. SHARE CAPITAL

Share capital consists of the following:

	2020 $	2019 $
Authorized The authorized share capital of LDC consists of an unlimited number of common shares without par value.		
Issued and outstanding		
1,000 common shares, of which all were fully paid.	**556.3**	556.3

Dividends

During the year ended December 31, 2020, the Board of Directors of LDC declared and paid dividends to the Corporation totalling $0.7 million [2019 - $nil].

17. REVENUES

Revenues consist of the following:

	2020 $	2019[1] $
Revenue from contracts with customers		
Energy sales	**3,142.5**	2,779.7
Distribution revenue	**694.4**	799.2
Pole and duct rentals	**20.4**	19.3
Ancillary services revenue	**13.8**	17.5
Other regulatory service charges	**7.5**	10.2
Street lighting services	**6.9**	6.5
Miscellaneous	**14.1**	8.0
Revenue from other sources		
Capital contributions	**8.2**	5.9
Other	**8.9**	12.0
	3,916.7	3,658.3

[1] Includes reclassification from amounts previously reported.

[All tabular amounts in millions of Canadian dollars]

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

	2020 $	2019 $
Residential service [1]	**1,120.7**	917.2
General service [2]	**2,512.4**	2,443.6
Large users [3]	**203.8**	218.1
Total energy sales and distribution revenue	**3,836.9**	3,578.9

[1] "Residential Service" means a service that is for domestic or household purposes, including single family or individually metered multifamily 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:

	2020 $	2019 $
Salaries and benefits	**224.0**	239.9
External services	**135.7**	138.6
Other support costs [1]	**45.4**	22.0
Materials and supplies	**26.6**	18.1
Less: Capitalized costs	**(117.8)**	(122.9)
	313.9	295.7

[1] Includes bad debt expense, taxes other than income taxes, utilities, rental, communication, insurance, and other general and administrative expenses.

For the year ended December 31, 2020, LDC recognized operating expenses of $16.3 million related to materials and supplies used to service electricity distribution assets [2019 - $9.3 million].

19. FINANCE COSTS

Finance costs consist of the following:

	2020 $	2019 $
Interest income	**(0.7)**	(1.0)
Interest expense		
Interest on long-term debt [1]	**82.7**	81.9
Interest on short-term debt	**2.6**	4.4
Other interest	**0.4**	0.8
Capitalized borrowing costs	**(4.6)**	(3.7)
	80.4	82.4

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

[All tabular amounts in millions of Canadian dollars]

20. INCOME TAXES

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

	2020 $	2019 $
Rate reconciliation before net movements in regulatory balances		
Income before income taxes	**100.7**	250.7
Statutory Canadian federal and provincial income tax rate	**26.5%**	26.5%
Expected income tax expense	**26.7**	66.4
Non-taxable amounts	**(0.3)**	(0.9)
Gain on disposal	**—**	0.4
Other	**2.1**	0.8
Income tax expense	**28.5**	66.7
Effective tax rate	**28.3%**	26.6%
Rate reconciliation after net movements in regulatory balances		
Net income after net movements in regulatory balances, before income tax [(1)]	**119.5**	188.3
Statutory Canadian federal and provincial income tax rate	**26.5%**	26.5%
Expected income tax expense	**31.7**	49.9
Temporary differences recoverable in future rates	**(29.4)**	(15.7)
Gain on disposal	**—**	0.4
Other	**1.0**	(1.3)
Income tax expense and income tax recorded in net movements in regulatory balances	**3.3**	33.3
Effective tax rate	**2.8%**	17.7%

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

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

	2020 $	2019 $
Income tax expense	**28.5**	66.7
Income tax recorded in net movements in regulatory balances	**(25.2)**	(33.4)
Income tax expense and income tax recorded in net movements in regulatory balances	**3.3**	33.3
Income tax expense (recovery) in OCI *[note 12[d]]*	**1.3**	(10.1)
Income tax expense (recovery) in OCI recorded in net movements in regulatory balances	**(1.3)**	10.1
Income tax expense in OCI	**—**	—

[All tabular amounts in millions of Canadian dollars]

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

	2020 $	2019 $
Current tax expense		
Current year	**5.8**	33.2
Deferred tax expense		
Origination and reversal of temporary differences	**(2.5)**	0.1
Income tax expense and income tax recorded in net movements in regulatory balances	**3.3**	33.3

Deferred tax assets (liabilities) consist of the following:

	Net balance January 1, 2020 $	Recognized in net income $	Recognized in OCI $	Net balance December 31, 2020 $
PP&E and intangible assets	**(83.3)**	**(30.7)**	**—**	**(114.0)**
Post-employment benefits	**88.7**	**0.7**	**(1.3)**	**88.1**
Tax credit carryforward	**—**	**2.5**	**—**	**2.5**
Other taxable temporary differences	**(28.5)**	**4.8**	**—**	**(23.7)**
	(23.1)	**(22.7)**	**(1.3)**	**(47.1)**

	Net balance January 1, 2019 $	Recognized in net income $	Recognized in OCI $	Net balance December 31, 2019 $
PP&E and intangible assets	(45.9)	(37.4)	—	(83.3)
Post-employment benefits	73.0	5.6	10.1	88.7
Other taxable temporary differences	(26.8)	(1.7)	—	(28.5)
	0.3	(33.5)	10.1	(23.1)

[All tabular amounts in millions of Canadian dollars]

21. STATEMENTS OF CASH FLOWS

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

	2020 $	2019 $
Accounts receivable and unbilled revenue	**72.7**	(49.0)
Income tax receivable	**(10.8)**	(0.9)
Materials and supplies	**(2.0)**	0.3
Other current assets	**(2.5)**	(3.3)
Accounts payable and accrued liabilities	**(22.5)**	(27.1)
Income tax payable	**—**	(4.8)
Deferred revenue	**4.6**	0.8
Deferred conservation credit	**6.5**	1.3
Other current liabilities	**—**	(0.3)
	46.0	(83.0)

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

	2020 $	2019 $
Purchase of PP&E, cash basis	**633.5**	509.5
Net change in accruals related to PP&E	**(65.5)**	15.6
Other	**0.9**	0.9
Total additions to PP&E	**568.9**	526.0
Purchase of intangible assets, cash basis	**40.8**	53.0
Net change in accruals related to intangible assets	**(1.0)**	0.4
Other	**—**	12.7
Total additions to intangible assets	**39.8**	66.1

Summary of changes in liabilities arising from financing activities:

	2019 $	Cash flows (1) $	Non-cash changes $	2020 $
Year ended December 31				
Notes payable to related party *[note 11]*	**2,243.9**	**198.6**	**0.9**	**2,443.4**
Accrued interest (2)	**19.4**	**(84.6)**	**84.4**	**19.2**
Dividends payable	**—**	**(0.7)**	**0.7**	**—**
Lease liability (3)	**0.3**	**—**	**—**	**0.3**
	2,263.6	**113.3**	**86.0**	**2,462.9**

[All tabular amounts in millions of Canadian dollars]

	2018 $	Cash flows (1) $	Non-cash changes $	2019 $
Year ended December 31				
Notes payable to related party *[note 11]*	2,090.6	152.4	0.9	2,243.9
Accrued interest (2)	19.4	(86.1)	86.1	19.4
Lease liability (3)	1.3	(0.2)	(0.8)	0.3
	2,111.3	66.1	86.2	2,263.6

(1) Cash inflows and cash outflows arising from notes payable to related party are presented on a net basis.
(2) Included within accounts payable and accrued liabilities *[note 9]*.
(3) Included within other liabilities.

22. RELATED PARTY TRANSACTIONS

For LDC, transactions with related parties include transactions with the City, which is the sole shareholder of the Corporation, the Corporation, and TH Energy, a wholly-owned subsidiary of the Corporation.

	City $	Corporation $	TH Energy $
For year ended December 31, 2020			
Revenues	**285.5**	**—**	**7.0**
Operating expenses (recoveries) and capital expenditures	**10.5**	**1.2**	**(0.9)**
Finance costs	**—**	**82.9**	**—**
Dividends declared and paid	**—**	**0.7**	**—**
As at December 31, 2020			
Accounts receivable and unbilled revenue	**39.1**	**—**	**—**
Accounts payable and accrued liabilities	**25.7**	**19.1**	**0.2**
Current portion of notes payable to related party	**—**	**359.8**	**—**
Long-term portion of notes payable to related party	**—**	**2,083.6**	**—**
Customer deposits	**12.6**	**—**	**—**

	City $	Corporation $	TH Energy $
For year ended December 31, 2019			
Revenues	279.2	—	6.6
Operating expenses (recoveries) and capital expenditures	7.3	4.9	(1.0)
Finance costs	—	83.5	—
As at December 31, 2019			
Accounts receivable and unbilled revenue	41.9	—	2.9
Accounts payable and accrued liabilities	23.9	21.9	—
Current portion of notes payable to related party	—	60.0	—
Long-term portion of notes payable to related party	—	2,183.9	—
Customer deposits	14.1	—	—

Revenues represent amounts charged to the City primarily for electricity and ancillary services, and to TH Energy for 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, and the Corporation for purchased corporate and management services. Operating expense recoveries represent amounts charged to TH Energy for the provision of goods and services. Finance costs represent interest charged by the Corporation on the notes payable *[note 11]*. Dividends are paid to the Corporation *[note 16]*.

[All tabular amounts in millions of Canadian dollars]

Accounts receivable and unbilled revenue represent receivables from the City primarily for electricity and ancillary services, and TH Energy for the provision of goods and 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. Included in the accounts payable and accrued liabilities are amounts payable to the Corporation for purchased corporate and management services and interest accruing on the notes payable to the Corporation and amounts payable to TH Energy for provision of goods and services. Notes payable to related party represent amounts borrowed from the Corporation *[note 11]*. Customer deposits represent amounts received from the City for future expansion projects.

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

	2020 $	2019 $
Short-term employee benefits	**4.9**	4.4
Post-employment benefits	**2.8**	0.9
Termination benefits	**2.6**	—
	10.3	5.3

23. COMMITMENTS

Capital projects

As at December 31, 2020, the future minimum payments for capital projects and other commitments were as follows:

	Capital projects (1) and other $
Less than one year	**36.3**
Between one and five years	**39.1**
Total amount of future minimum payments (2)	**75.4**

(1) Mainly commitments for construction services.
(2) Refer to note 14 for financial commitments excluded from the table above.

24. CONTINGENCIES

Legal Proceedings

In the ordinary course of business, LDC is subject to various legal actions and claims from customers, suppliers, and other parties. On an ongoing basis, LDC assesses the likelihood of any adverse judgments or outcomes as well as potential ranges of probable costs and losses. A determination of the provision required, if any, for these contingencies is made after an analysis of each individual issue. The provision may change in the future due to new developments in each matter or changes in approach, such as a change in settlement strategy. If damages were awarded under these actions, LDC would make a claim under any applicable liability insurance policies which LDC believes would cover any damages which may become payable by LDC in connection with these actions, subject to such claim not being disputed by the insurers.

25. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Regulation

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

Regulatory Balances

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

LDC has determined that certain debit and credit balances arising from rate-regulated activities qualify for the application of regulatory accounting treatment in accordance with IFRS 14. Under rate-regulated accounting, the timing and recognition of certain expenses and revenues may differ from those otherwise expected under other IFRS in order to appropriately reflect the economic impact of regulatory decisions regarding LDC's regulated revenues and expenditures. These amounts arising from timing differences are recorded as regulatory debit and credit balances on LDC's 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 LDC's statements of income in the period when the assessment is made. Regulatory balances, which do not meet the definition of an asset or liability under any other IFRS, are segregated on the balance sheets and are presented on the statements of income and the 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.

b) 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 statements of cash flows, cash and cash equivalents (bank indebtedness) include bank overdrafts that are repayable on demand and form an integral part of LDC's cash management.

c) 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 statements of income. The impairment loss is the difference between an asset's carrying amount and the estimated future cash flows. When LDC 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 LDC 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.

[All tabular amounts in millions of Canadian dollars]

LDC measures the loss allowance at an amount equal to the lifetime expected credit losses [“ECL”] for all trade receivables that result from transactions with customers and do not contain a significant financing component. A provision matrix is used by LDC to measure the lifetime ECL of accounts receivable from individual customers. Loss rates are calculated using a ‘roll rate’ method based on the probability of a trade receivable progressing through successive stages of delinquency to write-off and are based on the average of actual credit loss experience over the past three years, as it more accurately reflects anticipated credit loss. Roll rates are calculated separately for exposures based on customer account status. LDC also adjusts the ECL in efforts to account for current economic conditions and events (including forward-looking macroeconomic data) and historical information (including credit agency reports, if available). LDC 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.

d) Materials and supplies

Materials and supplies consist primarily of small consumable materials mainly related to the maintenance of the electricity distribution infrastructure. LDC classifies all major construction related components of its electricity distribution infrastructure to PP&E. Materials and supplies are carried at the lower of cost and net realizable value, with cost determined on a weighted average cost basis net of a provision for obsolescence.

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 LDC 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 LDC from its continued use. Any gain or loss arising on derecognition is recorded in the 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 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	1.7% to 5.0%
Transformers	3.3% to 5.0%
Meters	2.5% to 6.7%
Stations	2.0% to 10.0%
Buildings	1.3% to 5.0%
Equipment and other:	
Other capital assets	4.0% to 25.0%
Right-of-use assets	1.0% to 11.1%

Right-of-use assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that LDC will obtain ownership by the end of the lease term, in which case they are depreciated to the end of the useful life of the underlying assets. Right-of-use assets are recognized for contracts that are, or contain, leases. Construction in progress relates to assets not currently available for use and therefore is not depreciated. The depreciation method and useful lives are reviewed at each financial year-end and adjusted if appropriate. There are no residual values for items of PP&E.

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

LDC 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. LDC has determined that its assets are a single CGU due to interdependencies of its 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 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 LDC'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

LDC 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 LDC 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. LDC applies judgment to determine whether revenues are recorded on a gross or net basis. LDC 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 balance sheets and within net movements in regulatory balances on the 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.

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.

LDC has not incurred any additional costs to obtain or fulfill contracts with its customers nor any kind of variable considerations from the above-mentioned revenue generating activities.

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.

LDC 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 balance sheets:

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

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

- Bank indebtedness is classified as "Amortized cost" and is 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.

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

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

- Obligations under leases are classified as "Amortized cost" and are initially measured at fair value, or at the present value of the minimum lease payments, if lower. Subsequent measurements are based on a discounted cash flow analysis and approximate the carrying amount as management believes that the fixed interest rates are representative of current market rates.

- Notes payable to related party are classified as "Amortized cost" and are initially measured at fair value. The carrying amounts of notes payable are carried at amortized cost, based on the fair value of the notes payable at issuance, which was the fair value of the consideration received adjusted for transaction costs. The fair values of the notes payable are based on the present value of contractual cash flows, discounted at LDC's current borrowing rate for similar debt instruments *[note 14[a]]*. Debt issuance costs incurred in connection with LDC's debt offerings are capitalized as part of the carrying amount of the notes payable and amortized over the term of the related notes payable, using the effective interest method, and the amortization is included in finance costs.

k) Fair value measurements

LDC 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 LDC'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 LDC 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

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

(iii) Post-employment benefits

LDC has a number of unfunded benefit plans providing post-employment benefits to its employees, including certain retirement, medical, dental and life insurance benefits. LDC 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 balance sheets. Actuarial gains and losses on accumulated sick leave credits are recognized in the statements of income in the period in which they arise.

The measurement date used to determine the present value of the benefit obligation is December 31 of the applicable year. The latest actuarial valuation was performed as at January 1, 2020.

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 LDC no longer has an unconditional right to defer payment of the liability for at least 12 months after the reporting period.

n) Income taxes

Under the Electricity Act, LDC 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 LDC paying income taxes equivalent to what would be imposed under the Federal and Ontario Tax Acts.

LDC uses the liability method of accounting for income taxes. Under the liability method, current income taxes payable are recorded based on taxable income. LDC recognizes deferred tax assets and liabilities for the future tax consequences of events that have been included in the 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 balance sheets and their respective tax basis, using the tax rates enacted or substantively enacted by the 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 statements of income.

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

o) Use of judgments and estimates

The preparation of LDC's financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions which affect the application of accounting policies, reported assets, liabilities and regulatory balances, and the disclosure of contingent assets and liabilities at the date of the 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, Northern Development and Mines or the Ontario Ministry of Finance. The assessment of the duration and severity of the COVID-19 pandemic is subject to significant uncertainty; accordingly, judgments, estimates and assumptions related to the impact of the pandemic made by management in the preparation of the LDC's financial statements are also subject to significant uncertainty. Management has analyzed the impact of the COVID-19 pandemic on its estimates and adjusted the expected credit loss provision to account for the higher level of expected customer defaults as at December 31, 2020 *[note 14[b]]*. The extent of the future impact of the pandemic on the LDC'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[a] 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[a] – Recognition and measurement of regulatory balances;
- Note 25[c] – Recognition and measurement of 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 12 – 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 Material (Amendments to IAS 1 *Presentation of Financial Statements* ["IAS 1"] and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* ["IAS 8"])

On October 31, 2018, the IASB issued amendments to IAS 1 and IAS 8 - the amendments clarify the definition of 'material' and align the definition used in the Conceptual Framework for Financial Reporting and the standards themselves. The amendments are effective for annual reporting periods beginning on or after January 1, 2020.

Effective January 1, 2020, LDC has applied the definition of 'material' as amended, with no impact on the financial statements.

q) Future accounting pronouncements

The IASB has issued a number of standards and amendments to existing standards that are not yet effective. LDC continues to analyze these pronouncements and has determined that the following amendments could have an impact on LDC's 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. The amendments are effective for annual reporting periods beginning on or after January 1, 2023, with early adoption permitted. The amendments are to be applied retrospectively.

Onerous Contracts - Cost of Fulfilling a Contract (Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets ["IAS 37"])

In May 2020, the IASB issued amendments to IAS 37 regarding costs that should be included as the cost of fulfilling a contract when assessing whether a contract is onerous. The amendments clarify that the cost of fulfilling the contract comprises all costs that relate directly to the contract. Such costs include both the incremental costs of fulfilling that contract and an allocation of other costs that relate directly to fulfilling contracts. The amendments apply to contracts existing at the date when the amendments are first applied. The amendments are effective for annual periods beginning on or after January 1, 2022, with early adoption permitted.

LDC is currently assessing the impact of the above amendments on LDC's financial statements.

GLOSSARY

CDM – Conservation and demand management

CGU – Cash generating unit

CIR – Custom Incentive Rate-setting

City – City of Toronto

Corporation – Toronto Hydro Corporation

COVID-19 – Coronavirus disease 2019

ECA – Energy Conservation Agreement

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

GAAP – Generally Accepted Accounting Principles

HONI – Hydro One Networks Inc.

IAS – International Accounting Standard

IASB – International Accounting Standards Board

IESO – Independent Electricity System Operator

IFRS – International Financial Reporting Standards

IRM – Incentive Regulation Mechanism

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

ITC – Investment tax credit

kW – Kilowatt

kWh – Kilowatt hour

LDC – Toronto Hydro-Electric System Limited

LRAM – Lost revenue adjustment mechanism

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

RPP – Regulated Price Plan

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

TH Energy – Toronto Hydro Energy Services Inc.

TOU – Time-of-use

US GAAP – United States Generally Accepted Accounting Principles

WMS – Wholesale Market Service

Financial Statements

Toronto Hydro-Electric System Limited

DECEMBER 31, 2021 and 2020

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

INDEPENDENT AUDITORS' REPORT

To the Shareholder of Toronto Hydro-Electric System Limited

Opinion

We have audited the accompanying financial statements of Toronto Hydro-Electric System Limited (the Entity), which comprise:

- the balance sheet as at December 31, 2021
- the statement of income for the year then ended
- the statement of comprehensive income for the year then ended
- the statement of changes in equity for the year then ended
- the statement of cash flows for the year then ended

and notes to the financial statements, including a summary of significant accounting policies

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at December 31, 2021, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

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

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

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

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

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

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

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

Auditors’ Responsibilities for the Audit of the Financial Statements

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

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

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

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

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.

KPMG

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants
Toronto, Canada
March 1, 2022

BALANCE SHEETS

[in millions of Canadian dollars]

As at December 31	Note	2021 $	2020 $
ASSETS			
Current			
Cash and cash equivalents		**102.6**	142.0
Accounts receivable and unbilled revenue	*4, 14[b]*	**445.4**	464.7
Income tax receivable		**3.0**	11.7
Materials and supplies		**9.9**	9.8
Other assets	*5*	**18.8**	16.5
Total current assets		**579.7**	644.7
Property, plant and equipment	*6*	**5,322.6**	4,987.5
Intangible assets	*7*	**358.0**	343.1
Other assets	*5*	**6.9**	8.2
Total assets		**6,267.2**	5,983.5
Regulatory balances	*8*	**181.4**	170.4
Total assets and regulatory balances		**6,448.6**	6,153.9
LIABILITIES AND EQUITY			
Current			
Accounts payable and accrued liabilities	*9*	**422.9**	401.5
Customer deposits		**62.3**	44.9
Deferred revenue	*10*	**24.4**	17.8
Deferred conservation credit	*3[c]*	**11.7**	16.0
Notes payable to related party	*11, 22*	**60.0**	359.8
Total current liabilities		**581.3**	840.0
Notes payable to related party	*11, 22*	**2,432.0**	2,083.6
Customer deposits		**10.1**	18.7
Deferred revenue	*10*	**642.8**	537.9
Post-employment benefits	*12*	**306.6**	332.7
Deferred tax liabilities	*20*	**63.8**	47.1
Other liabilities		**17.4**	3.4
Total liabilities		**4,054.0**	3,863.4
Equity			
Share capital	*16*	**556.3**	556.3
Retained earnings		**1,674.3**	1,538.0
Contributed surplus		**12.8**	12.8
Total equity		**2,243.4**	2,107.1
Total liabilities and equity		**6,297.4**	5,970.5
Regulatory balances	*8*	**151.2**	183.4
Total liabilities, equity and regulatory balances		**6,448.6**	6,153.9

Commitments, contingencies and subsequent events *2, 23, 24*

See accompanying notes to the financial statements.

STATEMENTS OF INCOME

[in millions of Canadian dollars]

Year ended December 31	***Note***	**2021** **$**	2020 $
Revenues			
Energy sales	*17*	**2,702.4**	3,142.5
Distribution revenue	*17*	**759.1**	694.4
Other	*17*	**88.1**	79.8
		3,549.6	3,916.7
Expenses			
Energy purchases		**2,775.2**	3,150.5
Operating expenses	*18*	**310.7**	313.9
Depreciation and amortization	*6, 7*	**289.3**	271.2
		3,375.2	3,735.6
Finance costs	*19*	**(82.8)**	(80.4)
Gain on disposals of property, plant and equipment		**2.7**	-
Income before income taxes		**94.3**	100.7
Income tax expense	*20*	**(20.4)**	(28.5)
Net income		**73.9**	72.2
Net movements in regulatory balances	*8*	**54.1**	18.8
Net movements in regulatory balances arising from deferred taxes	*8*	**8.9**	25.2
Net income after net movements in regulatory balances		**136.9**	116.2

STATEMENTS OF COMPREHENSIVE INCOME

[in millions of Canadian dollars]

Year ended December 31	***Note***	**2021** **$**	2020 $
Net income after net movements in regulatory balances		**136.9**	116.2
Other comprehensive income			
Items that will not be reclassified to income or loss			
Remeasurements of post-employment benefits, net of tax [2021 - ($7.1), 2020 - ($1.3)]	*12*	**19.8**	3.8
Net movements in regulatory balances related to OCI, net of tax [2021 - ($7.1), 2020 - ($1.3)]	*8, 12*	**(19.8)**	(3.8)
Other comprehensive income, net of tax		**-**	-
Total comprehensive income		**136.9**	116.2

See accompanying notes to the financial statements.

STATEMENTS OF CHANGES IN EQUITY

[in millions of Canadian dollars]

Year ended December 31	***Note***	**2021** **$**	2020 $
Share capital	*16*	**556.3**	556.3
Retained earnings, beginning of year		**1,538.0**	1,422.5
Net income after net movements in regulatory balances		**136.9**	116.2
Dividends	*16, 22*	**(0.6)**	(0.7)
Retained earnings, end of year		**1,674.3**	1,538.0
Contributed surplus		**12.8**	12.8
Total equity		**2,243.4**	2,107.1

See accompanying notes to the financial statements.

STATEMENTS OF CASH FLOWS

[in millions of Canadian dollars]

Year ended December 31	*Note*	2021 $	2020 $
OPERATING ACTIVITIES			
Net income after net movements in regulatory balances		**136.9**	116.2
Net movements in regulatory balances	*8*	**(54.1)**	(18.8)
Net movements in regulatory balances arising from deferred taxes	*8*	**(8.9)**	(25.2)
Adjustments			
Depreciation and amortization	*6, 7*	**289.3**	271.2
Amortization of deferred revenue	*10*	**(12.3)**	(8.2)
Finance costs		**82.8**	80.4
Income tax expense		**20.4**	28.5
Post-employment benefits		**0.8**	2.9
Gain on disposals of property, plant and equipment		**(2.7)**	-
Other		**1.0**	0.3
Capital contributions received	*10*	**101.2**	138.7
Net change in other non-current assets and liabilities		**11.1**	0.8
Increase (decrease) in customer deposits		**8.8**	(4.4)
Changes in non-cash operating working capital balances	*21*	**17.4**	46.0
Income tax paid		**-**	(15.0)
Net cash provided by operating activities		**591.7**	613.4
INVESTING ACTIVITIES			
Purchase of property, plant and equipment	*21*	**(548.0)**	(620.5)
Purchase of intangible assets	*21*	**(47.6)**	(40.8)
Proceeds on disposals of property, plant and equipment		**2.8**	0.5
Net cash used in investing activities		**(592.8)**	(660.8)
FINANCING ACTIVITIES			
Issuance of notes payable to related party	*11*	**347.7**	198.6
Repayment of notes payable to related party	*11*	**(300.0)**	-
Dividends paid	*16*	**(0.6)**	(0.7)
Interest received		**0.9**	0.7
Interest paid		**(86.3)**	(84.6)
Net cash provided by (used in) financing activities		**(38.3)**	114.0
Net change in cash and cash equivalents during the year		**(39.4)**	66.6
Cash and cash equivalents, beginning of year		**142.0**	75.4
Cash and cash equivalents, end of year		**102.6**	142.0

See accompanying notes to the financial statements.

1. NATURE OF BUSINESS

Toronto Hydro-Electric System Limited was incorporated on June 23, 1999 under the *Business Corporations Act* [Ontario] in accordance with the Electricity Act. LDC is wholly owned by the Corporation and is domiciled in Canada, with its registered office located at 14 Carlton Street, Toronto, Ontario, M5B 1K5.

LDC distributes electricity to customers located in the city of Toronto and is subject to rate regulation.

2. BASIS OF PRESENTATION

LDC's audited financial statements for the years ended December 31, 2021 and 2020 have been prepared in accordance with IFRS as issued by the IASB.

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

LDC has evaluated the events and transactions occurring after the balance sheet date through March 1, 2022 when LDC's financial statements were authorized for issuance by LDC's Board of Directors, and identified the events and transactions which required recognition in LDC's financial statements and/or disclosure in the notes to LDC's financial statements *[notes 3[a] and 11]*.

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

3. REGULATION

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

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

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

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

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

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

a) COVID-19 Pandemic Considerations

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

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

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

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

b) Electricity Distribution Rates

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

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

On December 19, 2019, the OEB issued its 2020-2024 CIR Decision and on February 20, 2020, the OEB issued its CIR Final Rate Order, both in relation to the rate application filed on August 15, 2018 ["2020-2024 CIR decision and rate order"]. The 2020-2024 CIR decision and rate order approved a revenue requirement of $750.2 million for 2020, and rates calculated on that basis. The rates for 2020 were implemented on March 1, 2020, with an effective date of January 1, 2020. In addition, the 2020-2024 CIR decision and rate order approved subsequent annual rate adjustments based on a custom index for the period commencing on January 1, 2021 and ending on December 31, 2024. The financial considerations of the OEB's 2020-2024 CIR decision and rate order are reflected in the financial statements including disclosure of approved disposition for a number of requested rate riders *[note 8]*.

On August 24, 2020, LDC filed its 2021 rate application seeking the OEB's approval to finalize distribution rates and other charges for the period commencing on January 1, 2021 and ending on December 31, 2021. On December 10, 2020, the OEB issued a decision and rate order approving LDC's 2021 rates and providing for other deferral and variance account dispositions.

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

[All tabular amounts in millions of Canadian dollars]

c) CDM Activities

On March 21, 2019, the Government of Ontario issued ministerial directives to the IESO related to the delivery of CDM programs. Previously, LDC and other distributors delivered the CDM programs; under the new directives, the IESO became responsible for delivering the CDM programs.

Under its ECA with the IESO, LDC had a joint CDM plan with Oakville Hydro Electricity Distribution Inc. for the delivery of CDM programs over the 2015-2020 period. As part of implementing its new mandate, the IESO terminated the ECA effective June 20, 2019. LDC was required to cease marketing and business development for all CDM programs immediately and make commercially reasonable efforts to wind down the delivery of programs. Under the ECA, LDC was reimbursed from the IESO for its eligible expenses and administrative costs relating to the wind-down of its role in the CDM programs. Participant agreements with customers for many of the CDM programs that were in effect before April 1, 2019 remained in effect notwithstanding the termination of the ECA and LDC remains responsible for its obligations under such agreements. On June 10, 2021, the Government of Ontario issued ministerial directives to the IESO directing it to extend the deadline by which participants are to complete the projects from June 30, 2021 to December 31, 2021, and on December 9, 2021, it was further extended to August 31, 2022. The directive also allows for the completion deadline to be further extended to December 31, 2022, if certain conditions are met. Amounts received from the IESO for the funding of the projects under the participant agreements, but not yet spent, are presented on the balance sheets under current liabilities as deferred conservation credit.

4. ACCOUNTS RECEIVABLE AND UNBILLED REVENUE

Accounts receivable and unbilled revenue consist of the following:

	2021 $	2020 $
Unbilled revenue	**211.6**	228.0
Trade receivables	**175.6**	183.0
Due from related parties *[note 22]*	**39.9**	39.1
Other	**18.3**	14.6
	445.4	464.7

5. OTHER ASSETS

Other assets consist of the following:

	2021 $	2020 $
Prepaid expenses	**18.4**	15.2
Deferred financing costs	**1.4**	1.2
Other	**5.9**	8.3
Total other assets	**25.7**	24.7
Less: Current portion of other assets relating to:		
Prepaid expenses	**18.4**	15.2
Deferred financing costs	**0.4**	0.4
Other	**—**	0.9
Current portion of other assets	**18.8**	16.5
Non-current portion of other assets	**6.9**	8.2

[All tabular amounts in millions of Canadian dollars]

6. PROPERTY, PLANT AND EQUIPMENT

PP&E consist of the following:

	Distribution assets $	Land and buildings $	Equipment and other $	Construction in progress $	Total $
Cost					
Balance as at January 1, 2020	4,465.1	426.9	248.2	479.4	5,619.6
Additions	—	—	—	568.9	568.9
Transfers into service	486.0	13.5	38.4	(537.9)	—
Disposals and retirements	(31.2)	(0.6)	(1.2)	—	(33.0)
Balance as at December 31, 2020	4,919.9	439.8	285.4	510.4	6,155.5
Additions	**—**	**—**	**—**	**587.9**	**587.9**
Transfers into service	**519.5**	**23.3**	**55.5**	**(598.3)**	**—**
Disposals and retirements	**(33.2)**	**(0.2)**	**(2.7)**	**—**	**(36.1)**
Balance as at December 31, 2021	**5,406.2**	**462.9**	**338.2**	**500.0**	**6,707.3**
Accumulated depreciation					
Balance as at January 1, 2020	768.1	65.8	131.2	—	965.1
Depreciation	169.9	15.6	26.9	—	212.4
Disposals and retirements	(8.1)	(0.2)	(1.2)	—	(9.5)
Balance as at December 31, 2020	929.9	81.2	156.9	—	1,168.0
Depreciation	**183.3**	**16.1**	**28.9**	**—**	**228.3**
Disposals and retirements	**(8.9)**	**(0.1)**	**(2.6)**	**—**	**(11.6)**
Balance as at December 31, 2021	**1,104.3**	**97.2**	**183.2**	**—**	**1,384.7**
Carrying amount					
Balance as at December 31, 2020	3,990.0	358.6	128.5	510.4	4,987.5
Balance as at December 31, 2021	**4,301.9**	**365.7**	**155.0**	**500.0**	**5,322.6**

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

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

[All tabular amounts in millions of Canadian dollars]

7. INTANGIBLE ASSETS

Intangible assets consist of the following:

	Computer software $	Contributions $	Software in development $	Contributions for work in progress $	Total $
Cost					
Balance as at January 1, 2020	235.6	176.6	21.7	45.9	479.8
Additions	—	—	28.0	11.8	39.8
Transfers into service	29.1	(0.3)	(29.1)	0.3	—
Balance as at December 31, 2020	264.7	176.3	20.6	58.0	519.6
Additions	**—**	**—**	**32.3**	**21.0**	**53.3**
Transfers into service	**25.5**	**18.6**	**(25.5)**	**(18.6)**	**—**
Balance as at December 31, 2021	**290.2**	**194.9**	**27.4**	**60.4**	**572.9**
Accumulated amortization					
Balance as at January 1, 2020	122.6	17.5	—	—	140.1
Amortization	29.3	7.1	—	—	36.4
Balance as at December 31, 2020	151.9	24.6	—	—	176.5
Amortization	**30.7**	**7.7**	**—**	**—**	**38.4**
Balance as at December 31, 2021	**182.6**	**32.3**	**—**	**—**	**214.9**
Carrying amount					
Balance as at December 31, 2020	112.8	151.7	20.6	58.0	343.1
Balance as at December 31, 2021	**107.6**	**162.6**	**27.4**	**60.4**	**358.0**

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

"Contributions" represent payments made to HONI for dedicated infrastructure in order to receive connections to transmission facilities. The remaining amortization period for computer software ranges from less than one year to seven years. The remaining amortization period for contributions ranges from seven to 25 years.

[All tabular amounts in millions of Canadian dollars]

8. REGULATORY BALANCES

Debit balances consist of the following:

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

	January 1, 2020 $	Balances arising in the period $	Recovery/ reversal $	Other movements $	December 31, 2020 $	Remaining recovery/ reversal period (months)	Carrying charges applicable
OPEB net actuarial loss	86.3	(5.1)	(5.7)	—	75.5	note 8[c]	—
Deferred taxes	21.4	26.5	—	—	47.9	note 8[a]	—
LRAM	35.9	(1.8)	(0.9)	—	33.2	note 8[d]	(1)
Settlement variances	—	8.2	4.1	(8.9)	3.4	note 8[b]	(1)
OPEB cash versus accrual	7.1	—	(6.2)	—	0.9	note 8[k]	—
Foregone revenue	2.8	—	—	(2.8)	—	note 8[l]	—
IFRS transitional adjustments	—	—	0.8	(0.8)	—	—	—
Other	11.5	1.2	(3.2)	—	9.5	24	(1)
	165.0	29.0	(11.1)	(12.5)	170.4		

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

[All tabular amounts in millions of Canadian dollars]

Credit balances consist of the following:

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

	January 1, 2020 $	Balances arising in the period $	Recovery/ reversal $	Other movements $	December 31, 2020 $	Remaining recovery/ reversal period (months)	Carrying charges applicable
Capital-related revenue requirement	77.1	0.8	—	—	77.9	note 8[e]	(1)
Gain on disposal	61.8	0.8	(25.1)	—	37.5	note 8[i]	(1)
Derecognition	32.8	0.4	—	—	33.2	note 8[f]	(1)
Development charges	10.9	3.9	—	—	14.8	note 8[g]	(1)
Tax-related variances	11.4	(0.2)	—	—	11.2	note 8[h]	(1)
Settlement variances	8.9	—	—	(8.9)	—	note 8[b]	(1)
Accounts receivable credits	3.4	0.1	—	—	3.5	note 8[j]	(1)
Foregone revenue	—	4.0	(0.3)	(2.8)	0.9	note 8[l]	—
IFRS transitional adjustments	0.8	—	—	(0.8)	—	—	—
Other	11.1	2.3	(9.0)	—	4.4	12 - 48	(1)
	218.2	12.1	(34.4)	(12.5)	183.4		

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

The "Balances arising in the period" column consists of new additions to regulatory balances (for both debits and credits). The "Recovery/reversal" column consists of amounts disposed through OEB-approved rate riders. The "Other movements" column consists of impairment and reclassification between the regulatory debit and credit balances. In addition, the "Other movements" column includes reclassification of regulatory deferral accounts considered to be insignificant into the "Other" categories. There was no impairment recorded for the year ended December 31, 2021.

[All tabular amounts in millions of Canadian dollars]

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

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

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

The regulatory balances of LDC consist of the following:

a) Deferred taxes

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

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

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

b) Settlement variances

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

In the 2020-2024 CIR decision and rate order, the OEB approved disposition of $7.5 million related to the 2018 settlement variances over a 22-month period commencing on March 1, 2020. As part of OEB’s decision and rate order approving LDC's 2021 rates, OEB approved recovery of $25.3 million related to 2019 settlement variances over a 12-month period commencing January 1, 2021. Settlement variances pertaining to 2020 did not exceed the disposition threshold in accordance with OEB policy and will be aggregated with 2021 settlement variances which are yet to be applied for disposition.

c) OPEB net actuarial loss

This regulatory balance accumulates the actuarial gains and losses arising from changes in actuarial assumptions and experience adjustments recognized in OCI. The balance arising during the year ended December 31, 2021 of $26.9 million is related to the actuarial gain recorded for the year [2020 - $5.1 million actuarial gain] *[note 12[a]]*. The net position is an actuarial loss recoverable in future rates.

In the 2020-2024 CIR decision and rate order, the OEB approved partial recovery of the balance amounting to $6.4 million over a 10-month period commencing on March 1, 2020.

d) Lost revenue adjustment mechanism

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

As part of OEB's decision and rate order approving LDC's 2021 rates, OEB approved recovery of $33.1 million related to 2018 and 2019 variances over a 12-month period commencing January 1, 2021.

e) Capital-related revenue requirement

This regulatory balance relates to the asymmetrical variance between the cumulative 2015 to 2019 capital-related revenue requirement included in rates and the actual capital-related revenue requirement over the same period. The cumulative 2015 to 2019 capital-related revenue requirement included in rates exceeded the actual capital-related revenue requirement over the same rate period. LDC applied for disposition of this account in order to return the balance to customers through a rate rider.

In the 2020-2024 CIR decision and rate order, the OEB approved disposition of the 2019 balance over a 24-month period commencing on January 1, 2023.

f) Derecognition

This regulatory balance relates to the difference between the revenue requirement on derecognition of PP&E and intangible assets included in the OEB-approved rates and the actual amounts of derecognition.

In the 2020-2024 CIR decision and rate order, the OEB approved disposition of the 2019 balance over a 12-month period commencing on January 1, 2022.

g) Development charges

This regulatory balance relates to excess expansion deposits retained by LDC where the requested number of connections or electricity demand were not met by the connecting customer. Pursuant to the OEB's Distribution System Code, LDC may collect expansion deposits from specific customers to guarantee the payment of additional costs relating to expansion projects. During the customer connection horizon, LDC has an obligation to annually return the expansion deposit to the connecting customer in proportion to the actual connections or electricity demand that occurred in that year. If the number of connections or electricity demand requested by the customer do not materialize by the end of the connection horizon, LDC retains the excess expansion deposit not otherwise returned to the connecting customer.

In the 2020-2024 CIR decision and rate order, the OEB approved disposition of the 2019 balance over a 48-month period commencing on January 1, 2021.

h) Tax-related variance accounts

The regulatory balance arose primarily from the revenue requirement impact of accelerated capital cost allowance deductions from the Accelerated Investment Incentive tax measure which received Royal Assent on June 21, 2019. In the 2020-2024 CIR decision and rate order, the OEB approved disposition of the 2019 balance over a 24-month period commencing on January 1, 2023.

In addition, the balance includes a residual credit balance that arose from favourable income tax reassessments on certain prior year tax positions received, which differed from those assumed in previous applications for electricity distribution rates.

i) Gain on disposal

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

As part of the 2015-2019 CIR decision and rate order, LDC agreed to a rate rider that would pass the total forecasted net gains along with future tax savings on the first two properties back to customers, effective from March 1, 2016 to December 31, 2018. The gain on disposal of the two properties was realized by LDC in 2015 and 2018, respectively. In the second quarter of 2017, LDC realized a gain in connection with the disposal of the third property.

In the 2020-2024 CIR decision and rate order, the incremental balance related to the actual realized gain and tax savings that exceeded the approved rate riders in connection with the disposal of the first two LDC properties was approved for disposition over a 22-month period commencing on March 1, 2020. The OEB also approved disposition of the actual realized gain and tax savings in connection with the disposal of the third property over a 22-month period commencing on March 1, 2020.

j) Accounts receivable credits

This regulatory account relates to closed customer accounts with unclaimed credit balances.

In the 2020-2024 CIR decision and rate order, the OEB approved disposition of the 2019 balance over a 48-month period commencing on January 1, 2021.

k) OPEB cash versus accrual

This regulatory balance relates to the difference between LDC's forecasted OPEB costs determined on an accrual basis and the cash payments made under the OPEB plans.

In the 2020-2024 CIR decision and rate order, the OEB approved recovery of the 2019 balance over a 10-month period commencing on March 1, 2020 and recovery of OPEB costs on an accrual basis.

l) Foregone revenue

The 2020 balance arising of $4.0 million is revenue to be returned to customers, related to January and February 2020 as a result of implementing new OEB-approved rates on March 1, 2020. In the 2020-2024 CIR decision and rate order, the OEB approved disposition of 2020 foregone revenue over a 22-month period commencing on March 1, 2020.

[All tabular amounts in millions of Canadian dollars]

m) COVID-19 emergency

On March 25, 2020, the OEB established the COVID-19 Emergency Deferral Account for regulatory balances to record the costs of changes to billing systems resulting from the Ontario Government's TOU emergency order, other incremental costs and lost revenues associated with the COVID-19 pandemic. On May 14, 2020, the OEB launched a consultation process to inform its decision-making with respect to how the account will operate, including eligibility requirements, and the process and timing for the disposition.

On December 16, 2020, OEB staff issued a proposal which provided an update on the OEB's orientation in the policy consultation. Based on this information, management believed that there was high uncertainty in regard to the recoverability of costs and lost revenues related to government and OEB-mandated customer relief actions and therefore a low probability of recovery. On June 17, 2021, the OEB issued the final report on the COVID-19 Emergency Deferral Account consultation. The assessment on the recoverability of costs and lost revenues associated with the pandemic remains unchanged. Consequently, no amounts have been recorded in the COVID-19 Emergency Deferral Account as at December 31, 2021.

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consist of the following:

	2021 $	2020 $
Trade payables	**261.3**	250.2
Accrued liabilities	**123.8**	104.9
Due to related parties *[note 22]*	**36.4**	45.0
Other	**1.4**	1.4
	422.9	401.5

[All tabular amounts in millions of Canadian dollars]

10. DEFERRED REVENUE

Deferred revenue consists of the following:

	2021 $	2020 $
Capital contributions, beginning of year	**553.4**	410.0
Capital contributions received [1]	**123.1**	151.7
Amortization	**(12.3)**	(8.2)
Other	**(0.4)**	(0.1)
Capital contributions, end of year	**663.8**	553.4
Other deferred revenue, beginning of year	**2.3**	1.1
Other deferred revenue received	**16.7**	15.6
Revenue recognized	**(15.6)**	(14.4)
Other deferred revenue, end of year	**3.4**	2.3
Total deferred revenue	**667.2**	555.7
Less: Current portion of deferred revenue relating to:		
Capital contributions	**21.0**	15.5
Other deferred revenue	**3.4**	2.3
Current portion of deferred revenue	**24.4**	17.8
Non-current portion of deferred revenue	**642.8**	537.9

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

[All tabular amounts in millions of Canadian dollars]

11. NOTES PAYABLE TO RELATED PARTY

Notes payable to related party consist of the following:

	2021 $	2020 $
Notes payable to related party:		
5.59% Long-term note payable to the Corporation due May 21, 2040	**200.0**	200.0
3.59% Long-term note payable to the Corporation due November 18, 2021	**—**	300.0
2.96% Long-term note payable to the Corporation due April 10, 2023	**250.0**	250.0
4.01% Long-term note payable to the Corporation due April 9, 2063	**200.0**	200.0
4.13% Long-term note payable to the Corporation due September 16, 2044	**200.0**	200.0
3.60% Long-term note payable to the Corporation due July 28, 2045	**200.0**	200.0
3.988% Long-term note payable to the Corporation due April 9, 2063	**45.0**	45.0
2.572% Long-term note payable to the Corporation due August 25, 2026	**200.0**	200.0
3.535% Long-term note payable to the Corporation due February 28, 2048	**200.0**	200.0
2.488% Long-term note payable to the Corporation due December 11, 2029	**200.0**	200.0
3.042% Long-term note payable to the Corporation due December 10, 2049	**200.0**	200.0
1.55% Long-term note payable to the Corporation due October 15, 2030	**200.0**	200.0
2.52 % Long-term note payable to the Corporation due October 20, 2031	**150.0**	—
3.32 % Long-term note payable to the Corporation due October 18, 2051	**200.0**	—
6.16% Demand note payable to the Corporation due on demand	**45.0**	45.0
3.32% Demand note payable to the Corporation due on the earlier of demand and January 1, 2022	**15.0**	15.0
Total notes payable to related party	**2,505.0**	2,455.0
Less: Unamortized debt issuance costs	**13.0**	11.6
Current portion of notes payable to related party *[note 22]*	**60.0**	359.8
Long-term portion of notes payable to related party *[note 22]*	**2,432.0**	2,083.6

All notes payable to the Corporation are unsecured, rank equally and will be settled in cash.

On October 15, 2020, LDC issued a promissory note to the Corporation. The principal amount of the promissory note is $200.0 million payable on October 15, 2030, which bears interest at a rate of 1.55% per annum. Interest is calculated and payable semi-annually in arrears on April 15 and October 15.

On October 18, 2021, LDC issued two promissory notes to the Corporation. The principal amounts of the promissory notes are $150.0 million payable on October 20, 2031, which bears interest at a rate of 2.52% per annum, and $200.0 million payable on October 18, 2051, which bears interest at a rate of 3.32% per annum. Interest is calculated and payable semi-annually in arrears on April 20 and October 20, and April 18 and October 18 of each year, respectively for both promissory notes.

On November 18, 2021, LDC repaid its $300.0 million promissory note to the Corporation.

Subsequent to December 31, 2021, LDC repaid its $15.0 million promissory note to the Corporation.

12. EMPLOYEE FUTURE BENEFITS

Multi-employer pension plan

LDC's eligible employees participate in a defined benefit pension plan through OMERS. As at December 31, 2021, OMERS had disclosed that the plan was 97.0% funded [December 31, 2020 – 97.0%]. LDC is not able to assess the implications, if any, of OMERS' strategy to address the funding shortfall or of the withdrawal of other participating entities from the OMERS plan on its future contributions. For the year ended December 31, 2021, LDC's contributions were $16.1 million [2020 - $17.6 million], representing less than five percent of total contributions to the OMERS plan. LDC expects to contribute approximately $18.1 million to the OMERS plan in 2022.

[All tabular amounts in millions of Canadian dollars]

Post-employment benefits

a) Benefit obligation

	2021 $	2020 $
Balance, beginning of year	**332.7**	334.9
Current service cost	**3.0**	4.2
Interest cost	**8.1**	9.8
Benefits paid	**(12.7)**	(11.7)
Past service cost [(1)]	**—**	1.0
Experience loss (gain) [(2)]	**3.2**	(6.3)
Actuarial gain arising from changes in demographic assumptions [(2)]	**—**	(27.2)
Actuarial loss (gain) arising from changes in financial assumptions [(2)] [(3)]	**(28.2)**	28.0
Transfer from related parties	**0.5**	—
Balance, end of year	**306.6**	332.7

[(1)] An arbitration process was ongoing prior to December 31, 2019 with respect to certain employees of LDC. As a result of the arbitrator's decision received on March 3, 2020, LDC recorded an estimated past service cost relating to the existence of a post-employment benefit obligation as at December 31, 2019. The plan amendment details were finalized in 2020 and were included as a component of the past service cost as at December 31, 2020. On August 9, 2021, $26.2 million of letters of credit were issued to support the related obligations.
[(2)] Actuarial loss [gain] on accumulated sick leave credits of $2.0 million [2020 - ($0.5) million] is recognized in benefit cost *[note 12[c]]* and ($0.1) million in transfer from related parties [2020 - $0.1 million], and actuarial gain on medical, dental and life insurance benefits of $26.9 million [2020 - $5.1 million] is recognized in OCI *[note 12[d]]*.
[(3)] Reflects the impact of change in discount rate *[note 12[e]]*.

b) Amounts recognized in regulatory balances

As at December 31, 2021, the amount recognized in regulatory balances related to accumulated net actuarial loss was $48.1 million [December 31, 2020 - $75.5 million] *[note 8[c]]*.

c) Benefit cost recognized

	2021 $	2020 $
Current service cost	**3.0**	4.2
Interest cost	**8.1**	9.8
Past service cost *[note 12[a]]*	**—**	1.0
Actuarial loss (gain) on other employee benefits *[note 12[a]]*	**2.0**	(0.5)
Benefit cost	**13.1**	14.5
Capitalized to PP&E and intangible assets	**5.5**	6.4
Charged to operating expenses	**7.6**	8.1

[All tabular amounts in millions of Canadian dollars]

d) Amounts recognized in OCI

	2021 $	2020 $
Actuarial gain *[note 12[a]]*	**(26.9)**	(5.1)
Income tax expense in OCI *[note 20]*	**7.1**	1.3
Remeasurements of post-employment benefits, net of tax	**(19.8)**	(3.8)
Net movements in regulatory balances related to OCI, net of tax	**19.8**	3.8
OCI, net of tax	**—**	—

e) Significant assumptions

	2021 %	2020 %
Discount rate used in the calculation of:		
Benefit obligation as at December 31	**3.00**	2.50
Assumed medical and dental cost trend rates as at December 31:		
Rate of increase in dental costs assumed for next year	**4.00**	4.00
Rate of increase in medical costs assumed for next year	**5.00**	5.00

f) Sensitivity analysis

Significant actuarial assumptions for benefit obligation measurement purposes are discount rate and assumed medical and dental cost trend rates. The weighted average duration of the benefit obligation as at December 31, 2021 was 16.5 [2020 - 17.0]. The sensitivity analysis below has been determined based on reasonably possible changes of the assumptions, in isolation of one another, occurring at the end of the reporting period. This analysis may not be representative of the actual change since it is unlikely that changes in the assumptions would occur in isolation of one another as some of the assumptions may be correlated.

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

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

13. CAPITAL MANAGEMENT

LDC's main objectives when managing capital are to:

- ensure ongoing access to funding to maintain, refurbish and expand the electricity distribution system;
- ensure sufficient liquidity is available [either through cash and cash equivalents or borrowings from TH Energy or the Corporation] to meet the needs of the business; and

[All tabular amounts in millions of Canadian dollars]

- minimize finance costs while taking into consideration current and future industry, market and economic risks and conditions.

LDC monitors forecasted cash flows, capital expenditures, debt repayment and key credit ratios similar to those used by key rating agencies. LDC manages capital by preparing short-term and long-term cash flow forecasts. In addition, LDC borrows from TH Energy or the Corporation as required to help fund some of the periodic net cash outflows and to maintain available liquidity. There have been no changes in LDC's approach to capital management during the year. As at December 31, 2021, LDC's definition of capital included equity, bank indebtedness, borrowings through the Corporation and obligations under leases, including the current portion thereof, and has remained unchanged from the definition as at December 31, 2020. As at December 31, 2021, equity amounted to $2,243.4 million [December 31, 2020 - $2,107.1 million], and bank indebtedness, borrowings through the Corporation and obligations under leases, including the current portion thereof, amounted to $2,492.2 million [December 31, 2020 - $2,443.7 million].

14. FINANCIAL INSTRUMENTS

a) Fair value

As at December 31, 2021 and December 31, 2020, the fair values of cash and cash equivalents, accounts receivable and unbilled revenue, 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. Obligations under leases are measured based on a discounted cash flow analysis and fair values approximate the carrying amounts as management believes that the fixed interest rates are representative of current market rates.

The carrying amounts and fair values of LDC's notes payable to related party consist of the following:

	2021 $		2020 $	
	Carrying amount	**Fair value [1]**	**Carrying amount**	**Fair value [1]**
Notes payable to the Corporation				
5.59% due May 21, 2040	**199.0**	**274.7**	198.9	292.9
3.59% due November 18, 2021	**—**	**—**	299.8	308.3
2.96% due April 10, 2023	**249.7**	**255.6**	249.6	263.8
4.01% due April 9, 2063	**198.8**	**249.5**	198.8	272.5
4.13% due September 16, 2044	**198.6**	**238.7**	198.5	256.3
3.60% due July 28, 2045	**198.8**	**221.4**	198.8	238.5
3.988% due April 9, 2063	**44.7**	**56.2**	44.7	61.0
2.572% due August 25, 2026	**199.4**	**207.0**	199.2	217.7
3.535% due February 28, 2048	**198.7**	**220.6**	198.7	238.7
2.488% due December 11, 2029	**199.1**	**205.4**	199.0	197.6
3.042% due December 10, 2049	**198.7**	**202.8**	198.7	220.4
1.55% due October 15, 2030	**198.8**	**189.0**	198.7	200.8
2.52% due October 20, 2031	**149.1**	**152.1**	—	—
3.32% due October 18, 2051	**198.6**	**214.0**	—	—
Demand note payable to the Corporation due on demand	**45.0**	**45.0**	45.0	45.0
Demand note payable to the Corporation due on the earlier of demand and January 1, 2022	**15.0**	**15.0**	15.0	15.4
	2,492.0	**2,747.0**	2,443.4	2,828.9

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

[All tabular amounts in millions of Canadian dollars]

b) Financial risks

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

Credit risk

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

LDC's exposure to credit risk primarily relates to accounts receivable and unbilled revenue. LDC is subject to credit risk with respect to customer non-payment of electricity bills. As a result of the COVID-19 pandemic and material disruptions to businesses and the economy, LDC's credit risk has increased due to some customers not being able to pay their electricity bills when due, and LDC's security interest or other protective measures, if any, provided to LDC, such as letters of credit, cash deposits or pre-authorized payments may not be sufficient. LDC considers the current economic and credit conditions to determine the loss allowance of its accounts receivable and unbilled revenue. Given the high degree of uncertainty caused by the COVID-19 pandemic, the estimates and judgments made by management in the preparation of the expected credit loss allowance are subject to a high degree of estimation uncertainty. Based on LDC's current estimates and assumptions, including but not limited to recent trends for customer collections and current and forecasted economic conditions, LDC adjusted the expected credit loss provision to account for the higher level of expected customer defaults at the balance sheet date. LDC continues to actively monitor its exposure to credit risk and for the year ended December 31, 2021, recorded an incremental provision of $1.2 million [2020 - $17.2 million] to its expected credit loss allowance as a result of the COVID-19 pandemic.

LDC obtains security instruments from certain customers in accordance with direction provided by the OEB. As at December 31, 2021, LDC held security deposits in the amount of $72.4 million [December 31, 2020 - $63.6 million], of which $39.4 million [December 31, 2020 - $33.4 million] was related to security deposits on offers to connect to guarantee the payment of additional costs related to expansion projects. LDC's security instruments may not provide sufficient protection from counterparties defaulting on their obligations. As at December 31, 2021, there were no significant concentrations of credit risk with respect to any customer. The credit risk and mitigation strategies with respect to unbilled revenue are the same as those for accounts receivable.

LDC did not have any single customer that generated more than 10% of total revenue for the years ended December 31, 2021 and December 31, 2020.

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

	2021 $	2020 $
Accounts receivable, gross		
Outstanding for not more than 30 days	**183.8**	164.9
Outstanding for more than 30 days and not more than 120 days	**20.2**	51.2
Outstanding for more than 120 days	**36.7**	25.5
Total accounts receivable, gross	**240.7**	241.6
Unbilled revenue, gross	**237.9**	253.3
Credit loss allowance	**(33.2)**	(30.2)
Total accounts receivable and unbilled revenue	**445.4**	464.7

Unbilled revenue represents amounts for which LDC has a contractual right to receive cash through future billings and are unbilled at period-end. Unbilled revenue is considered in conjunction with accounts receivable and is included in the loss allowance as at December 31, 2021 and December 31, 2020.

[All tabular amounts in millions of Canadian dollars]

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

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

	2021 $	2020 $
Balance, beginning of year	**(30.2)**	(11.6)
Additional credit loss allowance	**(6.8)**	(22.7)
Write-offs	**4.0**	4.4
Recoveries of previously written-off balances	**(0.2)**	(0.3)
Balance, end of year	**(33.2)**	(30.2)

c) Market risks

Interest rate risk

LDC is exposed to fluctuations in interest rates for the valuation of its post-employment benefit obligations *[note 12[f]]*. LDC is also exposed to short-term interest rate risk on the net of cash and cash equivalents and customer deposits. Notes payable to related party bear interest based on the prevailing market conditions at the time of issuance.

As at December 31, 2021, aside from the valuation of its post-employment benefit obligations, most of LDC's remaining obligations were either non-interest bearing or bear fixed interest rates, and its financial assets were predominately short-term in nature and mostly non-interest bearing. LDC estimates that a 25-basis point increase [decrease] in short-term interest rates, with all other variables held constant, would result in an increase [decrease] of approximately $0.1 million to annual finance costs.

Liquidity risk

LDC is exposed to liquidity risk related to its ability to fund its obligations as they become due. LDC monitors and manages its liquidity risk to ensure access to sufficient funds to meet operational and financial requirements. LDC has access to credit facilities and borrowings through the Corporation and monitors cash balances daily. LDC's objective is to ensure that sufficient liquidity is on hand to meet obligations as they fall due while minimizing finance costs. LDC relies on debt financing from borrowings through the Corporation and existing credit facilities to finance its daily operations, repay existing indebtedness, and fund capital expenditures. The current challenging economic climate affected by factors including but not limited to the effects of the COVID-19 pandemic may lead to material adverse changes in cash flows, working capital levels and/or debt balances, which may also have a direct negative impact on LDC's operating results and financial position in the future. Accordingly, LDC continues to monitor and adapt its response plan as the economic climate evolves.

[All tabular amounts in millions of Canadian dollars]

Liquidity risks associated with financial commitments are as follows:

2021	Due within 1 year $	Due within 2 years $	Due within 3 years $	Due within 4 years $	Due within 5 years $	Due after 5 years $
Accounts payable and accrued liabilities [1]	**402.8**	—	—	—	—	—
Obligations under leases	—	—	**0.1**	**0.1**	—	—
Long-term notes payable to the Corporation						
5.59% due May 21, 2040	—	—	—	—	—	**200.0**
2.96% due April 10, 2023	—	**250.0**	—	—	—	—
4.01% due April 9, 2063	—	—	—	—	—	**200.0**
4.13% due September 16, 2044	—	—	—	—	—	**200.0**
3.60% due July 28, 2045	—	—	—	—	—	**200.0**
3.988% due April 9, 2063	—	—	—	—	—	**45.0**
2.572% due August 25, 2026	—	—	—	—	**200.0**	—
3.535% due February 28, 2048	—	—	—	—	—	**200.0**
2.488% due December 11, 2029	—	—	—	—	—	**200.0**
3.042% due December 10, 2049	—	—	—	—	—	**200.0**
1.55% due October 15, 2030	—	—	—	—	—	**200.0**
2.52% due October 20, 2031	—	—	—	—	—	**150.0**
3.32% due October 18, 2051	—	—	—	—	—	**200.0**
Demand note payable to the Corporation due on demand	**45.0**	—	—	—	—	—
Demand note payable to the Corporation due on the earlier of demand and January 1, 2022	**15.0**	—	—	—	—	—
Interest payments on long-term notes payable and demand notes payable	**81.0**	**77.0**	**73.2**	**73.2**	**73.2**	**1,298.8**
	543.8	**327.0**	**73.3**	**73.3**	**273.2**	**3,293.8**

[1] Accounts payable and accrued liabilities exclude $20.1 million of accrued interest on long-term notes payable and demand notes payable included within "Interest payments on long-term notes payable and demand notes payable".

Foreign exchange risk

As at December 31, 2021, LDC had limited exposure to the changing values of foreign currencies. While LDC purchases goods and services which are payable in US dollars, and purchases US currency to meet the related commitments when required, the impact of these transactions is not material to the financial statements.

15. FINANCIAL ASSISTANCE

As at December 31, 2021, $51.5 million [December 31, 2020 - $32.9 million] of letters of credit had been issued by the Corporation, on behalf of LDC, under its $100.0 million demand facility mainly to support LDC's prudential requirements with the IESO.

[All tabular amounts in millions of Canadian dollars]

16. SHARE CAPITAL

Share capital consists of the following:

	2021 $	2020 $
Authorized		
The authorized share capital of LDC consists of an unlimited number of common shares without par value.		
Issued and outstanding		
1,000 common shares, of which all were fully paid.	**556.3**	556.3

Dividends

During the year ended December 31, 2021, the Board of Directors of LDC declared and paid dividends to the Corporation totalling $0.6 million [2020 - $0.7 million].

17. REVENUES

Revenues consist of the following:

	2021 $	2020 $
Revenue from contracts with customers		
Energy sales	**2,702.4**	3,142.5
Distribution revenue	**759.1**	694.4
Pole and duct rentals	**18.2**	20.4
Ancillary services revenue	**16.7**	13.8
Other regulatory service charges	**7.8**	7.5
Street lighting services	**7.8**	6.9
Miscellaneous	**17.6**	14.1
Revenue from other sources		
Capital contributions	**12.3**	8.2
Other	**7.7**	8.9
	3,549.6	3,916.7

[All tabular amounts in millions of Canadian dollars]

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

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

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

18. OPERATING EXPENSES

Operating expenses consist of the following:

	2021 $	2020 $
Salaries and benefits	**203.6**	224.0
External services	**156.3**	135.7
Other support costs [1]	**30.8**	45.4
Materials and supplies	**27.0**	26.6
Less: Capitalized costs	**(107.0)**	(117.8)
	310.7	313.9

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

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

19. FINANCE COSTS

Finance costs consist of the following:

	2021 $	2020 $
Interest income	**(0.9)**	(0.7)
Interest expense		
Interest on long-term debt [1]	**85.9**	82.7
Interest on short-term debt	**2.2**	2.6
Other interest	**0.3**	0.4
Capitalized borrowing costs	**(4.7)**	(4.6)
	82.8	80.4

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

[All tabular amounts in millions of Canadian dollars]

20. INCOME TAXES

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

	2021 $	2020 $
Rate reconciliation before net movements in regulatory balances		
Income before income taxes	**94.3**	100.7
Statutory Canadian federal and provincial income tax rate	**26.5%**	26.5%
Expected income tax expense	**25.0**	26.7
Non-taxable amounts	**(5.5)**	(0.3)
Gain on disposals of PP&E	**0.1**	—
Other	**0.8**	2.1
Income tax expense	**20.4**	28.5
Effective tax rate	**21.6%**	28.3%
Rate reconciliation after net movements in regulatory balances		
Net income after net movements in regulatory balances, before income tax [(1)]	**148.4**	119.5
Statutory Canadian federal and provincial income tax rate	**26.5%**	26.5%
Expected income tax expense	**39.3**	31.7
Temporary differences recoverable in future rates	**(27.1)**	(29.4)
Gain on disposals of PP&E	**0.1**	—
Other	**(0.8)**	1.0
Income tax expense and income tax recorded in net movements in regulatory balances	**11.5**	3.3
Effective tax rate	**7.7%**	2.8%

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

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

	2021 $	2020 $
Income tax expense	**20.4**	28.5
Income tax recorded in net movements in regulatory balances	**(8.9)**	(25.2)
Income tax expense and income tax recorded in net movements in regulatory balances	**11.5**	3.3
Income tax expense in OCI *[note 12[d]]*	**7.1**	1.3
Income tax recovery in OCI recorded in net movements in regulatory balances	**(7.1)**	(1.3)
Income tax expense in OCI	**—**	—

[All tabular amounts in millions of Canadian dollars]

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

	2021 $	2020 $
Current tax expense		
Current year	**10.9**	5.8
Deferred tax expense		
Origination and reversal of temporary differences	**0.6**	(2.5)
Income tax expense and income tax recorded in net movements in regulatory balances	**11.5**	3.3

Deferred tax assets [liabilities] consist of the following:

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

	Net balance January 1, 2020 $	Recognized in net income $	Recognized in OCI $	Net balance December 31, 2020 $
PP&E and intangible assets	(83.3)	(30.7)	—	(114.0)
Post-employment benefits	88.7	0.7	(1.3)	88.1
Tax credit carryforward	—	2.5	—	2.5
Other taxable temporary differences	(28.5)	4.8	—	(23.7)
	(23.1)	(22.7)	(1.3)	(47.1)

21. STATEMENTS OF CASH FLOWS

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

	2021 $	2020 $
Accounts receivable and unbilled revenue	**18.4**	72.7
Income tax receivable	**8.7**	(10.8)
Materials and supplies	**(0.1)**	(2.0)
Other current assets	**(2.3)**	(2.5)
Accounts payable and accrued liabilities	**(8.2)**	(22.5)
Deferred revenue	**5.2**	4.6
Deferred conservation credit	**(4.3)**	6.5
	17.4	46.0

[All tabular amounts in millions of Canadian dollars]

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

	2021 $	2020 $
Purchase of PP&E, cash basis	**548.0**	620.5
Net change in accounts payable and accruals related to PP&E	**16.6**	(65.5)
Non-cash contributed assets [(1)]	**21.9**	13.0
Other	**1.4**	0.9
Total additions to PP&E	**587.9**	568.9
Purchase of intangible assets, cash basis	**47.6**	40.8
Net change in accounts payable and accruals related to intangible assets	**5.7**	(1.0)
Total additions to intangible assets	**53.3**	39.8

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

Summary of changes in liabilities arising from financing activities:

	2020 $	Cash flows [(1)] $	Non-cash changes $	2021 $
Year ended December 31				
Notes payable to related party *[note 11]*	**2,443.4**	**47.7**	**0.9**	**2,492.0**
Accrued interest [(2)]	**19.2**	**(86.3)**	**87.2**	**20.1**
Dividends payable	**—**	**(0.6)**	**0.6**	**—**
Lease liability [(3)]	**0.3**	**—**	**(0.1)**	**0.2**
	2,462.9	**(39.2)**	**88.6**	**2,512.3**

	2019 $	Cash flows [(1)] $	Non-cash changes $	2020 $
Year ended December 31				
Notes payable to related party *[note 11]*	2,243.9	198.6	0.9	2,443.4
Accrued interest [(2)]	19.4	(84.6)	84.4	19.2
Dividends payable	—	(0.7)	0.7	—
Lease liability [(3)]	0.3	—	—	0.3
	2,263.6	113.3	86.0	2,462.9

(1) Cash inflows and cash outflows arising from notes payable to related party are presented on a net basis.
(2) Included within accounts payable and accrued liabilities *[note 9]*.
(3) Included within other liabilities.

[All tabular amounts in millions of Canadian dollars]

22. RELATED PARTY TRANSACTIONS

For LDC, transactions with related parties include transactions with the City, which is the sole shareholder of the Corporation, the Corporation, and TH Energy, a wholly owned subsidiary of the Corporation.

	City $	Corporation $	TH Energy $
For year ended December 31, 2021			
Revenues	**259.3**	**—**	**7.8**
Operating expenses (recoveries) and capital expenditures (recoveries)	**(1.5)**	**0.5**	**(1.7)**
Finance costs	**—**	**85.5**	**—**
Dividends declared and paid	**—**	**0.6**	**—**
As at December 31, 2021			
Accounts receivable and unbilled revenue	**39.5**	**—**	**0.4**
Accounts payable and accrued liabilities	**15.0**	**21.4**	**—**
Current portion of notes payable to related party	**—**	**60.0**	**—**
Long-term portion of notes payable to related party	**—**	**2,432.0**	**—**
Customer deposits	**12.8**	**—**	**—**

	City $	Corporation $	TH Energy $
For year ended December 31, 2020			
Revenues	285.5	—	7.0
Operating expenses (recoveries) and capital expenditures	10.5	1.2	(0.9)
Finance costs	—	82.9	—
Dividends declared and paid	—	0.7	—
As at December 31, 2020			
Accounts receivable and unbilled revenue	39.1	—	—
Accounts payable and accrued liabilities	25.7	19.1	0.2
Current portion of notes payable to related party	—	359.8	—
Long-term portion of notes payable to related party	—	2,083.6	—
Customer deposits	12.6	—	—

Revenues represent amounts charged to the City primarily for electricity and ancillary services, and to TH Energy for 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, and the Corporation for purchased corporate and management services. Operating expense recoveries represent amounts charged to TH Energy for the provision of goods and services. Capital expense recoveries represent amounts reversed by the City for closed road cut repair accruals. Finance costs represent interest charged by the Corporation on the notes payable *[note 11]*. Dividends are paid to the Corporation *[note 16]*.

Accounts receivable and unbilled revenue represent receivables from the City primarily for electricity and ancillary services, and TH Energy for the provision of goods and 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. Included in the accounts payable and accrued liabilities are amounts payable to the Corporation for purchased corporate and management services and interest accruing on the notes payable to the Corporation and amounts payable to TH Energy for provision of goods and services. Notes payable to related party represent amounts borrowed from the Corporation *[note 11]*. Customer deposits represent amounts received from the City for future expansion projects.

[All tabular amounts in millions of Canadian dollars]

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

	2021 $	2020 $
Short-term employee benefits	**4.6**	4.9
Post-employment benefits	**4.9**	2.8
Termination benefits	**—**	2.6
	9.5	10.3

23. COMMITMENTS

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

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

[1] Mainly commitments for construction services.
[2] Refer to note 14 for financial commitments excluded from the table above.

24. CONTINGENCIES

Legal Proceedings

In the ordinary course of business, LDC is subject to various legal proceedings, actions and claims from customers, suppliers, regulators and other parties. As at the date hereof, LDC 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 LDC. On an ongoing basis, LDC assesses the likelihood of any adverse judgments or outcomes as well as potential ranges of probable costs and losses. A determination of the provision required, if any, for these contingencies is made after an analysis of each individual issue. The provision may change in the future due to new developments in each matter or changes in approach, such as a change in settlement strategy. If damages were awarded under these actions, LDC would make a claim under any liability or other insurance policies, to the extent applicable, subject to such claim not being disputed by the insurers.

25. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Regulation

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

Regulatory Balances

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

LDC has determined that certain debit and credit balances arising from rate-regulated activities qualify for the application of regulatory accounting treatment in accordance with IFRS 14. Under rate-regulated accounting, the timing and recognition of certain expenses and revenues may differ from those otherwise expected under other IFRS in order to appropriately reflect the economic impact of regulatory decisions regarding LDC's regulated revenues and expenditures. These amounts arising from timing differences are recorded as regulatory debit and credit balances on LDC's 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 LDC's statements of income in the period when the assessment is made. Regulatory balances, which do not meet the definition of an asset or liability under any other IFRS, are segregated on the balance sheets and are presented on the statements of income and the 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.

b) 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 statements of cash flows, cash and cash equivalents [bank indebtedness] include bank overdrafts that are repayable on demand and form an integral part of LDC's cash management.

c) 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 statements of income. The impairment loss is the difference between an asset's carrying amount and the estimated future cash flows. When LDC 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 LDC 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.

LDC measures the loss allowance at an amount equal to the lifetime expected credit losses ["ECL"] for all trade receivables that result from transactions with customers and do not contain a significant financing component. A provision matrix is used by LDC to measure the lifetime ECL of accounts receivable from individual customers. Loss rates are calculated using a 'roll rate' method based on the probability of a trade receivable progressing through successive stages of delinquency to write-off and are based on the average of actual credit loss experience over the past three years, as it more accurately reflects anticipated credit loss. Roll rates are calculated separately for exposures based on customer account status. LDC also adjusts the ECL in efforts to account for current economic conditions and events (including forward-looking macroeconomic data) and historical information (including credit agency reports, if available), including the impact of the COVID-19 pandemic *[note 14[b]]*. LDC 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.

[All tabular amounts in millions of Canadian dollars]

d) Materials and supplies

Materials and supplies consist primarily of small consumable materials mainly related to the maintenance of the electricity distribution infrastructure. LDC classifies all major construction related components of its electricity distribution infrastructure to PP&E. Materials and supplies are carried at the lower of cost and net realizable value, with cost determined on a weighted average cost basis net of a provision for obsolescence.

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 LDC 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 LDC from its continued use. Any gain or loss arising on derecognition is recorded in the 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 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	1.7% to 5.0%
Transformers	3.3% to 5.0%
Meters	2.5% to 6.7%
Stations	2.0% to 10.0%
Buildings	1.3% to 5.0%
Equipment and other:	
Other capital assets	4.0% to 25.0%
Right-of-use assets	1.0% to 11.1%

Right-of-use assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that LDC will obtain ownership by the end of the lease term, in which case they are depreciated to the end of the useful life of the underlying assets. Right-of-use assets are recognized for contracts that are, or contain, leases. Construction in progress relates to assets not currently available for use and therefore is not depreciated. The depreciation method and useful lives are reviewed at each financial year-end and adjusted if appropriate. There are no residual values for items of PP&E.

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

LDC 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. LDC has determined that its assets are a single CGU due to interdependencies of its 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 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 LDC'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

LDC 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 LDC 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. LDC applies judgment to determine whether revenues are recorded on a gross or net basis. LDC 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 balance sheets and within net movements in regulatory balances on the 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.

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.

LDC 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.

LDC 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 balance sheets:

- Cash and cash equivalents are classified as “Amortized cost” and are initially measured at fair value. The carrying amounts approximate fair value due to the short maturity of these instruments.
- Accounts receivable and unbilled revenue are classified as “Amortized cost” and are initially measured at fair value. Subsequent measurements are recorded at amortized cost using the effective interest rate method. The carrying amounts approximate fair value due to the short maturity of these instruments.

- Bank indebtedness is classified as "Amortized cost" and is 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.

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

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

- Obligations under leases are classified as "Amortized cost" and are initially measured at fair value, or at the present value of the minimum lease payments, if lower. Subsequent measurements are based on a discounted cash flow analysis and approximate the carrying amount as management believes that the fixed interest rates are representative of current market rates.

- Notes payable to related party are classified as "Amortized cost" and are initially measured at fair value. The carrying amounts of notes payable are carried at amortized cost, based on the fair value of the notes payable at issuance, which was the fair value of the consideration received adjusted for transaction costs. The fair values of the notes payable are based on the present value of contractual cash flows, discounted at LDC's current borrowing rate for similar debt instruments *[note 14[a]]*. Debt issuance costs incurred in connection with LDC's debt offerings are capitalized as part of the carrying amount of the notes payable and amortized over the term of the related notes payable, using the effective interest method, and the amortization is included in finance costs.

k) Fair value measurements

LDC 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 LDC'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 LDC 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

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

(iii) Post-employment benefits

LDC has a number of unfunded benefit plans providing post-employment benefits to its employees, including certain retirement, medical, dental and life insurance benefits. LDC 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 balance sheets. Actuarial gains and losses on accumulated sick leave credits are recognized in the statements of income in the period in which they arise.

The measurement date used to determine the present value of the benefit obligation is December 31 of the applicable year. The latest actuarial valuation was performed as at January 1, 2020.

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 LDC no longer has an unconditional right to defer payment of the liability for at least 12 months after the reporting period.

n) Income taxes

Under the Electricity Act, LDC 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 LDC paying income taxes equivalent to what would be imposed under the Federal and Ontario Tax Acts.

LDC uses the liability method of accounting for income taxes. Under the liability method, current income taxes payable are recorded based on taxable income. LDC recognizes deferred tax assets and liabilities for the future tax consequences of events that have been included in the 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 balance sheets and their respective tax basis, using the tax rates enacted or substantively enacted by the 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 statements of income.

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

o) Lessor arrangements

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

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

p) Use of judgments and estimates

The preparation of LDC's financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions which affect the application of accounting policies, reported assets, liabilities and regulatory balances, and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported revenues and expenses for the year. The estimates are based on historical experience, current conditions and various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities as well as for identifying and assessing the accounting treatment with respect to commitments and contingencies. Actual results could differ from those estimates, including changes as a result of future decisions made by the OEB, the IESO, the Ontario Ministry of Energy or the Ontario Ministry of Finance. The assessment of the duration and severity of the COVID-19 pandemic is subject to significant uncertainty; accordingly, judgments, estimates and assumptions related to the impact of the COVID-19 pandemic made by management in the preparation of LDC's financial statements are also subject to significant uncertainty. Management has analyzed the impact of the COVID-19 pandemic on its estimates and adjusted the expected credit loss provision to account for the higher level of expected customer defaults as at December 31, 2021 *[note 14[b]]*. The extent of the future impact of the COVID-19 pandemic on LDC'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[a] 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[a] – Recognition and measurement of regulatory balances;
- Note 25[c] – Recognition and measurement of 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 12 – 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.

q) Future accounting pronouncements

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

Classification of Liabilities as Current or Non-current [Amendments to IAS 1 Presentation of Financial Statements ["IAS 1"]]

In January 2020, the IASB issued amendments to IAS 1 relating to the classification of liabilities as current or non-current. Specifically, the amendments clarify one of the criteria in IAS 1 for classifying a liability as non-current - that is, the requirement for an entity to have the right to defer settlement of the liability for at least 12 months after the reporting period. The amendments are effective for annual reporting periods beginning on or after January 1, 2023, with early adoption permitted. The amendments are to be applied retrospectively.

Onerous Contracts - Cost of Fulfilling a Contract [Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets ["IAS 37"]]

In May 2020, the IASB issued amendments to IAS 37 regarding costs that should be included as the cost of fulfilling a contract when assessing whether a contract is onerous. The amendments clarify that the cost of fulfilling the contract comprises all costs that relate directly to the contract. Such costs include both the incremental costs of fulfilling that contract and an allocation of other costs that relate directly to fulfilling contracts. The amendments apply to contracts existing at the date when the amendments are first applied. The amendments are effective for annual reporting periods beginning on or after January 1, 2022, with early adoption permitted.

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

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

Disclosure of Accounting Policies [Amendments to IAS 1]

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

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

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

LDC is currently assessing the impact of the above amendments on LDC's financial statements.

GLOSSARY

CDM – Conservation and demand management

CGU – Cash generating unit

CIR – Custom Incentive Rate-setting

City – City of Toronto

Corporation – Toronto Hydro Corporation

COVID-19 – Coronavirus disease 2019 and its variants

ECA – Energy Conservation Agreement

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

GAAP – Generally Accepted Accounting Principles

HONI – Hydro One Networks Inc.

IAS – International Accounting Standard

IASB – International Accounting Standards Board

IESO – Independent Electricity System Operator

IFRS – International Financial Reporting Standards

IRM – Incentive Regulation Mechanism

ITA – *Income Tax Act* [Canada], as amended

ITC – Investment tax credit

kW – Kilowatt

kWh – Kilowatt hour

LDC – Toronto Hydro-Electric System Limited

LRAM – Lost revenue adjustment mechanism

OCI – Other comprehensive income

OEB – Ontario Energy Board

OMERS – Ontario Municipal Employees Retirement System

OPEB – Other post-employment benefits

PILs – Payments in lieu of corporate taxes

PP&E – Property, plant and equipment

TA – *Taxation Act, 2007* [Ontario], as amended

TH Energy – Toronto Hydro Energy Services Inc.

TOU – Time-of-use

WMS – Wholesale Market Service

Financial Statements

Toronto Hydro-Electric System Limited

DECEMBER 31, 2022 and 2021

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-Electric System Limited

Opinion

We have audited the accompanying financial statements of Toronto Hydro-Electric System Limited (the Entity), which comprise:

- the balance sheet as at December 31, 2022
- the statement of income for the year then ended
- the statement of comprehensive income for the year then ended
- the statement of changes in equity for the year then ended
- the statement of cash flows for the year then ended

and notes to the financial statements, including a summary of significant accounting policies

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

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

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.

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 as issued by the IASB, 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.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants
Toronto, Canada
March 1, 2023

Toronto Hydro-Electric System Limited

BALANCE SHEETS

[in millions of Canadian dollars]

As at December 31	***Note***	**2022 $**	**2021 $**
ASSETS			
Current			
Cash and cash equivalents		**91.5**	102.6
Accounts receivable and unbilled revenue	*4, 14[b]*	**495.5**	445.4
Income tax receivable		**—**	3.0
Materials and supplies		**8.2**	9.9
Other assets	*5*	**16.3**	18.8
Total current assets		**611.5**	579.7
Property, plant and equipment	*6*	**5,698.2**	5,322.6
Intangible assets	*7*	**387.3**	358.0
Other assets	*5*	**14.1**	6.9
Total assets		**6,711.1**	6,267.2
Regulatory balances	*8*	**262.9**	181.4
Total assets and regulatory balances		**6,974.0**	6,448.6
LIABILITIES AND EQUITY			
Current			
Accounts payable and accrued liabilities	*9*	**460.9**	422.9
Income tax payable		**2.1**	—
Customer deposits		**54.8**	62.3
Deferred revenue	*10*	**28.7**	24.4
Deferred conservation credit	*3[c]*	**16.8**	11.7
Notes payable to related party	*11, 22*	**294.9**	60.0
Total current liabilities		**858.2**	581.3
Notes payable to related party	*11, 22*	**2,480.6**	2,432.0
Customer deposits		**15.2**	10.1
Deferred revenue	*10*	**736.7**	642.8
Post-employment benefits	*12*	**230.0**	306.6
Deferred tax liabilities	*20*	**84.6**	63.8
Other liabilities		**6.4**	17.4
Total liabilities		**4,411.7**	4,054.0
Equity			
Share capital	*16*	**556.3**	556.3
Retained earnings		**1,843.1**	1,674.3
Contributed surplus		**12.8**	12.8
Total equity		**2,412.2**	2,243.4
Total liabilities and equity		**6,823.9**	6,297.4
Regulatory balances	*8*	**150.1**	151.2
Total liabilities, equity and regulatory balances		**6,974.0**	6,448.6

Commitments, contingencies and subsequent events 23, 24, 26

See accompanying notes to the financial statements.

STATEMENTS OF INCOME

[in millions of Canadian dollars]

Year ended December 31	*Note*	**2022** **$**	2021 $
Revenues			
Energy sales	*17*	**2,737.8**	2,702.4
Distribution revenue	*17*	**754.2**	759.1
Other	*17*	**96.2**	88.1
		3,588.2	3,549.6
Expenses			
Energy purchases		**2,846.7**	2,775.2
Operating expenses	*18*	**310.6**	310.7
Depreciation and amortization	*6, 7*	**307.8**	289.3
		3,465.1	3,375.2
Finance costs	*19*	**(83.2)**	(82.8)
Gain on disposals of property, plant and equipment		**—**	2.7
Income before income taxes		**39.9**	94.3
Income tax expense	*20*	**(10.0)**	(20.4)
Net income		**29.9**	73.9
Net movements in regulatory balances	*8*	**136.5**	54.1
Net movements in regulatory balances arising from deferred taxes	*8*	**2.4**	8.9
Net income after net movements in regulatory balances		**168.8**	136.9

STATEMENTS OF COMPREHENSIVE INCOME

[in millions of Canadian dollars]

Year ended December 31	*Note*	**2022** **$**	2021 $
Net income after net movements in regulatory balances		**168.8**	136.9
Other comprehensive income			
Items that will not be reclassified to income or loss			
Remeasurements of post-employment benefits, net of tax [2022 - ($20.3), 2021 - ($7.1)]	*12*	**56.3**	19.8
Net movements in regulatory balances related to OCI, net of tax [2022 - ($20.3), 2021 - ($7.1)]	*8, 12*	**(56.3)**	(19.8)
Other comprehensive income, net of tax		**—**	—
Total comprehensive income		**168.8**	136.9

See accompanying notes to the financial statements.

STATEMENTS OF CHANGES IN EQUITY

[in millions of Canadian dollars]

Year ended December 31	*Note*	**2022** **$**	2021 $
Share capital	*16*	**556.3**	556.3
Retained earnings, beginning of year		**1,674.3**	1,538.0
Net income after net movements in regulatory balances		**168.8**	136.9
Dividends	*16, 22*	**—**	(0.6)
Retained earnings, end of year		**1,843.1**	1,674.3
Contributed surplus		**12.8**	12.8
Total equity		**2,412.2**	2,243.4

See accompanying notes to the financial statements.

STATEMENTS OF CASH FLOWS

[in millions of Canadian dollars]

Year ended December 31	Note	2022 $	2021 $
OPERATING ACTIVITIES			
Net income after net movements in regulatory balances		**168.8**	136.9
Net movements in regulatory balances	*8*	**(136.5)**	(54.1)
Net movements in regulatory balances arising from deferred taxes	*8*	**(2.4)**	(8.9)
Adjustments			
Depreciation and amortization	*6, 7*	**307.8**	289.3
Amortization of deferred revenue	*10*	**(18.1)**	(12.3)
Finance costs		**83.2**	82.8
Income tax expense		**10.0**	20.4
Post-employment benefits		**—**	0.8
Gain on disposals of property, plant and equipment		**—**	(2.7)
Other		**0.2**	1.0
Capital contributions received	*10*	**85.8**	101.2
Net change in other non-current assets and liabilities		**(20.9)**	11.1
Increase (decrease) in customer deposits		**(2.4)**	8.8
Changes in non-cash operating working capital balances	*21*	**(15.4)**	7.3
Income tax paid		**(1.7)**	—
Net cash provided by operating activities		**458.4**	581.6
INVESTING ACTIVITIES			
Purchase of property, plant and equipment	*21*	**(607.3)**	(548.0)
Purchase of intangible assets	*21*	**(59.6)**	(37.5)
Proceeds on disposals of property, plant and equipment		**0.4**	2.8
Net cash used in investing activities		**(666.5)**	(582.7)
FINANCING ACTIVITIES			
Issuance of notes payable to related party	*11*	**297.9**	347.7
Repayment of notes payable to related party	*11*	**(15.0)**	(300.0)
Dividends paid	*16*	**—**	(0.6)
Interest received		**1.8**	0.9
Interest paid		**(87.7)**	(86.3)
Net cash provided by (used in) financing activities		**197.0**	(38.3)
Net change in cash and cash equivalents during the year		**(11.1)**	(39.4)
Cash and cash equivalents, beginning of year		**102.6**	142.0
Cash and cash equivalents, end of year		**91.5**	102.6

See accompanying notes to the financial statements.

1. NATURE OF BUSINESS

Toronto Hydro-Electric System Limited was incorporated on June 23, 1999 under the *Business Corporations Act* [Ontario] in accordance with the Electricity Act. LDC is wholly owned by the Corporation and is domiciled in Canada, with its registered office located at 14 Carlton Street, Toronto, Ontario, M5B 1K5.

LDC distributes electricity to customers located in the city of Toronto and is subject to rate regulation.

2. BASIS OF PRESENTATION

LDC's audited financial statements for the years ended December 31, 2022 and 2021 have been prepared in accordance with IFRS as issued by the IASB.

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

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

3. REGULATION

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

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

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

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

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

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

a) COVID-19 Pandemic Considerations

On March 11, 2020, the World Health Organization declared that the COVID-19 outbreak was a global pandemic. The COVID-19 pandemic has not had a significant impact on the financial statements of LDC for the year ended December 31, 2022.

On November 15, 2021, the OEB's standard winter disconnection ban commenced and remained in effect until May 1, 2022. Concurrent with the effective end date of the OEB's standard winter disconnection ban, LDC ended its voluntary ban on disconnections, which had been in place since the beginning of the pandemic. LDC's disconnection practices remain subject to the applicable OEB rules.

On January 7, 2022, the Ontario Government announced further targeted relief measures setting both the TOU rates for on-peak, mid-peak, and off-peak and tiered rates at the TOU off-peak rate of 8.2 cents per kWh, 24 hours a day, seven days a week, effective January 18, 2022 until February 7, 2022. There was no net income impact to LDC.

b) Electricity Distribution Rates

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

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

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

c) 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 balance sheets under current liabilities as deferred conservation credit.

[All tabular amounts in millions of Canadian dollars]

4. ACCOUNTS RECEIVABLE AND UNBILLED REVENUE

Accounts receivable and unbilled revenue consist of the following:

	2022 $	2021 $
Unbilled revenue	**254.3**	211.6
Trade receivables	**187.0**	175.6
Due from related parties *[note 22]*	**36.2**	39.9
Other	**18.0**	18.3
Total accounts receivable and unbilled revenue	**495.5**	445.4

5. OTHER ASSETS

Other assets consist of the following:

	2022 $	2021 $
Prepaid expenses	**29.0**	24.3
Deferred financing costs	**1.4**	1.4
Total other assets	**30.4**	25.7
Less: Current portion of other assets relating to:		
Prepaid expenses	**16.0**	18.4
Deferred financing costs	**0.3**	0.4
Current portion of other assets	**16.3**	18.8
Non-current portion of other assets	**14.1**	6.9

[All tabular amounts in millions of Canadian dollars]

6. PROPERTY, PLANT AND EQUIPMENT

PP&E consist of the following:

	Distribution assets $	Land and buildings $	Equipment and other $	Construction in progress $	Total $
Cost					
Balance as at January 1, 2021	4,919.9	439.8	285.4	510.4	6,155.5
Additions	—	—	—	587.9	587.9
Transfers into service	519.5	23.3	55.5	(598.3)	—
Disposals and retirements	(33.2)	(0.2)	(2.7)	—	(36.1)
Balance as at December 31, 2021	5,406.2	462.9	338.2	500.0	6,707.3
Additions	**—**	**—**	**—**	**644.2**	**644.2**
Transfers into service	**525.0**	**22.2**	**46.9**	**(594.1)**	**—**
Disposals and retirements	**(34.2)**	**—**	**(1.1)**	**—**	**(35.3)**
Balance as at December 31, 2022	**5,897.0**	**485.1**	**384.0**	**550.1**	**7,316.2**
Accumulated depreciation					
Balance as at January 1, 2021	929.9	81.2	156.9	—	1,168.0
Depreciation	183.3	16.1	28.9	—	228.3
Disposals and retirements	(8.9)	(0.1)	(2.6)	—	(11.6)
Balance as at December 31, 2021	1,104.3	97.2	183.2	—	1,384.7
Depreciation	**195.2**	**16.9**	**30.6**	**—**	**242.7**
Disposals and retirements	**(8.3)**	**—**	**(1.1)**	**—**	**(9.4)**
Balance as at December 31, 2022	**1,291.2**	**114.1**	**212.7**	**—**	**1,618.0**
Carrying amount					
Balance as at December 31, 2021	4,301.9	365.7	155.0	500.0	5,322.6
Balance as at December 31, 2022	**4,605.8**	**371.0**	**171.3**	**550.1**	**5,698.2**

As at December 31, 2022, "Land and buildings" included right-of-use assets related to leases of land and office space with cost of $7.6 million [December 31, 2021 - $7.6 million], accumulated depreciation of $1.0 million [December 31, 2021 - $0.9 million], and carrying amount of $6.6 million [December 31, 2021 - $6.7 million]. For the year ended December 31, 2022, LDC recorded depreciation expense of $0.1 million [2021 - $0.1 million] related to the right-of-use assets.

For the year ended December 31, 2022, borrowing costs in the amount of $5.5 million [2021 - $2.8 million] were capitalized to PP&E with an average interest rate of 3.13% [2021 - 3.07%].

[All tabular amounts in millions of Canadian dollars]

7. INTANGIBLE ASSETS

Intangible assets consist of the following:

	Computer software $	Contributions $	Software in development $	Contributions for work in progress $	Total $
Cost					
Balance as at January 1, 2021	264.7	176.3	20.6	58.0	519.6
Additions	—	—	32.3	21.0	53.3
Transfers into service	25.5	18.6	(25.5)	(18.6)	—
Balance as at December 31, 2021	290.2	194.9	27.4	60.4	572.9
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**
Accumulated amortization					
Balance as at January 1, 2021	151.9	24.6	—	—	176.5
Amortization	30.7	7.7	—	—	38.4
Balance as at December 31, 2021	182.6	32.3	—	—	214.9
Amortization	**31.8**	**10.1**	**—**	**—**	**41.9**
Balance as at December 31, 2022	**214.4**	**42.4**	**—**	**—**	**256.8**
Carrying amount					
Balance as at December 31, 2021	107.6	162.6	27.4	60.4	358.0
Balance as at December 31, 2022	**105.2**	**225.3**	**44.1**	**12.7**	**387.3**

For the year ended December 31, 2022, borrowing costs in the amount of $1.3 million [2021 - $1.9 million] were capitalized to intangible assets with an average interest rate of 3.13% [2021 - 3.07%].

"Contributions" represent payments made to HONI for dedicated infrastructure in order to receive connections to transmission facilities. The remaining amortization period for computer software ranges from less than one year to six years. The remaining amortization period for contributions ranges from six to 25 years.

[All tabular amounts in millions of Canadian dollars]

8. REGULATORY BALANCES

Debit balances consist of the following:

	January 1, 2022 $	Balances arising in the period $	Recovery/ reversal $	Other movements $	December 31, 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[c]	(1)
OPEB net actuarial loss	**48.1**	**—**	**—**	**(48.1)**	**—**	note 8[d]	—
Other	**6.7**	**3.4**	**(3.9)**	**(0.2)**	**6.0**	—	(1)
Total	**181.4**	**137.7**	**(7.7)**	**(48.5)**	**262.9**		

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

(1) Carrying charges were added to the regulatory balances in accordance with the OEB’s direction, at a rate of 0.57% for January 1, 2022 to March 31, 2022, 1.02% for April 1, 2022 to June 30, 2022, 2.20% for July 1, 2022 to September 30, 2022 and 3.87% for October 1, 2022 to December 31, 2022 [January 1, 2021 to December 31, 2021 – 0.57%].

[All tabular amounts in millions of Canadian dollars]

Credit balances consist of the following:

	January 1, 2022 $	Balances arising in the period $	Recovery/ reversal $	Other movements $	December 31, 2022 $	Remaining recovery/ reversal period (months)	Carrying charges applicable
Capital-related revenue requirement	**78.3**	**1.4**	**—**	**—**	**79.7**	note 8[e]	(1)
OPEB net actuarial gain	**—**	**76.6**	**—**	**(48.1)**	**28.5**	note 8[d]	—
Development charges	**15.2**	**1.2**	**(2.6)**	**(0.1)**	**13.7**	note 8[f]	(1)
Tax-related variances	**11.2**	**1.3**	**—**	**—**	**12.5**	note 8[g]	(1)
Derecognition	**33.4**	**1.0**	**(31.2)**	**—**	**3.2**	note 8[h]	(1)
Gain on disposals	**4.7**	**—**	**(2.5)**	**—**	**2.2**	note 8[i]	(1)
Accounts receivable credits	**2.8**	**0.1**	**(0.9)**	**(0.1)**	**1.9**	note 8[j]	(1)
Other	**5.6**	**3.5**	**(0.5)**	**(0.2)**	**8.4**	24	(1)
Total	**151.2**	**85.1**	**(37.7)**	**(48.5)**	**150.1**		

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

(1) Carrying charges were added to the regulatory balances in accordance with the OEB's direction, at a rate of 0.57% for January 1, 2022 to March 31, 2022, 1.02% for April 1, 2022 to June 30, 2022, 2.20% for July 1, 2022 to September 30, 2022 and 3.87% for October 1, 2022 to December 31, 2022 [January 1, 2021 to December 31, 2021 – 0.57%].

The "Balances arising in the period" column consists of new additions to regulatory balances [for both debits and credits]. The "Recovery/reversal" column consists of amounts disposed through OEB-approved rate riders. The "Other movements" column consists of impairment and reclassification between the regulatory debit and credit balances and other regulatory deferral accounts considered to be insignificant. There was no impairment recorded for the year ended December 31, 2022.

[All tabular amounts in millions of Canadian dollars]

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

	2022 $	2021 $
Total movements per regulatory debit balances table	**81.5**	11.0
Total movements per regulatory credit balances table	**1.1**	32.2
Total net movements	**82.6**	43.2
Net movements per financial statements:		
Net movements in regulatory balances	**136.5**	54.1
Net movements in regulatory balances arising from deferred taxes	**2.4**	8.9
Net movements in regulatory balances related to OCI, net of tax	**(56.3)**	(19.8)
Total net movements per financial statements	**82.6**	43.2

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

The regulatory balances of LDC 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.

In the 2020-2024 CIR Decision and Rate Order, the OEB approved disposition of $7.5 million related to the 2018 settlement variances over a 22-month period commencing on March 1, 2020. As part of the OEB's decision and rate order approving LDC's 2021 rates, the OEB approved recovery of $25.3 million related to 2019 settlement variances over a 12-month period commencing January 1, 2021. 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.

b) Deferred taxes

This regulatory balance relates to both deferred tax amounts recorded under IFRS 14 *Regulatory Deferral Accounts* ["IFRS 14"] *[note 25[a]]* 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 $29.6 million [debits] as at December 31, 2022 [December 31, 2021 - $15.5 million [debits]] and the recognition of a regulatory balance in respect of additional temporary differences for which a deferred tax amount was recognized of $20.6 million [credits] as at December 31, 2022 [December 31, 2021 - $17.5 million [credits]]. The deferred tax amount related to the expected future impact to electricity distribution rates was $77.6 million [debits] as at December 31, 2022 [December 31, 2021 - $65.9 million [debits]].

c) Lost revenue adjustment mechanism

This regulatory balance relates to the difference between the level of CDM program activities included in LDC's load forecast used to set approved rates and the actual impact of CDM activities achieved. As part of the OEB's decision and rate order approving LDC's 2021 rates, the OEB approved recovery of $33.1 million related to 2018 and 2019 variances over a 12-month period commencing January 1, 2021.

d) OPEB net actuarial gain/loss

This regulatory balance accumulates the actuarial gains and losses arising from changes in actuarial assumptions and experience adjustments recognized in OCI. The balance arising during the year ended December 31, 2022 of $76.6 million is related to the actuarial gain recorded for the year [2021 - $26.9 million actuarial gain] *[note 12[d]]*. The net position is an actuarial gain to be disposed in future rates. As a result of the increase in actuarial gains, the balance changed from a debit balance as at January 1, 2022 to a credit balance as at December 31, 2022, with the reclassification of $48.1 million shown in "Other movements". In the 2020-2024 CIR Decision and Rate Order, the OEB approved partial recovery of the balance amounting to $6.4 million which has been fully recovered.

e) Capital-related revenue requirement

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

f) 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.

g) Tax-related variance accounts

The regulatory balance arose primarily from the revenue requirement impact of accelerated capital cost allowance deductions from the Accelerated Investment Incentive tax measure which received Royal Assent on June 21, 2019. In the 2020-2024 CIR Decision and Rate Order, the OEB approved disposition of $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, and a residual credit balance that arose from favourable income tax reassessments on certain prior year tax positions received, which differed from those assumed in previous applications for electricity distribution rates.

[All tabular amounts in millions of Canadian dollars]

h) 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.

i) 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.

As part of the 2015-2019 CIR decision and rate order, LDC agreed to a rate rider that would pass the total forecasted net gain along with future tax savings on the first two properties back to customers, effective from March 1, 2016 to December 31, 2018. The gain on disposals of the two properties was realized by LDC in 2015 and 2018, respectively. In the second quarter of 2017, LDC realized a gain in connection with the disposal of the third property.

In the 2020-2024 CIR Decision and Rate Order, the incremental balance related to the actual realized gain and tax savings that exceeded the approved rate riders in connection with the disposal of the first two LDC properties amounting to $73.7 million was approved for disposition over a 22-month period commencing on March 1, 2020. The OEB also approved disposition of $11.8 million related to the actual realized gain and tax savings in connection with the disposal of the third property over a 22-month period commencing on March 1, 2020.

j) Accounts receivable credits

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

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consist of the following:

	2022 $	2021 $
Trade payables	**259.2**	261.3
Accrued liabilities	**169.2**	123.8
Due to related parties *[note 22]*	**31.8**	36.4
Other	**0.7**	1.4
Total accounts payable and accrued liabilities	**460.9**	422.9

[All tabular amounts in millions of Canadian dollars]

10. DEFERRED REVENUE

Deferred revenue consists of the following:

	2022 $	2021 $
Capital contributions, beginning of year	**663.8**	553.4
Capital contributions received [(1)]	**115.7**	123.1
Amortization	**(18.1)**	(12.3)
Other	**0.1**	(0.4)
Capital contributions, end of year	**761.5**	663.8
Other deferred revenue, beginning of year	**3.4**	2.3
Other deferred revenue	**15.1**	16.7
Revenue recognized	**(14.6)**	(15.6)
Other deferred revenue, end of year	**3.9**	3.4
Total deferred revenue	**765.4**	667.2
Less: Current portion of deferred revenue relating to:		
Capital contributions	**24.8**	21.0
Other deferred revenue	**3.9**	3.4
Current portion of deferred revenue	**28.7**	24.4
Non-current portion of deferred revenue	**736.7**	642.8

[(1)] Includes non-cash contributions of $29.9 million [2021 – $21.9 million].

[All tabular amounts in millions of Canadian dollars]

11. NOTES PAYABLE TO RELATED PARTY

Notes payable to related party consist of the following:

	2022 $	2021 $
Notes payable to related party:		
5.59% Long-term note payable to the Corporation due May 21, 2040	**200.0**	200.0
2.96% Long-term note payable to the Corporation due April 10, 2023	**250.0**	250.0
4.01% Long-term note payable to the Corporation due April 9, 2063	**200.0**	200.0
4.13% Long-term note payable to the Corporation due September 16, 2044	**200.0**	200.0
3.60% Long-term note payable to the Corporation due July 28, 2045	**200.0**	200.0
3.988% Long-term note payable to the Corporation due April 9, 2063	**45.0**	45.0
2.572% Long-term note payable to the Corporation due August 25, 2026	**200.0**	200.0
3.535% Long-term note payable to the Corporation due February 28, 2048	**200.0**	200.0
2.488% Long-term note payable to the Corporation due December 11, 2029	**200.0**	200.0
3.042% Long-term note payable to the Corporation due December 10, 2049	**200.0**	200.0
1.55% Long-term note payable to the Corporation due October 15, 2030	**200.0**	200.0
2.52% Long-term note payable to the Corporation due October 20, 2031	**150.0**	150.0
3.32% Long-term note payable to the Corporation due October 18, 2051	**200.0**	200.0
5.00% Long-term note payable to the Corporation due October 13, 2052	**300.0**	—
6.16% Demand note payable to the Corporation due on demand	**45.0**	45.0
3.32% Demand note payable to the Corporation due on the earlier of demand and January 1, 2022	**—**	15.0
Total notes payable to related party	**2,790.0**	2,505.0
Less: Unamortized debt issuance costs	**14.5**	13.0
Current portion of notes payable to related party *[note 22]*	**294.9**	60.0
Long-term portion of notes payable to related party *[note 22]*	**2,480.6**	2,432.0

All notes payable to the Corporation are unsecured, rank equally and will be settled in cash.

On October 18, 2021, LDC issued two promissory notes to the Corporation. The principal amounts of the promissory notes are $150.0 million payable on October 20, 2031, which bears interest at a rate of 2.52% per annum, and $200.0 million payable on October 18, 2051, which bears interest at a rate of 3.32% per annum. Interest is calculated and payable semi-annually in arrears on April 20 and October 20, and April 18 and October 18 of each year, respectively for both promissory notes.

On November 18, 2021, LDC repaid its $300.0 million promissory note to the Corporation.

During 2022, LDC repaid its $15.0 million promissory note to the Corporation.

On October 13, 2022, LDC issued a promissory note to the Corporation. The principal amount of the promissory note is $300.0 million payable on October 13, 2052, which bears interest at a rate of 5.00% per annum. Interest is calculated and payable semi-annually in arrears on April 13 and October 13 of each year.

[All tabular amounts in millions of Canadian dollars]

12. EMPLOYEE FUTURE BENEFITS

Multi-employer pension plan

LDC's eligible employees participate in a defined benefit pension plan through OMERS. As at December 31, 2022, OMERS had disclosed that the plan was 95.0% funded [December 31, 2021 - 97.0%]. LDC 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, 2022, LDC's contributions were $16.6 million [2021 - $16.1 million], representing less than five percent of total contributions to the OMERS plan. LDC expects to contribute approximately $20.3 million to the OMERS plan in 2023.

Post-employment benefits

a) Benefit obligation

	2022 $	2021 $
Balance, beginning of year	**306.6**	332.7
Current service cost	**2.7**	3.0
Interest cost	**9.0**	8.1
Benefits paid	**(10.4)**	(12.7)
Past service cost	**1.3**	—
Experience loss (1)	**2.9**	3.2
Actuarial loss arising from changes in demographic assumptions (1)	**1.9**	—
Actuarial gain arising from changes in financial assumptions (1) (2)	**(85.2)**	(28.2)
Transfer from related parties	**1.2**	0.5
Balance, end of year	**230.0**	306.6

(1) Actuarial gain on accumulated sick leave credits of $3.7 million [2021 - $2.0 million loss] is recognized in benefit cost *[note 12[c]]* and $0.1 million in transfer from related parties [2021 - $0.1 million], and actuarial gain on medical, dental and life insurance benefits of $76.6 million [2021 - $26.9 million] is recognized in OCI *[note 12[d]]*.
(2) Reflects the impact of the change in discount rate from 3.0% to 5.1% *[note 12[e]]*.

b) Amounts recognized in regulatory balances

As at December 31, 2022, the amount recognized in regulatory balances related to accumulated net actuarial gain/loss was $28.5 million [credits] [December 31, 2021 - $48.1 million [debits]] *[note 8[d]]*.

[All tabular amounts in millions of Canadian dollars]

c) Benefit cost recognized

	2022 $	2021 $
Current service cost	**2.7**	3.0
Interest cost	**9.0**	8.1
Past service cost	**1.3**	—
Actuarial (gain) loss on other employee benefits *[note 12[a]]*	**(3.7)**	2.0
Benefit cost	**9.3**	13.1
Capitalized to PP&E and intangible assets	**3.6**	5.5
Charged to operating expenses	**5.7**	7.6

d) Amounts recognized in OCI

	2022 $	2021 $
Actuarial gain *[note 12[a]]*	**76.6**	26.9
Income tax expense in OCI *[note 20]*	**(20.3)**	(7.1)
Remeasurements of post-employment benefits, net of tax	**56.3**	19.8
Net movements in regulatory balances related to OCI, net of tax	**(56.3)**	(19.8)
OCI, net of tax	**—**	—

e) Significant assumptions

	2022 %	2021 %
Discount rate used in the calculation of:		
Benefit obligation as at December 31	**5.10**	3.00
Assumed medical and dental cost trend rates as at December 31:		
Rate of increase in dental costs assumed for next year	**4.00**	4.00
Rate of increase in medical costs assumed for next year	**5.10**	5.00

f) Sensitivity analysis

Significant actuarial assumptions for benefit obligation measurement purposes are discount rate and assumed medical and dental cost trend rates. The weighted average duration of the benefit obligation as at December 31, 2022 was 13.0 [2021 - 16.5]. The sensitivity analysis below has been determined based on reasonably possible changes of the assumptions, in isolation of one another, occurring at the end of the reporting period. This analysis may not be representative of the actual change since it is unlikely that changes in the assumptions would occur in isolation of one another as some of the assumptions may be correlated.

[All tabular amounts in millions of Canadian dollars]

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

	Change in assumption	2022 $	2021 $
Benefit obligation		**230.0**	306.6
Discount rate	1% ↑	**(27.1)**	(46.0)
	1% ↓	**33.3**	59.0
Medical and dental cost trend rate	1% ↑	**25.0**	37.4
	1% ↓	**(21.7)**	(33.1)

13. CAPITAL MANAGEMENT

LDC's main objectives when managing capital are to:

- ensure ongoing access to funding to maintain, refurbish and expand the electricity distribution system;
- ensure sufficient liquidity is available [either through cash and cash equivalents or borrowings from TH Energy or the Corporation] to meet the needs of the business; and
- minimize finance costs while taking into consideration current and future industry, market and economic risks and conditions.

LDC monitors forecasted cash flows, capital expenditures, debt repayment and key credit ratios similar to those used by key rating agencies. LDC manages capital by preparing short-term and long-term cash flow forecasts. In addition, LDC borrows from TH Energy or the Corporation as required to help fund some of the periodic net cash outflows and to maintain available liquidity. There have been no changes in LDC's approach to capital management during the year. As at December 31, 2022, LDC's definition of capital included equity, bank indebtedness, borrowings through the Corporation and obligations under leases, including the current portion thereof, and has remained unchanged from the definition as at December 31, 2021. As at December 31, 2022, equity amounted to $2,412.2 million [December 31, 2021 - $2,243.4 million], and bank indebtedness, borrowings through the Corporation and obligations under leases, including the current portion thereof, amounted to $2,775.7 million [December 31, 2021 - $2,492.2 million].

14. FINANCIAL INSTRUMENTS

a) Fair value

As at December 31, 2022 and December 31, 2021, the fair values of cash and cash equivalents, accounts receivable and unbilled revenue, 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. Obligations under leases are measured based on a discounted cash flow analysis and fair values approximate the carrying amounts as management believes that the fixed interest rates are representative of current market rates. Notes payable are measured at amortized cost, based on the fair value of the notes payable at issuance, which was the fair value of the consideration received adjusted for transaction costs. The fair values of the notes payable are based on the present value of contractual cash flows, discounted at LDC's current borrowing rate for similar debt instruments.

[All tabular amounts in millions of Canadian dollars]

The carrying amounts and fair values of LDC's notes payable to related party consist of the following:

	2022 $		2021 $	
	Carrying amount	Fair value [1]	Carrying amount	Fair value [1]
Notes payable to the Corporation				
5.59% due May 21, 2040	**199.0**	**214.2**	199.0	274.7
2.96% due April 10, 2023	**249.9**	**248.6**	249.7	255.6
4.01% due April 9, 2063	**198.8**	**165.4**	198.8	249.5
4.13% due September 16, 2044	**198.6**	**178.2**	198.6	238.7
3.60% due July 28, 2045	**198.8**	**163.7**	198.8	221.4
3.988% due April 9, 2063	**44.7**	**37.2**	44.7	56.2
2.572% due August 25, 2026	**199.5**	**186.9**	199.4	207.0
3.535% due February 28, 2048	**198.7**	**160.6**	198.7	220.6
2.488% due December 11, 2029	**199.2**	**176.6**	199.1	205.4
3.042% due December 10, 2049	**198.7**	**145.1**	198.7	202.8
1.55% due October 15, 2030	**198.9**	**160.5**	198.8	189.0
2.52% due October 20, 2031	**149.2**	**126.9**	149.1	152.1
3.32% due October 18, 2051	**198.6**	**152.1**	198.6	214.0
5.00% due October 13, 2052	**297.9**	**305.4**	—	—
Demand note payable to the Corporation due on demand	**45.0**	**45.0**	45.0	45.0
Demand note payable to the Corporation due on the earlier of demand and January 1, 2022	**—**	**—**	15.0	15.0
Total	**2,775.5**	**2,466.4**	2,492.0	2,747.0

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

Credit risk

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

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

[All tabular amounts in millions of Canadian dollars]

LDC obtains security instruments from certain customers in accordance with direction provided by the OEB. As at December 31, 2022, LDC held security deposits in the amount of $70.0 million [December 31, 2021 - $72.4 million], of which $36.7 million [December 31, 2021 - $39.4 million] was related to security deposits on offers to connect to guarantee the payment of additional costs related to expansion projects. LDC's security instruments may not provide sufficient protection from counterparties defaulting on their obligations. As at December 31, 2022, 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.

LDC did not have any single customer that generated more than 10% of total revenue for the years ended December 31, 2022 and December 31, 2021.

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

	2022 $	2021 $
Accounts receivable, gross		
Outstanding for not more than 30 days	**184.6**	183.8
Outstanding for more than 30 days and not more than 120 days	**30.0**	20.2
Outstanding for more than 120 days	**35.9**	36.7
Total accounts receivable, gross	**250.5**	240.7
Unbilled revenue, gross	**276.7**	237.9
Expected credit loss allowance	**(31.7)**	(33.2)
Total accounts receivable and unbilled revenue	**495.5**	445.4

Unbilled revenue represents amounts for which LDC 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, 2022 and December 31, 2021.

LDC has a broad base of customers. As at December 31, 2022 and December 31, 2021, LDC's accounts receivable for non-commercial customers and unbilled revenue which were not past due or impaired were assessed by management to have no significant collection risk. Accounts receivable balances related to commercial customers are assessed on a holistic basis and the entire billed balance, including amounts not past due, is assessed for significant collection risk.

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

	2022 $	2021 $
Balance, beginning of year	**(33.2)**	(30.2)
Additional expected credit loss allowance	**(4.4)**	(6.8)
Write-offs	**6.1**	4.0
Recoveries of previously written-off balances	**(0.2)**	(0.2)
Balance, end of year	**(31.7)**	(33.2)

c) Market risks

Interest rate risk

LDC is exposed to fluctuations in interest rates for the valuation of its post-employment benefit obligations *[note 12[f]]*. LDC is also exposed to short-term interest rate risk on the net of cash and cash equivalents and customer deposits. Notes payable to related party bear interest based on the prevailing market conditions at the time of issuance.

As at December 31, 2022, aside from the valuation of its post-employment benefit obligations, most of LDC'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. LDC estimates that a 25-basis point increase [decrease] in short-term interest rates, with all other variables held constant, would result in an increase [decrease] of approximately $0.1 million to annual finance costs.

Liquidity risk

LDC is exposed to liquidity risk related to its ability to fund its obligations as they become due. LDC monitors and manages its liquidity risk to ensure access to sufficient funds to meet operational and financial requirements. LDC has access to credit facilities and borrowings through the Corporation and monitors cash balances daily. LDC's objective is to ensure that sufficient liquidity is on hand to meet obligations as they become due while minimizing finance costs. LDC relies on debt financing from borrowings through the Corporation 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 LDC's operating results and financial position in the future. Accordingly, LDC continues to monitor liquidity risk and adapt its plans as the economic climate evolves.

[All tabular amounts in millions of Canadian dollars]

Liquidity risks associated with financial commitments are as follows:

	2022					
	Due within 1 year $	Due within 2 years $	Due within 3 years $	Due within 4 years $	Due within 5 years $	Due after 5 years $
Accounts payable and accrued liabilities [(1)]	**437.8**	—	—	—	—	—
Obligations under leases	—	**0.1**	**0.1**	—	—	—
Long-term notes payable to the Corporation						
5.59% due May 21, 2040	—	—	—	—	—	**200.0**
2.96% due April 10, 2023	**250.0**	—	—	—	—	—
4.01% due April 9, 2063	—	—	—	—	—	**200.0**
4.13% due September 16, 2044	—	—	—	—	—	**200.0**
3.60% due July 28, 2045	—	—	—	—	—	**200.0**
3.988% due April 9, 2063	—	—	—	—	—	**45.0**
2.572% due August 25, 2026	—	—	—	**200.0**	—	—
3.535% due February 28, 2048	—	—	—	—	—	**200.0**
2.488% due December 11, 2029	—	—	—	—	—	**200.0**
3.042% due December 10, 2049	—	—	—	—	—	**200.0**
1.55% due October 15, 2030	—	—	—	—	—	**200.0**
2.52% due October 20, 2031	—	—	—	—	—	**150.0**
3.32% due October 18, 2051	—	—	—	—	—	**200.0**
5.00% due October 13, 2052						**300.0**
Demand note payable to the Corporation due on demand	**45.0**	—	—	—	—	—
Interest payments on long-term notes payable and demand notes payable	**93.3**	**88.3**	**88.3**	**88.3**	**83.1**	**1,606.0**
Total	**826.1**	**88.4**	**88.4**	**288.3**	**83.1**	**3,901.0**

(1) Accounts payable and accrued liabilities exclude $23.1 million of accrued interest on long-term notes payable and demand notes payable included within “Interest payments on long-term notes payable and demand notes payable”.

Inflation risk

The general rate of inflation in Canada and many other countries saw a significant increase during 2021 and continuing throughout 2022, with some regions experiencing multi-decade highs. Certain underlying factors include, but are not limited to, global supply chain disruptions, shipping restrictions, labour market constraints, geopolitical instability and side effects from monetary policies and fiscal expansions. The global economic recovery remains 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 global economic recovery and rising inflationary trends are widely expected to result in elevated interest rates. In 2022, the Bank of Canada began raising its benchmark interest rates for the first time since 2018 and further interest rate increases continue to occur. LDC closely monitors market trends and seeks to mitigate cost impacts through various measures, including project management, procurement and other management actions.

[All tabular amounts in millions of Canadian dollars]

Foreign exchange risk

As at December 31, 2022, LDC had limited exposure to the changing values of foreign currencies. While LDC purchases goods and services which are payable in United States dollars, and purchases United States currency to meet the related commitments when required, the impact of these transactions is not material to the financial statements.

15. FINANCIAL ASSISTANCE

As at December 31, 2022, $50.4 million [December 31, 2021 - $51.5 million] of letters of credit had been issued by the Corporation, on behalf of LDC, under its $100.0 million demand facility mainly to support LDC's prudential requirements with the IESO.

16. SHARE CAPITAL

Share capital consists of the following:

	2022 $	2021 $
Authorized		
The authorized share capital of LDC consists of an unlimited number of common shares without par value.		
Issued and outstanding		
1,000 common shares, of which all were fully paid.	**556.3**	556.3

Dividends

During the year ended December 31, 2022, the Board of Directors of LDC declared and paid dividends to the Corporation totalling $nil [2021 - $0.6 million].

[All tabular amounts in millions of Canadian dollars]

17. REVENUES

Revenues consist of the following:

	2022 $	2021 $
Revenue from contracts with customers		
Energy sales	**2,737.8**	2,702.4
Distribution revenue	**754.2**	759.1
Ancillary services revenue	**19.7**	16.7
Pole and duct rentals	**17.9**	18.2
Other regulatory service charges	**9.2**	7.8
Street lighting services	**8.3**	7.8
Capital contributions - energy storage systems	**1.4**	—
Miscellaneous	**11.0**	17.6
Revenue from other sources		
Capital contributions - developers and other	**16.7**	12.3
Other	**12.0**	7.7
Total revenues	**3,588.2**	3,549.6

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

	2022 $	2021 $
Residential service (1)	**1,007.8**	1,000.5
General service (2)	**2,309.8**	2,270.6
Large users (3)	**174.4**	190.4
Total energy sales and distribution revenue	**3,492.0**	3,461.5

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

[All tabular amounts in millions of Canadian dollars]

18. OPERATING EXPENSES

Operating expenses consist of the following:

	2022 $	2021 $
Salaries and benefits	**210.8**	203.6
External services	**162.7**	156.3
Other support costs [(1)]	**29.9**	30.8
Materials and supplies	**25.9**	27.0
Less: Capitalized costs	**(118.7)**	(107.0)
Total operating expenses	**310.6**	310.7

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

For the year ended December 31, 2022, LDC recognized operating expenses of $16.0 million related to materials and supplies used to service electricity distribution assets [2021 - $17.6 million].

19. FINANCE COSTS

Finance costs consist of the following:

	2022 $	2021 $
Interest income	**2.7**	0.9
Interest expense		
Interest on long-term debt [(1)]	**(87.4)**	(85.9)
Interest on short-term debt	**(3.4)**	(2.2)
Other interest	**(1.9)**	(0.3)
Capitalized borrowing costs	**6.8**	4.7
Total finance costs	**(83.2)**	(82.8)

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

[All tabular amounts in millions of Canadian dollars]

20. INCOME TAXES

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

	2022 $	2021 $
Rate reconciliation before net movements in regulatory balances		
Income before income taxes	**39.9**	94.3
Statutory Canadian federal and provincial income tax rate	**26.5 %**	26.5 %
Expected income tax expense	**(10.6)**	(25.0)
Non-taxable amounts	**1.0**	5.5
Gain on disposals of PP&E	**—**	(0.1)
Other	**(0.4)**	(0.8)
Income tax expense	**(10.0)**	(20.4)
Effective tax rate	**25.1 %**	21.6 %
Rate reconciliation after net movements in regulatory balances		
Net income after net movements in regulatory balances, before income tax [(1)]	**176.4**	148.4
Statutory Canadian federal and provincial income tax rate	**26.5 %**	26.5 %
Expected income tax expense	**(46.7)**	(39.3)
Temporary differences recoverable in future rates	**37.6**	27.1
Gain on disposals of PP&E	**—**	(0.1)
Other	**1.5**	0.8
Income tax expense and income tax recorded in net movements in regulatory balances	**(7.6)**	(11.5)
Effective tax rate	**4.3 %**	7.7 %

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

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

	2022 $	2021 $
Income tax expense	**(10.0)**	(20.4)
Income tax recorded in net movements in regulatory balances	**2.4**	8.9
Income tax expense and income tax recorded in net movements in regulatory balances	**(7.6)**	(11.5)
Income tax expense in OCI *[note 12[d]]*	**(20.3)**	(7.1)
Income tax recovery in OCI recorded in net movements in regulatory balances	**20.3**	7.1
Income tax in OCI	**—**	—

[All tabular amounts in millions of Canadian dollars]

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

	2022 $	2021 $
Current tax expense		
Current year	**(9.4)**	(10.9)
Deferred tax (expense) recovery		
Origination and reversal of temporary differences	**1.8**	(0.6)
Income tax expense and income tax recorded in net movements in regulatory balances	**(7.6)**	(11.5)

Deferred tax assets [liabilities] consist of the following:

	Net balance January 1, 2022 $	Recognized in net income $	Recognized in OCI $	Net balance December 31, 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)**

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

[All tabular amounts in millions of Canadian dollars]

21. STATEMENTS OF CASH FLOWS

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

	2022 $	2021 $
Accounts receivable and unbilled revenue	**(51.9)**	18.4
Income tax receivable	**3.0**	8.7
Materials and supplies	**1.7**	(0.1)
Other current assets	**2.5**	(2.3)
Accounts payable and accrued liabilities [(1)]	**17.8**	(18.3)
Income tax payable	**2.1**	—
Deferred revenue	**4.3**	5.2
Deferred conservation credit	**5.1**	(4.3)
Total changes in non-cash operating working capital	**(15.4)**	7.3

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

	2022 $	2021 $
Purchase of PP&E, cash basis	**607.3**	548.0
Net change in accounts payable and accruals related to PP&E	**5.6**	16.6
Non-cash contributed assets	**29.9**	21.9
Other	**1.4**	1.4
Total additions to PP&E	**644.2**	587.9
Purchase of intangible assets, cash basis	**59.6**	37.5
Net change in accounts payable and accruals related to intangible assets [(1)]	**11.6**	15.8
Total additions to intangible assets	**71.2**	53.3

[(1)] Includes reclassification from amounts previously reported due to change in presentation on the statements of cash flows for amounts between purchase of intangible assets and changes in non-cash operating working capital balances of $10.1 million for the year ended December 31, 2021.

[All tabular amounts in millions of Canadian dollars]

Summary of changes in liabilities arising from financing activities:

	2021 $	Cash flows (1) $	Non-cash changes $	2022 $
Year ended December 31,				
Notes payable to related party *[note 11]*	**2,492.0**	**282.9**	**0.6**	**2,775.5**
Accrued interest (2)	**20.1**	**(87.7)**	**90.7**	**23.1**
Lease liability (3)	**0.2**	**—**	**—**	**0.2**
Total	**2,512.3**	**195.2**	**91.3**	**2,798.8**

	2020 $	Cash flows (1) $	Non-cash changes $	2021 $
Year ended December 31,				
Notes payable to related party *[note 11]*	2,443.4	47.7	0.9	2,492.0
Accrued interest (2)	19.2	(86.3)	87.2	20.1
Dividends payable	—	(0.6)	0.6	—
Lease liability (3)	0.3	—	(0.1)	0.2
Total	2,462.9	(39.2)	88.6	2,512.3

(1) Cash inflows and cash outflows arising from notes payable to related party are presented on a net basis.
(2) Included within accounts payable and accrued liabilities *[note 9]*.
(3) Included within other liabilities.

22. RELATED PARTY TRANSACTIONS

For LDC, transactions with related parties include transactions with the City, which is the sole shareholder of the Corporation, the Corporation, and TH Energy, a wholly-owned subsidiary of the Corporation.

	City $	Corporation $	TH Energy $
For year ended December 31, 2022			
Revenues	**250.2**	**—**	**8.5**
Operating expenses (recoveries) and capital expenditures (recoveries)	**0.6**	**1.8**	**(1.2)**
Finance costs	**—**	**86.9**	**—**
As at December 31, 2022			
Accounts receivable and unbilled revenue	**34.8**	**0.2**	**1.2**
Accounts payable and accrued liabilities	**6.7**	**25.1**	**—**
Current portion of notes payable to related party	**—**	**294.9**	**—**
Long-term portion of notes payable to related party	**—**	**2,480.6**	**—**
Customer deposits	**9.8**	**—**	**—**

[All tabular amounts in millions of Canadian dollars]

	City $	Corporation $	TH Energy $
For year ended December 31, 2021			
Revenues	259.3	—	7.8
Operating expenses (recoveries) and capital expenditures (recoveries)	(1.5)	0.5	(1.7)
Finance costs	—	85.5	—
Dividends declared and paid	—	0.6	—
As at December 31, 2021			
Accounts receivable and unbilled revenue	39.5	—	0.4
Accounts payable and accrued liabilities	15.0	21.4	—
Current portion of notes payable to related party	—	60.0	—
Long-term portion of notes payable to related party	—	2,432.0	—
Customer deposits	12.8	—	—

Revenues represent amounts charged to the City primarily for electricity and ancillary services, and to TH Energy for 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, and the Corporation for purchased corporate and management services. Operating expense recoveries represent amounts charged to TH Energy for the provision of goods and services. Capital expense recoveries represent amounts reversed by the City for closed road cut repair accruals. Finance costs represent interest charged by the Corporation on the notes payable *[note 11]*. Dividends are paid to the Corporation *[note 16]*.

Accounts receivable and unbilled revenue represent receivables from the City primarily for electricity and ancillary services, and TH Energy for the provision of goods and 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. Included in the accounts payable and accrued liabilities are amounts payable to the Corporation for purchased corporate and management services and interest accruing on the notes payable to the Corporation and amounts payable to TH Energy for provision of goods and services. Notes payable to related party represent amounts borrowed from the Corporation *[note 11]*. Customer deposits represent amounts received from the City for future expansion projects.

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

	2022 $	2021 $
Short-term employee benefits	**4.6**	4.6
Post-employment benefits	**2.2**	4.9
Total	**6.8**	9.5

[All tabular amounts in millions of Canadian dollars]

23. COMMITMENTS

As at December 31, 2022, the future minimum payments for capital projects and other commitments were as follows:

	Capital projects [1] and other $
Less than one year	**16.7**
Between one and five years	**5.4**
More than five years	**2.2**
Total amount of future minimum payments [2]	**24.3**

[1] Mainly commitments for construction services.
[2] Refer to note 14 for financial commitments excluded from the table above.

24. CONTINGENCIES

Legal Proceedings

In the ordinary course of business, LDC is 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 LDC. As at the date hereof, LDC 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 LDC. On an ongoing basis, LDC assesses the likelihood of any adverse judgments or outcomes as well as potential ranges of probable costs and losses. A determination of the provision required, if any, for these contingencies is made after an analysis of each individual issue. The provision may change in the future due to new developments in each matter or changes in approach, such as a change in settlement strategy. If damages were awarded under these actions, LDC would make a claim under any liability or other insurance policies, to the extent applicable, subject to such claim not being disputed by the insurers.

25. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Regulation

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

Regulatory Balances

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

LDC has determined that certain debit and credit balances arising from rate-regulated activities qualify for the application of regulatory accounting treatment in accordance with IFRS 14. Under rate-regulated accounting, the timing and recognition of certain expenses and revenues may differ from those otherwise expected under other IFRS in order to appropriately reflect the economic impact of regulatory decisions regarding LDC's regulated revenues and expenditures. These amounts arising from timing differences are recorded as regulatory debit and credit balances on LDC's 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 LDC's statements of income in the period when the assessment is made. Regulatory balances, which do not meet the definition of an asset or liability under any other IFRS, are segregated on the balance sheets and are presented on the statements of income and the 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.

b) 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 statements of cash flows, cash and cash equivalents [bank indebtedness] include bank overdrafts that are repayable on demand and form an integral part of LDC's cash management.

c) 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 statements of income. The impairment loss is the difference between an asset's carrying amount and the estimated future cash flows. When LDC 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 LDC 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.

LDC 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 LDC 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. LDC 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 14[b]]*. LDC 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.

[All tabular amounts in millions of Canadian dollars]

d) Materials and supplies

Materials and supplies consist primarily of small consumable materials mainly related to the maintenance of the electricity distribution infrastructure. LDC classifies all major construction related components of its electricity distribution infrastructure to PP&E. Materials and supplies are carried at the lower of cost and net realizable value, with cost determined on a weighted average cost basis net of a provision for obsolescence.

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 LDC 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 LDC from its continued use. Any gain or loss arising on derecognition is recorded in the 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 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	1.7% to 5.0%
Transformers	3.3% to 5.0%
Meters	2.5% to 6.7%
Stations	2.0% to 10.0%
Buildings	1.3% to 5.0%
Equipment and other:	
Other capital assets	4.0% to 25.0%
Right-of-use assets	1.0% to 11.1%

Right-of-use assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that LDC will obtain ownership by the end of the lease term, in which case they are depreciated to the end of the useful life of the underlying assets. Right-of-use assets are recognized for contracts that are, or contain, leases. Construction in progress relates to assets not currently available for use and therefore is not depreciated. The depreciation method and useful lives are reviewed at each financial year-end and adjusted if appropriate. There are no residual values for items of PP&E.

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

LDC 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. LDC has determined that its assets are a single CGU due to interdependencies of its 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 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 LDC'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

LDC 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 LDC 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. LDC applies judgment to determine whether revenues are recorded on a gross or net basis. LDC 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 balance sheets and within net movements in regulatory balances on the 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.

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.

LDC 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.

LDC 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 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.

- Bank indebtedness is classified as "Amortized cost" and is 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.

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

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

- Obligations under leases are classified as "Amortized cost" and are initially measured at fair value, or at the present value of the minimum lease payments, if lower. Subsequent measurements are based on a discounted cash flow analysis and fair values approximate the carrying amounts as management believes that the fixed interest rates are representative of current market rates.

- Notes payable to related party are classified as "Amortized cost" and are initially measured at fair value. The carrying amounts of notes payable are carried at amortized cost, based on the fair value of the notes payable at issuance, which was the fair value of the consideration received adjusted for transaction costs. The fair values of the notes payable are based on the present value of contractual cash flows, discounted at LDC's current borrowing rate for similar debt instruments *[note 14[a]]*. Debt issuance costs incurred in connection with LDC's debt offerings are capitalized as part of the carrying amount of the notes payable and amortized over the term of the related notes payable, using the effective interest method, and the amortization is included in finance costs.

k) Fair value measurements

LDC 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 LDC'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 LDC 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

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

(iii) Post-employment benefits

LDC has a number of unfunded benefit plans providing post-employment benefits to its employees, including certain retirement, medical, dental and life insurance benefits. LDC 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 balance sheets. Actuarial gains and losses on accumulated sick leave credits are recognized in the 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 LDC no longer has an unconditional right to defer payment of the liability for at least 12 months after the reporting period.

n) Income taxes

LDC is exempt from tax under the ITA and the TA, if not less than 90% of its capital is owned by the Corporation, an MEU, and not more than 10% of its income is derived from activities carried on outside the municipal geographical boundaries of the City.

LDC is an MEU 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 LDC paying income taxes equivalent to what would be imposed under the ITA and the TA.

LDC uses the liability method of accounting for income taxes. Under the liability method, current income taxes payable are recorded based on taxable income. LDC recognizes deferred tax assets and liabilities for the future tax consequences of events that have been included in the 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 balance sheets and their respective tax basis, using the tax rates enacted or substantively enacted by the 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 statements of income.

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

o) Lessor arrangements

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

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

p) Use of judgments and estimates

The preparation of LDC's financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions which affect the application of accounting policies, reported assets, liabilities and regulatory balances, and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported revenues and expenses for the year. The estimates are based on historical experience, current conditions and various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities as well as for identifying and assessing the accounting treatment with respect to commitments and contingencies. Actual results could differ from those estimates, including changes as a result of future decisions made by the OEB, the IESO, the Ontario Ministry of Energy, or the Ontario Ministry of Finance. The assessment of the COVID-19 pandemic recovery is subject to uncertainty; accordingly, judgments, estimates and assumptions related to the impact of the uncertain economic conditions made by management in the preparation of LDC's financial statements are also 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, 2022 *[note 14[b]]*. The extent of the future impact of the uncertain economic conditions on LDC'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[a] 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[a]* – Recognition and measurement of regulatory balances;
- *Note 25[c]* – 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 12* – 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.

q) Changes in accounting standards

Onerous Contracts - Cost of Fulfilling a Contract [Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets ["IAS 37"]]

In May 2020, the IASB issued amendments to IAS 37 regarding costs that should be included as the cost of fulfilling a contract when assessing whether a contract is onerous. The amendments clarify that the cost of fulfilling the contract comprises all costs that relate directly to the contract. Such costs include both the incremental costs of fulfilling that contract and an allocation of other costs that relate directly to fulfilling contracts. The amendments apply to contracts existing at the date when the amendments are first applied. The amendments are effective for annual reporting periods beginning on or after January 1, 2022, with early adoption permitted.

Effective January 1, 2022, LDC adopted these amendments, with no impact on LDC's financial statements.

r) Future accounting pronouncements

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

Classification of Liabilities as Current or Non-current [Amendments to IAS 1 Presentation of Financial Statements ["IAS 1"]]

In January 2020, the IASB issued amendments to IAS 1 relating to the classification of liabilities as current or non-current. Specifically, the amendments clarify one of the criteria in IAS 1 for classifying a liability as non-current - that is, the requirement for an entity to have the right to defer settlement of the liability for at least 12 months after the reporting period. 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.

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

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

Disclosure of Accounting Policies [Amendments to IAS 1]

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

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

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

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

26. SUBSEQUENT EVENTS

LDC has evaluated the events and transactions occurring after the balance sheet date through to February 28, 2023 when LDC's financial statements were authorized for issuance by LDC's Board of Directors, and has identified no events and transactions which required recognition in LDC's financial statements and/or disclosure in the notes to LDC's financial statements.

GLOSSARY

CDM – Conservation and demand management

CGU – Cash generating unit

CIR – Custom Incentive Rate-setting

City – City of Toronto

Corporation – Toronto Hydro Corporation

COVID-19 – Coronavirus disease 2019 and its variants

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

GAAP – Generally Accepted Accounting Principles

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 – Toronto Hydro-Electric System Limited

LRAM – Lost revenue adjustment mechanism

MEU – Municipal electricity utility

OCI – Other comprehensive income

OEB – Ontario Energy Board

OMERS – Ontario Municipal Employees Retirement System

OPEB – Other post-employment benefits

PILs – Payments in lieu of corporate taxes

PP&E – Property, plant and equipment

TA – *Taxation Act, 2007* [Ontario], as amended

TH Energy – Toronto Hydro Energy Services Inc.

TOU – Time-of-use

WMS – Wholesale Market Service

FINANCIAL REPORT
DECEMBER 31, 2022

TORONTO HYDRO CORPORATION

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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]

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

Corporation – Toronto Hydro Corporation

COVID-19 – Coronavirus disease 2019 and its variants

ECA – Energy Conservation Agreement

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

ERM – Enterprise Risk Management

GAAP – Generally Accepted Accounting Principles

GHG – Greenhouse Gas

HONI – Hydro One Networks Inc.

IAS – International Accounting Standards

IASB – International Accounting Standards Board

IESO – Independent Electricity System Operator

IFRS – International Financial Reporting Standards

IRM – Incentive Regulation Mechanism

ISO 45001 – 2018 Occupational Health and Safety Management Systems

ISO 55001 – 2014 Asset Management System

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

OHSAS – Occupational Health and Safety Assessment Series

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

OMERS – Ontario Municipal Employees Retirement System

OPEB – Other post-employment benefits

PILs – Payments in lieu of corporate taxes

PP&E – Property, plant and equipment

PWU – Power Workers' Union

TA – *Taxation Act, 2007* [Ontario], as amended

TH Energy – Toronto Hydro Energy Services Inc

Toronto Hydro – Toronto Hydro Corporation and its subsidiaries

TOU – Time-of-use

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

WMS – Wholesale Market Service

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

Executive Summary

- Net income after net movements in regulatory balances for the three months and year ended December 31, 2022 was $16.0 million and $163.9 million, respectively, compared to $19.5 million and $141.0 million for the comparable periods in 2021;
- Capital expenditures were primarily related to the renewal of the electricity infrastructure of LDC and were $239.7 million and $722.7 million for the three months and year ended December 31, 2022, respectively, compared to $184.9 million and $647.4 million for the comparable periods in 2021;
- Effective April 6, 2022, the City Council appointed James Hinds and Annie Ropar to the Board of the Corporation. All then-current citizen directors were re-appointed to the Board of the Corporation other than Tamara Kronis and Juliana Lam who ceased to be directors of the Corporation;
- 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;
- Effective September 15, 2022, Annie Ropar resigned from the Board of Directors of the Corporation and as a member of the Audit and Human Resources and Environment Committees. Concurrently, Michael Eubanks was appointed to the Audit Committee and David McFadden was appointed to the Human Resources and Environment Committee;
- On October 13, 2022, the Corporation issued $300.0 million of 4.95% senior unsecured debentures due October 13, 2052 ["Series 19"] at a price of $999.22 per $1,000 principal amount. The Series 19 debentures bear interest payable semi-annually in arrears;
- On November 14, 2022, Deputy Mayor Denzil Minnan-Wong's term as a director of the Corporation ended with the expiry of his term as City Councillor;
- On November 22, 2022, Councillor Paul Ainslie's term as a director of the Corporation ended;
- On November 23, 2022, the City Council appointed the following Councillor directors to the Corporation's Board: Councillor Stephen Holyday, Deputy Mayor Jennifer McKelvie, and Councillor Jaye Robinson as the Mayor's designate;
- 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; and
- On March 1, 2023, the Board of Directors of the Corporation declared a dividend in the amount of $24.6 million with respect to the first quarter of 2023 [first quarter of 2022 - $21.2 million], payable to the City by March 31, 2023.

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, 2022 and 2021, which were prepared in accordance with IFRS [the "Consolidated Financial Statements"].

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

Business of Toronto Hydro Corporation

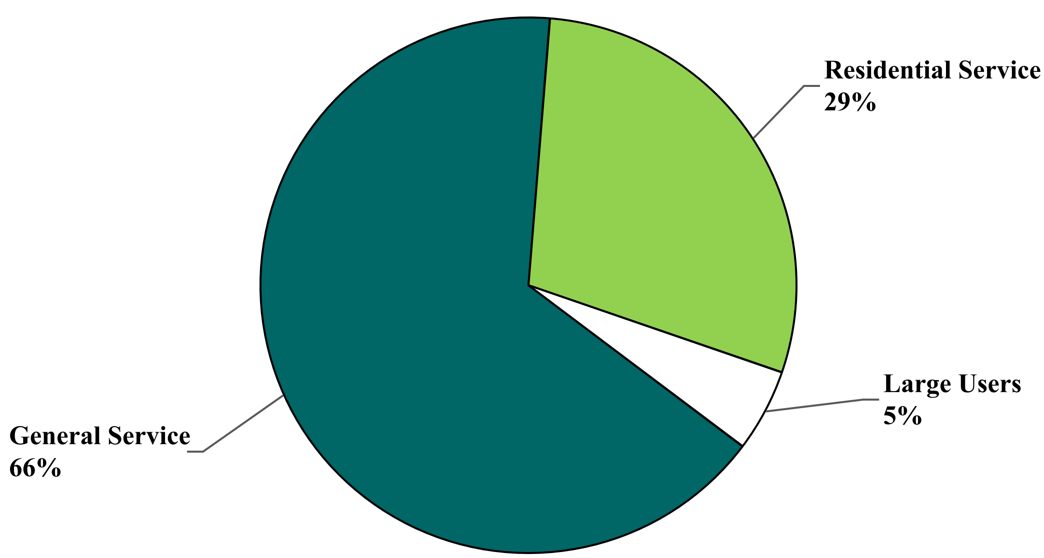
The Corporation is a holding company which wholly owns two subsidiaries:

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

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

The principal business of the Corporation and its subsidiaries is the distribution of electricity by LDC. LDC owns and operates an electricity distribution system that delivers electricity to approximately 790,000 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, 2022, LDC recognized energy sales and distribution revenue of $3,492.0 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, 2022



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

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

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

Electricity Distribution – Industry Overview

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

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

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

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

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

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

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

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

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

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

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

Results of Operations

Net Income after Net Movements in Regulatory Balances

Consolidated Statements of Income
Three months ended December 31, 2022
[in millions of Canadian dollars]

	2022 **$**	2021 $	Change $
Revenues			
Energy sales	**601.7**	625.0	(23.3)
Distribution revenue	**185.4**	186.6	(1.2)
Other	**32.0**	32.4	(0.4)
	819.1	844.0	(24.9)
Expenses			
Energy purchases	**643.1**	653.3	(10.2)
Operating expenses	**91.9**	92.6	(0.7)
Depreciation and amortization	**88.7**	79.2	9.5
	823.7	825.1	(1.4)
Finance costs	**(25.4)**	(20.3)	(5.1)
Gain on disposals of property, plant and equipment	**—**	0.4	(0.4)
Loss before income taxes	**(30.0)**	(1.0)	(29.0)
Income tax recovery	**0.6**	9.2	(8.6)
Net income (loss)	**(29.4)**	8.2	(37.6)
Net movements in regulatory balances	**48.1**	23.3	24.8
Net movements in regulatory balances arising from deferred taxes	**(2.7)**	(12.0)	9.3
Net income after net movements in regulatory balances	**16.0**	19.5	(3.5)

For the three months ended December 31, 2022, net income after net movements in regulatory balances was lower by $3.5 million. The decrease was mainly due to higher depreciation and amortization [$9.5 million] related to in-service asset additions and higher finance costs [$5.1 million] mostly driven by an increase in the rate of funding from commercial paper, partially offset by higher consumption and electricity distribution rates [$7.4 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 and represents amounts to be recovered from or refunded to customers through future rates approved by the OEB.

Consolidated Statements of Income
Year ended December 31, 2022
[in millions of Canadian dollars]

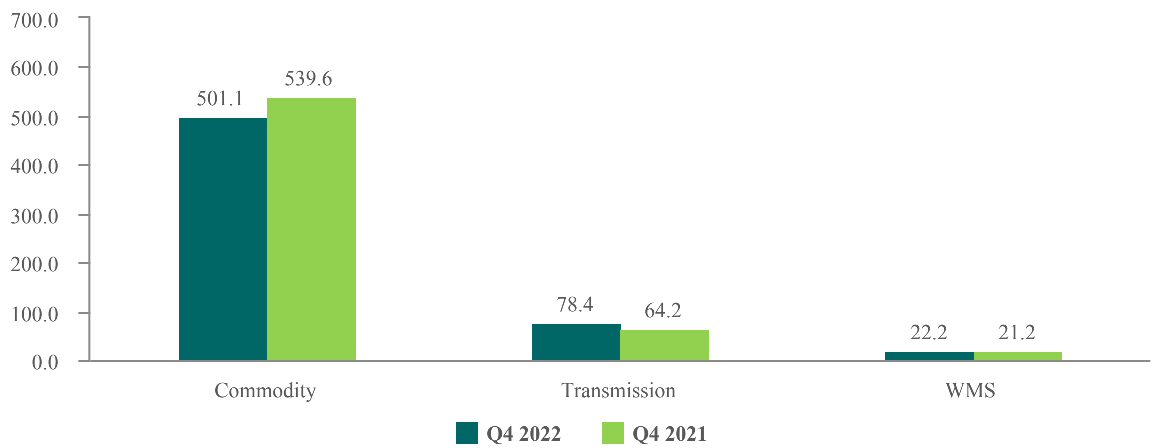
	2022 $	2021 $	Change $
Revenues			
Energy sales	**2,737.8**	2,702.4	35.4
Distribution revenue	**754.2**	759.1	(4.9)
Other	**109.7**	105.6	4.1
	3,601.7	3,567.1	34.6
Expenses			
Energy purchases	**2,846.7**	2,775.2	71.5
Operating expenses	**322.5**	323.0	(0.5)
Depreciation and amortization	**311.4**	292.7	18.7
	3,480.6	3,390.9	89.7
Finance costs	**(87.6)**	(79.1)	(8.5)
Gain on disposals of property, plant and equipment	**—**	2.7	(2.7)
Income before income taxes	**33.5**	99.8	(66.3)
Income tax expense	**(8.5)**	(21.8)	13.3
Net income	**25.0**	78.0	(53.0)
Net movements in regulatory balances	**136.5**	54.1	82.4
Net movements in regulatory balances arising from deferred taxes	**2.4**	8.9	(6.5)
Net income after net movements in regulatory balances	**163.9**	141.0	22.9

For the year ended December 31, 2022, net income after net movements in regulatory balances was higher by $22.9 million. The increase was mainly due to higher consumption and electricity distribution rates [$26.4 million], lower income taxes including regulatory balances arising from deferred taxes [$6.8 million] and higher other revenue [$4.1 million] primarily due to higher amortization of capital contributions. This was partially offset by higher depreciation and amortization [$18.7 million] related to in-service asset additions and higher finance costs [$8.5 million] primarily driven by an increase in the rate of funding from commercial paper.

Energy Sales

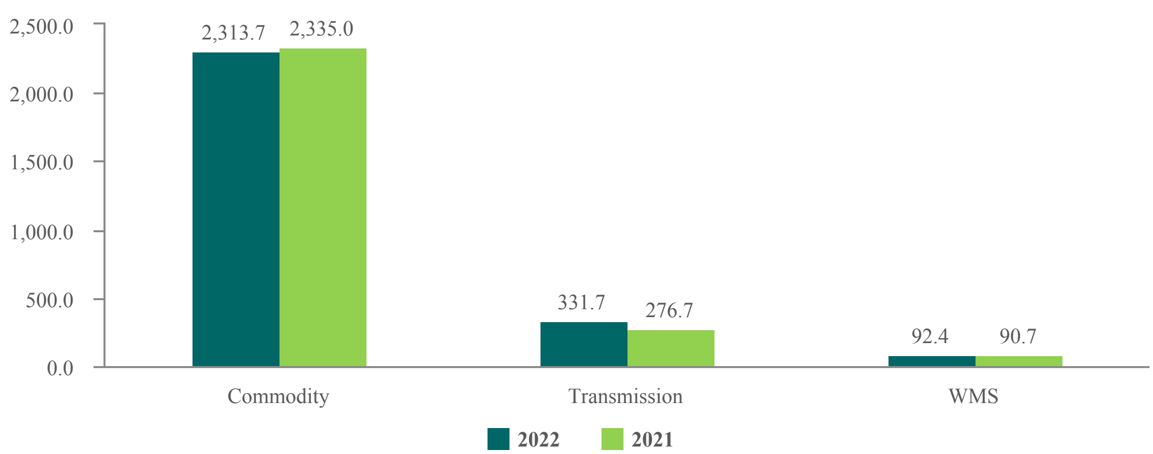
LDC's energy sales arise from charges to customers for electricity consumed, based on regulated rates. Energy sales include amounts billed or billable to customers for commodity charges, retail transmission charges, and WMS charges at current rates. These charges are passed through to customers over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

Energy Sales
Three months ended December 31, 2022
[in millions of Canadian dollars]



Energy sales for the three months ended December 31, 2022 were $601.7 million, compared to $625.0 million for the comparable period in 2021. The decrease was primarily due to lower commodity charges [$38.5 million], partially offset by higher retail transmission charges [$14.2 million].

Energy Sales
Year ended December 31, 2022
[in millions of Canadian dollars]



Energy sales for the year ended December 31, 2022 were $2,737.8 million, compared to $2,702.4 million for the comparable period in 2021. The increase was primarily due to higher retail transmission charges [$55.0 million], partially offset by lower commodity charges [$21.3 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, 2022 was $185.4 million and $754.2 million, respectively, compared to $186.6 million and $759.1 million for the comparable periods in 2021.

The decrease in distribution revenue [$1.2 million] for the three months ended December 31, 2022 was primarily due to lower revenue collected through OEB-approved rate riders [$8.6 million], partially offset by higher electricity consumption [$4.5 million] and higher 2022 distribution rates [$2.8 million].

The decrease in distribution revenue [$4.9 million] for the year ended December 31, 2022 was primarily due to lower revenue collected through OEB-approved rate riders [$31.5 million], partially offset by higher electricity consumption [$15.4 million] and higher 2022 distribution rates [$11.0 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, 2022 was $32.0 million and $109.7 million, respectively, compared to $32.4 million and $105.6 million for the comparable periods in 2021.

Other revenue for the three months ended December 31, 2022 was in line with the comparable period in 2021.

The increase in other revenue for the year ended December 31, 2022 was primarily due to higher amortization of capital contributions and higher revenue in connection with ancillary services, partially offset by streetlighting cost recoveries received in 2021.

Energy Purchases

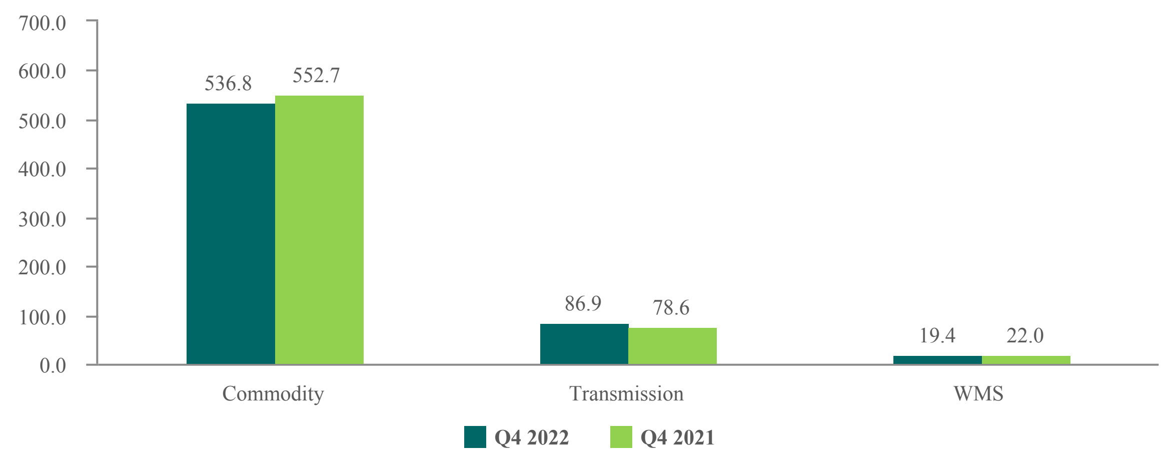
LDC's energy purchases consist of actual charges for electricity generated by third parties, which are passed through to customers over time in the form of energy sales. Energy purchases are billed monthly by the IESO and include commodity charges, retail transmission charges and WMS charges.

Energy Purchases, Energy Sales, and Settlement Variances
Three months ended December 31, 2022
[in millions of Canadian dollars]

	Energy Purchases $	Energy Sales $	Settlement Variances $
Commodity charges	536.8	501.1	35.7
Retail transmission charges	86.9	78.4	8.5
WMS charges	19.4	22.2	(2.8)
Total	643.1	601.7	41.4

For the three months ended December 31, 2022, LDC recognized $601.7 million in energy sales to customers and was billed $643.1 million for energy purchases from the IESO. The difference between energy sales and energy purchases represents a $41.4 million settlement variance for the period. The settlement variance was recorded as an increase to the regulatory debit balance [$43.1 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.

LDC Energy Purchases
Three months ended December 31, 2022
[in millions of Canadian dollars]



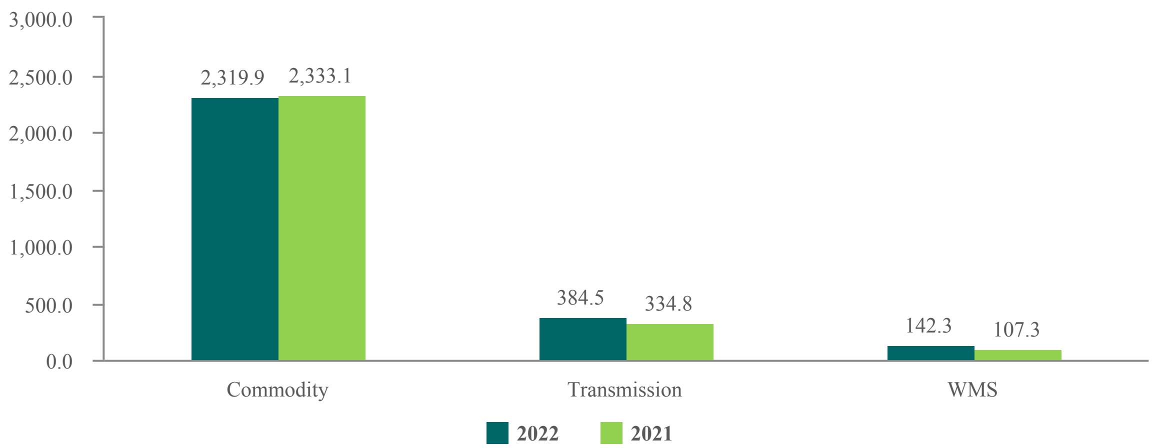
Energy purchases for the three months ended December 31, 2022 were $643.1 million compared to $653.3 million for the comparable period in 2021. The decrease was primarily due to lower commodity charges [$15.9 million], partially offset by higher retail transmission charges [$8.3 million].

Energy Purchases, Energy Sales, and Settlement Variances
Year ended December 31, 2022
[in millions of Canadian dollars]

	Energy Purchases $	Energy Sales $	Settlement Variances $
Commodity charges	2,319.9	2,313.7	6.2
Retail transmission charges	384.5	331.7	52.8
WMS charges	142.3	92.4	49.9
Total	2,846.7	2,737.8	108.9

For the year ended December 31, 2022, LDC recognized $2,737.8 million in energy sales to customers and was billed $2,846.7 million for energy purchases from the IESO. The difference between energy sales and energy purchases represents a $108.9 million settlement variance for the period. The settlement variance was recorded as an increase to the regulatory debit balance [$111.6 million including carrying charges on the accumulated settlement variance balance; refer to the regulatory debit balance table in note 8 to the Consolidated Financial Statements] on the Consolidated Balance Sheets, and presented within net movements in regulatory balances on the Consolidated Statements of Income.

LDC Energy Purchases
Year ended December 31, 2022
[in millions of Canadian dollars]



Energy purchases for the year ended December 31, 2022 were $2,846.7 million compared to $2,775.2 million for the comparable period in 2021. The increase was primarily due to higher retail transmission charges [$49.7 million], higher wholesale market service charges [$35.0 million], partially offset by lower commodity charges [$13.2 million].

Operating Expenses

Operating expenses for the three months and year ended December 31, 2022 were $91.9 million and $322.5 million, respectively, and were in line with $92.6 million and $323.0 million for the comparable periods in 2021.

Depreciation and Amortization

Depreciation and amortization expense, which includes derecognition of assets removed from service, for the three months and year ended December 31, 2022 was $88.7 million and $311.4 million, respectively, compared to $79.2 million and $292.7 million for the comparable periods in 2021.

The increases in depreciation and amortization for the three months and year ended December 31, 2022 were primarily due to in-service asset additions and higher derecognition of assets removed from service, partially offset by certain assets being fully depreciated.

Finance Costs

Finance costs for the three months and year ended December 31, 2022 were $25.4 million and $87.6 million, respectively, compared to $20.3 million and $79.1 million for the comparable periods in 2021.

The increases in finance costs for the three months and year ended December 31, 2022 were primarily due to a higher rate of funding with a weighted average interest rate of 2.15% [2021 - 0.28%] for commercial paper and higher average amount of outstanding debentures, partially offset by an increase in investment income due to higher short-term rates.

Gain on Disposals of PP&E

Gain on disposals of PP&E for the three months and year ended December 31, 2022 was $nil, compared to $0.4 million and $2.7 million for the comparable periods in 2021.

The decrease in gain on disposals of PP&E for the year ended December 31, 2022 was primarily related to the gain realized in connection with the sale of a property in the first quarter of 2021 [$1.5 million].

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, 2022 was $2.1 million and $6.1 million, respectively, compared to $2.8 million and $12.9 million for the comparable periods in 2021.

The decrease in income tax expense and income tax recorded in net movements in regulatory balances for the three months ended December 31, 2022 was primarily due to lower income before taxes, partially offset by lower net deductions in permanent and temporary differences between accounting and tax treatments.

The decrease in income tax expense and income tax recorded in net movements in regulatory balances for the year ended December 31, 2022 was primarily due to higher net deductions in permanent and temporary differences between accounting and tax treatments, and lower tax recognized on property dispositions, partially offset by higher 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 [$81.5 million] and decrease in the regulatory credit [$1.1 million] balances for the year ended December 31, 2022 equals the sum [$82.6 million] of net movements in regulatory balances, net movements in regulatory balances arising from deferred taxes and net movements in regulatory balances related to OCI for the period [refer to "Financial Position" below]. Energy purchases record the actual cost of power purchased, which varies from month to month. Since the selling price of power within energy sales is fixed for set periods of time, a gain or loss usually results and is part of the calculation of net income. However, per OEB regulations, such gains or losses on energy sales are deferred within regulatory variance accounts for later disposition to or from rate payers via rate riders after approval by the OEB. Deferrals of gains or losses on energy sales [refer to discussion on settlement variance under "Results of Operations" above], or disposition of past deferrals in electricity rates will usually represent the largest single element of the net movements in regulatory balances for a given period.

Net movements in regulatory balances for the three months and year ended December 31, 2022 were a recovery of $48.1 million and $136.5 million, respectively, compared to a recovery of $23.3 million and $54.1 million for the comparable periods in 2021. The recovery of $48.1 million and $136.5 million for the three months and 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. The recovery of $23.3 million and $54.1 million for the three months and year ended December 31, 2021 was primarily due to the settlement variance between the electricity costs billed monthly by the IESO and LDC's billing to customers, partially offset by amounts disposed through OEB-approved rate riders.

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, 2022.

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

	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

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

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

Financial Position

The following table outlines the significant changes in the Consolidated Balance Sheet as at December 31, 2022 as compared to the Consolidated Balance Sheet as at December 31, 2021.

Consolidated Balance Sheet Data
[in millions of Canadian dollars]

Balance Sheet Account	Increase (Decrease) $	Explanation of Significant Change
Assets		
Accounts receivable and unbilled revenue	**42.6**	The increase was primarily due to higher pass-through electricity costs, higher electricity consumption and timing of billing and collection activities.
PP&E and intangible assets	**408.6**	The increase was primarily due to capital expenditures [refer to "Investing Activities" below], partially offset by depreciation and amortization including derecognition.
Liabilities and Equity		
Commercial paper	**80.0**	The increase was primarily due to the issuances of commercial paper required for general corporate purposes [refer "Liquidity and Capital Resources" below].
Accounts payable and accrued liabilities	**37.9**	The increase was primarily due to timing differences in payments, partially offset by lower pass-through electricity costs payable to the IESO.
Debentures	**298.4**	The increase was primarily due to the issuance of $300.0 million of Series 19 debentures, net of issuance costs [refer to "Liquidity and Capital Resources" and "Financing Activities" below].
Deferred revenue	**98.4**	The increase was primarily due to capital contributions received.
Post-employment benefits	**(76.6)**	The decrease was primarily due to the recognized actuarial gain incurred as a result of the increase in discount rate from 3.0% to 5.1% as at December 31, 2022.
Deferred tax liabilities	**20.8**	The increase was primarily due to lower tax values as compared to accounting values of PP&E and intangible assets, and the impact of the actuarial gain on post-employment benefit obligation.
Other Liabilities	**(11.0)**	The decrease was mainly due to the settlement of a HONI liability in 2022 related to the connection of Copeland station to transmission facilities.

Consolidated Balance Sheet Data
[in millions of Canadian dollars]

Balance Sheet Account	Increase (Decrease) $	Explanation of Significant Change
Retained earnings	**79.3**	The increase was due to net income after net movements in regulatory balances [$163.9 million], offset by dividends paid [$84.6 million].
Regulatory Balances		
Regulatory debit balances	**81.5**	The increase was primarily related to the settlement variance between the electricity costs billed monthly by the IESO and LDC's billing to customers and deferred taxes, partially offset by the reclassification of the post-employment net actuarial loss from regulatory debit to regulatory credit balance resulting from the remeasurement of post-employment benefit obligations to reflect the higher discount rate.
Regulatory credit balances	**(1.1)**	The decrease was primarily due to the recognized actuarial gain resulting from the remeasurement of post-employment benefit obligations to reflect the higher discount rate, partially offset by amounts disposed through OEB-approved rate riders.

Liquidity and Capital Resources

The Corporation is a party to a credit agreement with a syndicate of Canadian chartered banks which established a revolving credit facility ["Revolving Credit Facility"], pursuant to which it may borrow up to $800.0 million, of which up to $210.0 million is available in the form of letters of credit. On September 2, 2021, the maturity date of the Revolving Credit Facility was extended from October 10, 2024 to September 2, 2026. On November 18, 2022, the maturity date of the Revolving Credit Facility was extended from September 2, 2026 to September 17, 2027. As at December 31, 2022, the Corporation was in compliance with all covenants included in its Revolving Credit Facility agreement.

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

Additionally, the Corporation is a party to a demand facility with a Canadian chartered bank for the purpose of issuing letters of credit mainly to support LDC's prudential requirements with the IESO ["Prudential Facility"]. As at December 31, 2022, $57.6 million of letters of credit had been issued against the Prudential Facility.

The Corporation is a party to a $20.0 million demand facility with a Canadian chartered bank for the purpose of working capital management ["Working Capital Facility"]. As at December 31, 2022, $12.8 million had been drawn under the Working Capital Facility, compared to $8.8 million as at December 31, 2021. On the consolidated statements of cash flows, cash and cash equivalents [working capital facility] includes bank overdrafts that are repayable on demand and form an integral part of the Corporation's cash management.

The Corporation's current assets and current liabilities amounted to $526.2 million and $1,182.5 million, respectively, as at December 31, 2022, resulting in a working capital deficit of $656.3 million. The deficit is primarily attributable to the Corporation's preference for utilizing its Commercial Paper Program and Working Capital Facility before issuing additional debentures to fulfill the Corporation's ongoing liquidity requirements, including funding of significant capital spending and the reclassification of Series 8 debenture to current liabilities due on April 10, 2023. The Corporation seeks to maintain an optimal mix of short-term and long-term debt in order to lower overall financing costs and to enhance borrowing flexibility.

The Corporation's primary sources of liquidity and capital resources are cash provided by operating activities, issuance of commercial paper, amounts available to be drawn against its credit facilities, and borrowings from debt capital markets. On October 13, 2022, the Corporation issued $300.0 million of 4.95% senior unsecured debentures [see "Financing Activities" below]. The Corporation's liquidity and capital resource requirements are mainly for capital expenditures to maintain and improve the electricity distribution system of LDC, for energy purchases and to meet financing obligations.

The amount available under the Revolving Credit Facility 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, 2022	**800.0**	**—**	**355.0**	**445.0**
Balance as at December 31, 2021	800.0	—	275.0	525.0

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

	Three months ended December 31,		**Year ended December 31,**	
	2022 $	2021 $	**2022** $	2021 $
Cash and cash equivalents (working capital facility), beginning of period	**(6.4)**	1.1	**(8.8)**	(6.2)
Net cash provided by operating activities	**196.3**	220.6	**469.1**	577.9
Net cash used in investing activities	**(198.2)**	(163.4)	**(674.6)**	(590.5)
Net cash provided by (used in) financing activities	**(4.5)**	(67.1)	**201.5**	10.0
Working capital facility, end of period	**(12.8)**	(8.8)	**(12.8)**	(8.8)

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

Operating Activities

Net cash provided by operating activities for the three months and year ended December 31, 2022 was $196.3 million and $469.1 million, respectively, compared to $220.6 million and $577.9 million for the comparable periods in 2021.

The decrease in net cash provided by operating activities for the three months ended December 31, 2022 was primarily due to lower net income before net movements in regulatory balances, lower net other non-current assets and liabilities and lower customer deposits, partially offset by timing differences in the settlement of receivables and payables.

The decrease in net cash provided by operating activities for the year ended December 31, 2022 was primarily due to timing differences in the settlement of receivables and payables, lower net income before net movements in regulatory balances, lower net other non-current assets and liabilities and lower customer deposits.

Investing Activities

Net cash used in investing activities for the three months and year ended December 31, 2022 was $198.2 million and $674.6 million, respectively, compared to $163.4 million and $590.5 million for the comparable periods in 2021.

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 [refer to note 21 to the Consolidated Financial Statements for cash basis].

Capital Expenditures
[in millions of Canadian dollars]

	Three months ended December 31,		Year ended December 31,	
	2022 **$**	2021 $	**2022** **$**	2021 $
Regulated LDC				
Distribution system				
Planned [1]	**175.0**	148.1	**560.5**	517.8
Reactive [2]	**18.2**	13.3	**51.1**	46.5
Technology assets	**20.0**	13.9	**58.3**	45.2
Other [3]	**23.9**	7.2	**43.8**	23.7
Regulated capital expenditures	**237.1**	182.5	**713.7**	633.2
Unregulated capital expenditures [4]	**2.6**	2.4	**9.0**	14.2
Total capital expenditures	**239.7**	184.9	**722.7**	647.4

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, 2022 were $237.1 million and $713.7 million, respectively, compared to $182.5 million and $633.2 million for the comparable periods in 2021.

For the three months ended December 31, 2022, the increase in regulated capital expenditures was primarily due to higher spending on underground infrastructure [$18.7 million], fleet capital [$12.3 million], technology assets [$6.1 million], network infrastructure [$5.6 million], control operations and reinforcement program [$5.1 million], reactive capital [$4.9 million] and customer-initiated plant relocations and expansions [$4.8 million].

For the year ended December 31, 2022, the increase in regulated capital expenditures was primarily due to higher spending on underground infrastructure [$28.7 million], fleet capital [$13.2 million], technology assets [$13.1 million], network infrastructure [$10.1 million], control operations and reinforcement program [$8.9 million], critical capital equipment [$4.9 million], and reactive capital [$4.6 million].

For the year ended December 31, 2022, the decrease in unregulated capital expenditures was primarily due to lower behind-the-meter battery storage.

The largest capital initiatives in 2022 include the delivery of customer connections, replacement of underground and overhead infrastructures, station programs, 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, 2022, capital expenditures for the delivery of customer connections were $137.2 million.

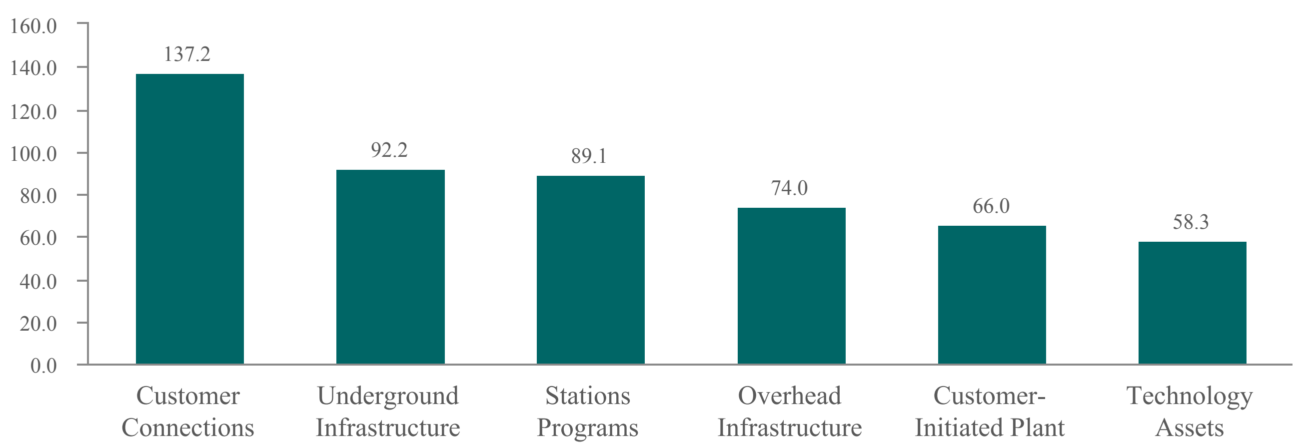
The replacement of underground infrastructure includes replacing direct buried cables, transformers, switches and other aging underground infrastructure. The replacement of overhead infrastructure includes replacing poles, overhead transformers, conductors, overhead switches and other aging overhead 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, 2022, capital expenditures for underground and overhead infrastructure were $92.2 million and $74.0 million, respectively.

The station programs focus on station renewal and station expansion. Station renewal targets the aging station infrastructure to reduce the risk of power outages and to maximize useful life. Station expansion addresses medium to long-term system capacity needs on the distribution system. For the year ended December 31, 2022, capital expenditures for station programs were $89.1 million.

Customer-initiated plant relocations and expansions include relocating infrastructure to accommodate construction by third parties. For the year ended December 31, 2022, capital expenditures for customer-initiated plant relocations and expansions were $66.0 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, 2022, capital expenditures for technology assets were $58.3 million.

Expenditures on Most Significant Regulated Capital Initiatives
Year ended December 31, 2022
[in millions of Canadian dollars]



Financing Activities

Net cash provided by [used in] financing activities for the three months and year ended December 31, 2022 was $4.5 million and $201.5 million, respectively, compared to $67.1 million and $10.0 million for the comparable periods in 2021.

The decrease in net cash used in financing activities for the three months ended and year ended December 31, 2022 was primarily due to lower debenture issuances in the fourth quarter of 2022.

For the three months and year ended December 31, 2022, the average aggregate outstanding borrowings under the Corporation's Revolving Credit Facility, Working Capital Facility and Commercial Paper Program were $397.2 million and $459.5 million, respectively, with a weighted average interest rate of 3.87% and 2.15% [compared to $219.0 million and $288.3 million, respectively, with a weighted average interest rate of 0.31% and 0.28% for the comparable periods in 2021].

As at December 31, 2022, the Corporation had debentures outstanding in the principal amount of $2.7 billion. These debentures will mature between 2023 and 2063. As at December 31, 2022, the Corporation was in compliance with all covenants included in its trust indenture and supplemental trust indentures.

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. The Series 19 debentures bear interest payable semi-annually in arrears. The net proceeds have been used to reduce indebtedness of the Corporation, including, but not limited to, indebtedness that the Corporation may have with bank affiliates of one or more dealers, to refinance the Corporation's outstanding debentures upon maturity, to finance the Corporation's capital expenditure program and for general corporate purposes. Debt issuance costs of $2.1 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.

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

Credit Ratings
As at December 31, 2022

	DBRS		**Standard & Poor's**	
	Credit Rating	Trend	Credit Rating	Outlook
Issuer rating	A	Stable	A	Positive
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, 2022, the Board of Directors of the Corporation declared and paid dividends to the City totalling $84.6 million [2021 - $70.3 million].

On March 1, 2023, the Board of Directors of the Corporation declared a dividend in the amount of $24.6 million, payable to the City by March 31, 2023.

Summary of Contractual Obligations and Other Commitments

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

Summary of Contractual Obligations and Other Commitments
As at December 31, 2022
[in millions of Canadian dollars]

	Total $	2023 $	2024 / 2025 $	2026 / 2027 $	After 2027 $
Commercial paper [1]	**355.0**	355.0	—	—	—
Debentures - principal repayment	**2,745.0**	250.0	—	200.0	2,295.0
Debentures - interest payments	**2,019.6**	90.6	174.0	169.0	1,586.0
Capital projects [2] and other	**24.3**	16.7	3.7	1.7	2.2
Leases	**0.2**	—	0.2	—	—
Total contractual obligations and other commitments	**5,144.1**	712.3	177.9	370.7	3,883.2

1 The notes under the Commercial Paper Program were issued at a discount and are repaid at their principal amount.
2 Primarily commitments for construction services.

Corporate Developments

***Changes to the Corporation's Board of Directors*.**

Effective April 6, 2022, the City Council appointed James Hinds and Annie Ropar to the Board of the Corporation. All then-current citizen directors were re-appointed to the Board of the Corporation other than Tamara Kronis and Juliana Lam who ceased to be directors of the Corporation.

Effective September 15, 2022, Annie Ropar resigned from the Board of the Corporation and as a member of the Audit and Human Resources and Environment Committees. Concurrently, Michael Eubanks was appointed to the Audit Committee and David McFadden was appointed to the Human Resources and Environment Committee.

On November 14, 2022, Deputy Mayor Denzil Minnan-Wong's term as a director of the Corporation ended with the expiry of his term as City Councillor.

On November 22, 2022, Councillor Paul Ainslie's term as a director of the Corporation ended.

On November 23, 2022, the City Council appointed the following Councillor directors to the Corporation's Board: Councillor Stephen Holyday, Deputy Mayor Jennifer McKelvie, and Councillor Jaye Robinson as the Mayor's designate.

COVID-19 Pandemic Considerations

On March 11, 2020, the World Health Organization declared that the COVID-19 outbreak was a global pandemic. The COVID-19 pandemic has not had a significant impact on the Consolidated Financial Statements of the Corporation for the year ended December 31, 2022.

On November 15, 2021, the OEB's standard winter disconnection ban commenced and remained in effect until May 1, 2022. Concurrent with the effective end date of the OEB's standard winter disconnection ban, the Corporation ended its voluntary ban on disconnections, which had been in place since the beginning of the pandemic. The Corporation's disconnection practices remain subject to the applicable OEB rules.

On January 7, 2022, the Ontario Government announced further targeted relief measures setting both the TOU rates for on-peak, mid-peak, and off-peak and tiered rates at the TOU off-peak rate of 8.2 cents per kWh, 24 hours a day, seven days a week, effective January 18, 2022 until February 7, 2022. There was no net income impact to the Corporation.

On October 1, 2022, Toronto Hydro transitioned to a hybrid work arrangement, which enabled employees who could perform their work from home the flexibility to attend their assigned work centre a minimum number of days a week, with flexibility as to work location on other days.

Toronto Hydro Climate Action Plan

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

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

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

At its meeting held on July 19-22, 2022, City Council received reports from the City Manager and Toronto Hydro in accordance with the December 2021 direction. City Council adopted the recommendations of those reports, as well as additional motions from City Councillors. The resolutions include a request that Toronto Hydro establish a new climate advisory services business in keeping with the proposal set out in Toronto Hydro's Climate Action Plan and Toronto Hydro's Climate Action Plan Status Report filed with the City in June 2022. City Council directed that a memorandum of understanding between the City and Toronto Hydro with respect to climate advisory services implementation targets and coordination details return to City Council in the first quarter of 2023.

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

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

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

Electricity Distribution Rates

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.

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.

Share Capital

Share capital consists of the following:

[in millions of Canadian dollars]	**2022** **$**	2021 $
Authorized		
The authorized share capital of the Corporation consists of an unlimited number of common shares without par value.		
Issued and outstanding		
1,200 common shares, of which all were fully paid.	**817.8**	817.8

Transactions with Related Parties

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

Summary of Transactions with Related Parties
[in millions of Canadian dollars]

	Year ended December 31,	
	2022 **$**	2021 $
Revenues	**271.4**	284.4
Operating expenses and capital expenditures (recoveries)	**0.6**	(1.5)
Dividends declared and paid	**84.6**	70.3

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

	As at December 31,	
	2022 **$**	2021 $
Accounts receivable and unbilled revenue	**40.0**	52.2
Accounts payable and accrued liabilities	**6.7**	15.0
Customer deposits	**9.8**	12.8

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

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

Controls and Procedures

For purposes of certain Canadian securities regulations, the Corporation is a "Venture Issuer". As such, it is exempt from certain requirements of National Instrument 52-109 – *Certification of Disclosure in Issuers*' Annual and Interim Filings. The CEO and CFO have reviewed the Consolidated Financial Statements and the MD&A for the three months and year ended December 31, 2022 and 2021. Based on their knowledge and exercise of reasonable diligence, they have concluded that these documents fairly present in all material respects the financial condition, financial performance and cash flows of the Corporation as at the date of and for the period presented.

Risk Management and Risk Factors

Toronto Hydro faces various risks that could impact the achievement of its strategic objectives. It adopts an enterprise-wide approach to risk management, based on an overall enterprise risk philosophy, and achieved through a process of consolidating and aligning the various views of risk across the enterprise via a risk governance structure.

Toronto Hydro's ERM framework utilizes industry best practices and international guidelines tailored to meet Toronto Hydro's circumstances, and focuses on identifying emerging trends in risks and related opportunities particular to Toronto Hydro through a comprehensive evaluation of Toronto Hydro's business and the electricity industry generally. Toronto Hydro views ERM as a management activity undertaken to add value and improve overall operations and has made it an important part of its decision-making processes. The ERM framework helps Toronto Hydro by enabling the attainment of its strategic goals and objectives through a systematic, disciplined approach towards identifying, evaluating, treating, monitoring and reporting of risks. Accordingly, ERM is an integral part of the strategic management of Toronto Hydro and is routinely considered in forecasting, planning and executing key aspects of the business.

The ERM framework is operationalized by a consistent and disciplined methodology that clearly defines the risk management process and which incorporates judgment of subject matter experts within Toronto Hydro, risk quantification, risk trends and risk interdependencies. The risk criteria used to assess each enterprise risk relate to: strategic, reputational, financial, stakeholder management, distribution system, information system, compliance, occupational health and safety, and public safety impacts.

Toronto Hydro has assigned a designated responsible member of senior management for each enterprise risk [and several key component risks] to seek to ensure that such risks are being monitored through qualitative and quantitative risk indicators and that short interval controls and medium to long-term mitigation plans are in place. Each designated responsible person provides regular risk reporting and briefings to the executive team on their enterprise risk and the key components of such risk. Additionally, Toronto Hydro's risk governance structure includes internal coordination efforts to align outreach to key external stakeholders, both from a strategic and consistency perspective, to help reduce risks and identify opportunities for engagement.

Internal ERM professionals meet regularly with the designated responsible persons to gather and review risk indicators and trends, and identify potential emerging facts that could impact Toronto Hydro, augment other risks or curtail opportunities. Such risk management processes and tools help Toronto Hydro prioritize its mitigation efforts, strengthen its planning efforts, and identify areas for improvement.

While Toronto Hydro's philosophy is that ERM is the responsibility of all business units at all levels, in strategic and functional matters, the ERM governance structure is comprised of three key levels.

At the first level is the Board, which maintains a general understanding of Toronto Hydro's risk profile, the risk categories and the types of risks to which Toronto Hydro may be exposed, and the practices used to identify, assess, measure and manage those risks. The risk profile is a list of key areas that may impede Toronto Hydro from achieving certain or all of its strategic objectives, and which are most material to its operational success. The Board also reviews Toronto Hydro's risk philosophy on an annual basis and is responsible for approving any new enterprise risk areas.

The second level is the executive team, which ensures systems are in place to identify, manage, and monitor risks and trends. Through input from the business and other considerations, the executive team assesses the appropriateness and consistent application of systems to manage risks within Toronto Hydro. The executive team also ensures that key risks are brought forward to the attention of the Board for discussion and action, as required.

Finally, the third level is the senior leadership team. The senior leadership team supports the executive team and is a collection of subject matter experts from across Toronto Hydro who actively engage in the day-to-day management of risks. Members of the senior leadership team have been assigned to be the designated responsible person for managing and reporting upon enterprise risks. Understanding the critical linkages between external stakeholder management and the impact and likelihood of the emergence of enterprise risk, members of this group are among those that have also been assigned as stakeholder coordinators to ensure that Toronto Hydro is working effectively with external stakeholders to mitigate risks. Working with the executive team, the senior leadership team oversees Toronto Hydro's risk profile and its performance against the defined risk philosophy. This group understands changes in risk status and trends, identifies potential opportunities, and determines responses and action plans that are then implemented by the organization. These senior leaders also work to ensure effective, efficient, complete and transparent risk reporting to the executive team.

Toronto Hydro reviews its risk philosophy and enterprise risks areas continuously for alignment with business and industry conditions and regularly updates and enhances its ERM program to ensure that Toronto Hydro is focused upon and responsive to risks of the greatest significance, likelihood and impact. Toronto Hydro's ERM program is focused on the key strategic and functional risk categories facing the organization. This allows Toronto Hydro's executive team and responsible business units to concentrate on these risks, focus on key data points and undertake deeper dives into root causes and risk trends in these areas on both a short-interval and long-term basis. By focusing in particular on the strategic risks to the organization, decision-making is strengthened and Toronto Hydro has a greater ability to realize opportunities central to its interests.

Toronto Hydro's business is subject to a variety of risks including those key risk areas described in the following sections. The strategic risk areas of Toronto Hydro are identified as the governance, oversight and franchise risks, while the key functional risks of the organization are the cybersecurity, safety, financial, operations, human capital and compliance risks. There can be no assurance that any steps Toronto Hydro may take to manage risks will avoid future loss resulting from the occurrence of the identified key enterprise risk areas or any other risks.

Governance Risk

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

The Corporation is a government-controlled enterprise whose sole shareholder is the City. The operations of Toronto Hydro are influenced by the broad by-law enactment and enforcement powers of the City. The City is also responsible for developing policies and municipal initiatives of general application and there is no guarantee that such policies, including climate change and energy policies, will align with Toronto Hydro's strategic objectives or long-term financial health. The City may also implement additional requirements relating to reduction in GHG emissions and adaptation to climate change as part of initiatives such as the City's TransformTO. In this respect, in response to resolutions passed by City Council in 2021, Toronto Hydro proposed a climate action plan to assist the City in meeting its 2040 net zero GHG emission objective. In July, 2022, City Council passed resolutions to support the implementation of the climate action plan. 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.

Toronto Hydro engages on a systematic basis with the City Mayor, City Councillors, the City Manager's office, and other departments and agencies to ensure a sharing of perspectives on the vital interests of Toronto Hydro and its customers. Through such engagements the parties review and consider the challenges to Toronto Hydro achieving the objectives and principles set out under the Shareholder Direction, and in particular the impact that proposed changes in city by-laws, municipal policies or directions by the shareholder may create for Toronto Hydro's ability to meet its business objectives and serve 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, 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;

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

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

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

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

Toronto Hydro actively participates in industry engagement efforts in order to mitigate the above risks and realize potential opportunities in regulatory, climate change and energy policy development. Through these types of engagements, Toronto Hydro monitors proposed regulatory, climate change and energy policy changes that may support or impede its business. LDC also employs a comprehensive organizational regulatory application program, which includes a risk assessment, to ensure that all applications to the OEB achieve the highest utility standard of evidence gathering, preparation and presentation, and most accurately reflects the needs of LDC. The preparation of the LDC distribution rates application to the OEB for the 2025-2029 rate period is currently underway. Successful completion and implementation of the project work plan related to the application is expected to yield long-term results for Toronto Hydro: specifically, funding certainty and flexibility to invest in the modernization and renewal of the distribution system and to prepare for growth and electrification driven by the City's TransformTO. However, there can be no assurance that the OEB will substantially approve the activities, plans and methodologies set out therein or the revenue requirement related thereto.

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 such as COVID-19 or other adverse public health developments. Toronto Hydro actively engages with government entities and participates in industry organizations to monitor emerging policies and where possible plays an advocacy role.

Franchise Risk

Risk that restrictions in LDC's business model and/or external conditions impede its ability to maintain and grow its legal right to be the sole provider of electricity distribution and connection services in the city of Toronto [its franchise] and serve 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 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, 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 image in the community, public confidence or brand. Toronto Hydro is committed to delivering safe and reliable electricity to its customers in an environmentally responsible manner at optimal costs. Negative views regarding this commitment and the 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.

Toronto Hydro is focused on monitoring external competitive factors and industry developments, including alternative service providers and technologies, through indicators such as customer engagements related to innovative technologies and pre-assessment requests and connection applications for energy storage. Toronto Hydro is also focused on enhancing the intelligence, automation and interactivity of LDC's electricity distribution grid, including utilizing developing technology and facilitating customer use of technology and business models, to support the reliability of its core infrastructure grid operations, prepare for increased electricity demand from net zero GHG emission policies, promote greater value, and deliver solutions for its customers. Additionally, Toronto Hydro takes measures to maintain relationships with its customers to better understand the specific needs and expectations of each class of customer, and develop or enhance service offerings to address those needs. Toronto Hydro conducts customer research and consultations in the ordinary course of its operations, and as part of the development of its rate application whereby it directly considers customer preferences and feedback, in addition to other inputs, as part of developing its business plan. Toronto Hydro also has dedicated personnel focused on the utility's key account customers, who respond to issues raised by large commercial, industrial and institutional customers and assist with their energy management needs. Toronto Hydro also provides climate advisory services as part of its climate action plan to facilitate customers in developing their own climate action plans and reduce stakeholder-identified barriers that prevent or inhibit customers from participating in the energy transition. Through these types of engagements, Toronto Hydro can monitor its customers' specific needs and can work with them to develop energy solutions.

Cyber Security Risk

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

Toronto Hydro's ability to operate effectively is also in part dependent on the development, maintenance and management of complex information technology and operational technology systems. Computer systems are employed to operate LDC's electricity distribution system, and Toronto Hydro's financial, customer billing and business systems to capture data and to produce timely and accurate information.

LDC's electricity distribution infrastructure and technology systems are potentially vulnerable to damage or interruption from cyber-attacks, breaches or other compromises, which could result in business interruption, service disruptions, theft of intellectual property and confidential information [about customers, suppliers, counterparties and employees], additional regulatory scrutiny, litigation and reputational damage. The cybersecurity threat landscape is continually evolving and actors are using more sophisticated methods to penetrate information technology systems. In particular, the utilities sector, as operators of critical infrastructure and providers of essential services with large customer bases, has become an increasing target for cybersecurity activity. Toronto Hydro has implemented security controls substantially aligned with industry best practices and standards, including the National Institute of Standards and Technology Cybersecurity Framework and the OEB's Ontario Cyber Security Framework, and maintains cyber insurance. Cyber-attacks, breaches or other compromises of electricity distribution infrastructure and technology systems could result in service disruptions and system failures, including as a result of a failure to provide electricity to customers, property damage, data corruption, and/or loss of confidential employee, supplier, counterparty or customer information. A significant breach could materially adversely affect the financial performance of Toronto Hydro or its reputation and standing with customers, regulators and in the financial markets. It could also expose Toronto Hydro to third-party claims. Overseeing the management of these risks, Toronto Hydro's Audit Committee receives comprehensive updates on the cybersecurity environment and the organization's cybersecurity program and responses.

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

Preventative controls are employed to protect information and technology assets against cyber-attacks and mitigate their effects. Toronto Hydro maintains close coordination with industry partners and agencies and technology vendors who provide near real-time threat intelligence. Detective controls are employed to continuously monitor information systems so that Toronto Hydro can respond appropriately to minimize the damage in the event of a cyber-attack. Additionally, in respect of Toronto Hydro's operational technology systems in general, controls are in place which mitigate against wider systemic risk to business systems. Toronto Hydro has also developed robust processes for assessment of third-party providers and contractors that interact with its information technology systems, and has contractual protection and technical safeguards in place to safeguard against third-party risks. Even with these measures in place, since the techniques used to obtain unauthorized access, disable or degrade service, or sabotage systems change frequently and may only be detected once a cyber incident has initiated, Toronto Hydro may be unable to anticipate these techniques or to implement adequate preventative measures.

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

As public health measures and pandemic restrictions have lifted, Toronto Hydro has transitioned to a hybrid work arrangement. Threat vectors related to remote working (i.e. scams, spams, phishing, vishing, etc.) are expected to persist to exploit hybrid work infrastructure and target employees' home networks and personal devices to gain access to Toronto Hydro's networks. As such, the Corporation will continue to deploy preventative and detective controls to protect and continuously monitor information systems and technology assets to help minimize damage in the event of a cyber-attack, breach or other compromise. The Corporation also has internal cybersecurity and technology use policies in place, as well as a cybersecurity training program for its employees.

Despite the proactive steps taken to adapt to the current environment, the Corporation's ability to operate effectively is dependent on the security, development, maintenance, and management of complex information technology systems.

Safety Risk

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

Potential and existing health and safety risks related to worksites and tasks being performed by Toronto Hydro are regularly assessed 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 can cause and/or contribute to critical injuries, fatal injuries, and occupational illnesses, as defined by provincial health and safety legislation.

The nature of the work performed in electrical utilities operations requires that employees receive extensive training on health and safety, including on personal protective equipment and the implementation of workplace safety procedures and protocols. This is due to the hazards inherent to electrical utilities work, which, depending on the required task, can include electrical contact, 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. On occasion, hazards can result in personal injury, operational interruptions, and loss or damage to equipment, property, or information technology systems. In an active and ongoing manner, Toronto Hydro further mitigates health and safety risks to employees, customers and members of the public through equipment inspection, replacement and maintenance, employee training, communications programs and reactive and emergency work. “Safety by Design” principles are applied in the development of construction standards and design practices. New products for use in the distribution system go through a thorough review and introduction process. The selection process for new products and the development of standards promotes employee, customer, and public health and safety.

Toronto Hydro is subject to compliance with provincial health and safety legislation. Toronto Hydro’s management approach to occupational health and safety is to meet, and often where possible, exceed legal compliance requirements and eliminate or safeguard known occupational hazards and risks. Toronto Hydro also follows the internal responsibility system to clearly define responsibility and accountability for every workplace party at each level within the organization. There are processes in place to develop and nurture good leadership practices through recruitment, education, training and performance management practices that encourage the application of Toronto Hydro’s corporate values, including health and safety.

Toronto Hydro also has in place an infectious disease plan, which was activated by the COVID-19 emergency, as well as previous pandemics and epidemics. This plan has been a significant part of Toronto Hydro’s emergency response to COVID-19 and has been used to seek to limit health and safety exposures to employees, members of the public, and the communities serviced by Toronto Hydro.

In 2013, LDC received OHSAS 18001 certification which was the international standard for occupational health and safety management systems. OHSAS was later replaced by ISO 45001:2018 which Toronto Hydro successfully migrated to in 2019 and was subsequently re-certified in 2021. LDC conducts annual third-party audits to maintain ISO 45001:2018 certification. In addition, occupational health and safety legal compliance audits are conducted by an external third party every two years. The ISO 45001:2018 certificate expires on February 4, 2025.

Financial Risk

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

Toronto Hydro is directly and indirectly subject to various macroeconomic and local market forces, which could have material adverse impacts. As a consequence of uncertainties in the recovery of economic and market conditions, Toronto Hydro remains exposed to inflationary pressures, an increased interest rate cost environment, indeterminate levels of customer consumption, credit risk with respect to customer non-payment of electricity bills and increased supply chain, operating and infrastructure development costs. The general rate of inflation in Canada and many other countries saw a significant increase during 2021 and continuing throughout 2022, with some regions experiencing multi-decade highs. Certain underlying factors include, but are not limited to, global supply chain disruptions, shipping restrictions, labour market constraints, geopolitical instability and side effects from monetary policies and fiscal expansions. The global economic recovery remains 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 global economic recovery and rising inflationary trends are widely expected to result in elevated interest rates. In 2022, the Bank of Canada began raising its benchmark interest rates for the first time since 2018 and further interest rate increases may occur. The Corporation closely monitors market trends and seeks to mitigate cost impacts through various measures, including project management, procurement and other management actions. There can be no assurance that the OEB will allow full recovery of increased costs relating to these factors.

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

Actions by the provincial government or regulatory authorities may impede LDC's ability to mitigate the risk of customer non-payment using means normally permitted by law at certain times of the year, including security deposits [i.e., letters of credit, surety bonds, cash deposits or lock-box arrangements, under terms prescribed by the OEB], late payment penalties, pre-payment, pre-authorized payment, load limiters or disconnection. LDC may have no option in certain cases but to assume the amount of any default, whether in whole or in part, and LDC's security interest or other measures, if any, may not provide sufficient protection. While LDC would be liable for the full amount of the default, there can be no assurance that the OEB would allow recovery of the expected credit loss allowance or of the increased operating or construction costs, and such expenses and costs could have a material adverse effect on the Corporation's business, operations, financial condition or prospects. The OEB would examine any electricity distributor's application for recovery of extraordinary expected credit loss allowance and other expenses on a case-by-case basis. 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. If the level of customer payment delays or non-payment, or increased costs contribute to liquidity challenges, the Corporation expects that it would utilize various mitigation tools at its disposal in seeking to improve its liquidity, including accessing further debt under, or increasing limits in, any of its MTN Program, Commercial Paper Program, or its credit facilities, or by reducing costs and delaying payments. The 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.

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.

Toronto Hydro seeks to target an optimal capital structure and cash to debt range to access capital markets at the lowest interest rates to finance its capital plans, including those related to meeting increased electricity demand resulting from net zero GHG emission policies [such as the City's TransformTO]. The Corporation's ability to arrange sufficient and cost-effective debt financing could be materially adversely affected by a number of factors, including financial market conditions, inflationary pressure, Bank of Canada monetary 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 in general and consumers. In addition, any of the above factors can also be affected by financial or geopolitical events in the global economy, Toronto Hydro's business, operations, financial condition or prospects, compliance with contractual debt covenants, the ratings assigned to the Corporation or the debentures issued under the Corporation's MTN Program by credit rating agencies, the rating assigned to short-term borrowings under the Commercial Paper Program by a credit rating agency, the availability of the commercial paper market, and the interest rates and availability of borrowing capacity under its

Revolving Credit Facility, Working Capital Facility and other credit arrangements. In the event the Corporation is unable to maintain a required credit rating for its Commercial Paper Program, the Corporation's cost to access short-term capital could be materially adversely affected. In addition, if the Corporation cannot maintain attractive credit ratings for its MTN Program, debt capital under such program may become too costly or unavailable, which could materially adversely affect the Corporation's capital and operational programs, and its 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 uncertainty. Therefore, as further indebtedness is incurred to finance Toronto Hydro's capital program and its climate action plan, the Corporation's debt to equity capital structure may not be maintained at a level in alignment with the OEB's deemed capital structure for rate making purposes (60% debt:40% equity). The Corporation regularly reviews the external market environment and has regular engagements with its credit rating agencies, securities dealers and investor community to monitor capital structure risk.

Generally, Toronto Hydro is exposed to fluctuations in interest rates for the valuation of its post-employment benefit obligations. As at December 31, 2022, Toronto Hydro estimates that a 1% [100 basis point] increase in the discount rate used to value these obligations would decrease the accrued benefit obligation by $27.1 million, and a 1% [100 basis point] decrease in the discount rate would increase the accrued benefit obligation by $33.3 million.

Toronto Hydro is also exposed to short-term interest rate risk on the short-term borrowings under its Commercial Paper Program and Working Capital Facility, as well as customer deposits, while most of its remaining obligations for the most recently completed financial year were either non-interest bearing or bear fixed interest rates, and its financial assets for the most recently completed financial year were predominately short-term in nature and mostly non-interest bearing. Toronto Hydro manages interest rate risk by monitoring its mix of fixed and floating rate instruments, and taking action as necessary to maintain an appropriate balance as established under its treasury policies. Toronto Hydro estimates that a 25-basis point increase [decrease] in short-term interest rates, with all other variables held constant, would result in an increase [decrease] of approximately $1.1 million to annual finance costs.

Toronto Hydro typically has limited exposure to the changing values of foreign currencies. While Toronto Hydro purchases goods and services which are payable in US dollars, and purchases US currency to meet the related commitments when required, the impact of these transactions as at December 31, 2022 was not material.

Toronto Hydro's financial health and performance may also be adversely affected by events or measures, as well as changes in economic, policy, customer preference or technological conditions, that reduce the demand for electricity. Such events or measures may include, but are not limited to, closures of businesses and other institutions such as schools and government operations as a result of extreme storms and other weather conditions, natural disasters, terrorism, and pandemics such as COVID-19. A reduction in demand for grid-supplied electricity distribution may also arise from conservation measures. Additionally, the adoption by customers of new technologies in the electricity industry, including those related to self-generation, could reduce customer demand for grid-supplied electricity distribution. Toronto Hydro is focused on investing in its infrastructure to modernize the grid to drive resiliency, reliability, customer effectiveness and efficiency.

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, supply chain, customer management, physical security, and business interruption.

Toronto Hydro may be unable to maintain reasonable levels of reliability for its customers due to failure of existing distribution infrastructure and assets [including assets not directly involved in electricity distribution such as facilities and computer systems], access to the supply of electricity from the provincial and local generation and transmission systems, and the inability to replace or expand distribution infrastructure in an optimal timeframe. Electricity distribution is a capital-intensive business. As the municipal electricity distribution company serving the largest city in Canada, LDC continues to invest in the renewal of existing aging infrastructure and in the development of new infrastructure to address safety, reliability, hardening the resiliency of the distribution system against the effects of climate change, and customer service requirements now and in the future. As well, infrastructure investments will be made to increase the capacity and resilience of the grid required to facilitate the electrification of the economy and people's daily lives in order to achieve government net zero GHG emissions targets.

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 2028]. Asset condition assessment demographics also indicate substantial asset investment needs for a number of critical assets during this period. At the same time, Toronto is one of the fastest growing cities in North America and LDC must make upgrades to keep pace with urban intensification and electrification, optimize flexibility of connection to generation and transmission systems, including distributed energy resources; and ensure good stewardship of the distribution system in a manner that accounts for a changing climate. Further, extreme weather is no longer an infrequent experience, and has instead become a regular condition of operating a distribution system. Toronto Hydro has experienced several extreme weather events in recent years, including ice storms, freezing rain, extreme wind and flooding, that have led to a significant number of customers experiencing electricity outages and challenges to maintaining access to electricity supply from the transmission system.

In addition, as the City, provincial government and the Government of Canada implement policies and programs to respond and adapt to climate change, including greater electrification through the adoption of electric vehicles, distributed energy resources, building heating and cooling retrofits and energy efficiency/demand management technologies, the pressures on Toronto Hydro's system are expected to increase. Such factors may drive a need for incremental capital expenditures for system upgrades and new technologies 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.

LDC is focused on overcoming the above challenges and executing its capital and maintenance programs. It uses a variety of asset and project management tools to implement its plans, measures progress on a recurring short interval basis, and regularly monitors and manages the health of its assets. Toronto Hydro continues to align its asset management system to the ISO 55001: Asset Management standard and has commenced a formal process which is expected to lead to certification under the standard and to cause the lifecycle of assets to be managed more effectively, reduce system costs and improve system visibility and reliability. Toronto Hydro employs sophisticated, granular scenarios analysis based upon customer preferences to support its investment planning programs at the local level. LDC is also extensively engaged in regional planning activities and processes with the IESO to ensure the adequacy of the regional transmission system serving the City. Toronto Hydro also utilizes a diverse set of contractors and suppliers through its rigorous procurement practices and monitors market conditions closely. However, if LDC is unable to carry out these plans in a timely and optimal manner, becomes subject to significant unforeseen equipment failures, or is unable to access sufficient supplies or human resources, equipment performance will degrade. Such degradation may compromise the reliability of distribution assets, climate change readiness, the ability to deliver sufficient electricity and/or customer supply security, including in response to government net zero GHG policies and public goals, and increase the costs of operating and maintaining these assets. Similarly, there is no certainty that regional planning efforts controlled by external governing agencies and regulators will address all electricity supply matters as identified by LDC.

Additionally, Toronto Hydro's ability to operate effectively is in part dependent upon timely access to equipment, materials and service suppliers. Loss or delay of key equipment, materials and service suppliers and the reputational and financial risk exposures of key vendors could affect the Corporation's operations and execution of capital projects. Disruptions to the Corporation's supply chain, driven by the geopolitical environment, inflation, shifts in demand, and labour shortages, have resulted 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. Uncertainty and disruption resulting from international conflicts and military operations may also affect Toronto Hydro, including by contributing to supply chain or financial markets disruption. Toronto Hydro has a number of mitigation plans in place, including purchasing material requirements beyond lead times, sourcing and approving new suppliers to alleviate single point of supply issues, adjusting re-order points to increase certain stock codes, extending planning horizons, and re-using/repairing existing equipment where possible.

Toronto Hydro utilizes its procurement processes and a diverse supplier and contractor base to mitigate against supply chain risks and costs.

Toronto Hydro may also fail to accurately measure customer electricity consumption, respond to and address customer service issues or bill customers correctly or on time [including meter to cash management]. In order to provide timely and accurate billing and customer service, Toronto Hydro has implemented a number of policies, procedures and guidelines including those related to metering, accounts receivable and connections/disconnections. Toronto Hydro monitors metering/billing accuracy, customer communications and customer service quality on an ongoing basis. The Corporation has also commenced a multi-phase customer enhancement program to harmonize the customer experience by delivering a digital enablement of customer interactions, seamless meter to cash process, updating customer billing technology and other customer service processes in a cost-effective and unified manner. As noted above under "COVID-19 Pandemic Considerations", Toronto Hydro has implemented a number of provincial government and OEB-based programs, including changes to commodity prices, as well as its own initiatives such as extensions of disconnect moratoriums and reductions in late payment charges, in order to assist customers. The wind-down and removal of these supports for customers may lead to negative customer sentiment toward Toronto Hydro. As a result of net zero GHG emissions policies, LDC may need to accelerate capital investments to accommodate increasing electrification. These system enhancements may lead to material customer bill increases and a more challenging customer relationship environment for Toronto Hydro, as well as customer backlash against the energy transition and related expenditures by Toronto Hydro.

Toronto Hydro also faces external threats to its physical and perimeter security. This includes the security of Toronto Hydro's facilities including office buildings and distribution stations. In order to safeguard its assets and staff, Toronto Hydro has developed policies and guidelines around physical and perimeter security and facilities related emergency preparedness. Toronto Hydro has also implemented electronic security technologies to ensure that only authorized personnel have access to Toronto Hydro facilities.

Similarly, Toronto Hydro may be unable to maintain continuing and sustainable business operations, or recover from business interruption after an incident that is beyond normal operations. Toronto Hydro's operations are exposed to the effects of natural and other unexpected occurrences such as extreme storm and other weather conditions, natural disasters, loss of the supply of electricity from the provincial and local generation and transmission system, as well as terrorism and pandemics, such as COVID-19. LDC is also exposed to risks that informational and operational technology systems may not operate as anticipated and could result in sustained interruptions to key corporate systems that would have a substantial impact on continuing normal business operations. Costs and operational changes, associated with such business interruption events may have a material and adverse effect on Toronto Hydro's business and operations in both its short and longer term. These impacts may also include limiting Toronto Hydro's ability to build, repair and maintain capital infrastructure, with resultant impacts on reliability and revenue. Toronto Hydro has implemented various initiatives aimed at improving the system's resiliency to increasingly frequent extreme weather events caused by climate change. These initiatives include updating major equipment specifications, revising planning guidelines, reviewing the load forecast impacts, revising design practices, and enhancing maintenance programs.

Toronto Hydro has also implemented an emergency and business continuity management program to support organizational-wide resiliency and build measures in response to major threats to operations such as the COVID-19 pandemic, and major power outage events. Although Toronto Hydro's facilities and operations are constructed, operated and maintained with such occurrences in mind, there can be no assurance that they will successfully withstand such occurrences in all circumstances. Any major damage to Toronto Hydro's facilities or interruption of Toronto Hydro's operations arising from these occurrences could result in lost revenues and repair costs that can be substantial. Although Toronto Hydro has continued to place insurance which it considers to be consistent with industry practice, there is no guarantee that insurance will continue to be available at reasonable rates for certain types of coverage and policy limits. If Toronto Hydro sustained a large uninsured loss caused by natural or other unexpected occurrences, LDC may apply to the OEB for the recovery of the loss related to the electricity distribution system. There can be no assurance that the OEB would approve, in whole or in part, such an application.

Human Capital Risk

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

Toronto Hydro is subject to the risk that human resources may not be available with the necessary knowledge, skills and education to support Toronto Hydro's future talent requirements and, as a result, its strategic activities and business objectives. This risk could be heightened in economic conditions where inflation rates are rising as this may result in pressure on wages and salaries, and where employee expectations with respect to work-life balance and flexibility are evolving. Furthermore, Toronto Hydro expects that labour force availability for certain positions will continue to tighten, resulting in increased competition and turnover for certain skilled employees, which may negatively impact knowledge management and business continuity at Toronto Hydro.

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

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

Toronto Hydro's ability to operate successfully in the electricity industry in Ontario will continue to depend in part on its ability to make changes to existing work processes and conditions in order to adapt to changing circumstances, including limitations and restrictions placed on human resources as a result of 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 infectious diseases or other factors. If such disruption occurs, there may be a material adverse effect on Toronto Hydro's business and operations. One way in which Toronto Hydro seeks to mitigate this risk is through its use of business practices and internal procedures to identify a diverse group of reputable third-party service providers with access to advanced skill sets and entering into contracts with, and monitoring the performance of, these third-party service providers.

Compliance Risk

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

Toronto Hydro is committed to complying with applicable legal and regulatory requirements and other requirements to which the organization subscribes. Toronto Hydro has a Corporate Compliance program that strengthens the organization's culture of compliance and aims to provide reasonable assurance, to Toronto Hydro's senior leadership and Toronto Hydro's Board of Directors, of adherence with material compliance requirements. Regular senior leadership reporting on the completion status of planned mitigation actions, monitoring of compliance issue turnover rates, and a responsible employee attestation process assist with ensuring effective management of identified compliance risks. Despite these mitigations, there can be no certainty that Toronto Hydro will be in material compliance with applicable future laws, rules, regulations and policies at all times. Constraints on access to human and materials resources due to 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 requires management to make judgments, estimates and assumptions which affect the application of accounting policies, reported assets, liabilities and regulatory balances, and the disclosure of contingent assets and liabilities at the date of the Consolidated Financial Statements, and the reported revenues and expenses for the year. The estimates are based on historical experience, current conditions and various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities as well as for identifying and assessing the accounting treatment with respect to commitments and contingencies. Actual results could differ from those estimates, including changes as a result of future decisions made by the OEB, the IESO, the Ontario Ministry of Energy, or the Ontario Ministry of Finance. The assessment of the COVID-19 pandemic recovery is subject to uncertainty; accordingly, judgments, estimates and assumptions related to the impact of the uncertain economic conditions made by management in the preparation of the Corporation's Consolidated Financial Statements are also 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, 2022 *[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[j] relating to principal versus agent determination for recording revenue on a gross or net basis.

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

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

Significant Accounting Policies

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

Changes in Accounting Standards

Onerous Contracts - Cost of Fulfilling a Contract [Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets ["IAS 37"]]

In May 2020, the IASB issued amendments to IAS 37 regarding costs that should be included as the cost of fulfilling a contract when assessing whether a contract is onerous. The amendments clarify that the cost of fulfilling the contract comprises all costs that relate directly to the contract. Such costs include both the incremental costs of fulfilling that contract and an allocation of other costs that relate directly to fulfilling contracts. The amendments apply to contracts existing at the date when the amendments are first applied. The amendments are effective for annual reporting periods beginning on or after January 1, 2022, with early adoption permitted. Effective January 1, 2022, 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 Presentation of Financial Statements ["IAS 1"]]

In January 2020, the IASB issued amendments to IAS 1 relating to the classification of liabilities as current or non-current. Specifically, the amendments clarify one of the criteria in IAS 1 for classifying a liability as non-current - that is, the requirement for an entity to have the right to defer settlement of the liability for at least 12 months after the reporting period. 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.

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

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

Disclosure of Accounting Policies [Amendments to IAS 1]

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

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

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

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

Forward-Looking Information

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

Specific forward-looking information in the MD&A includes, but is not limited to, the statements regarding the settlement variance and other regulatory balance variances as described in the section entitled "Results of Operations"; the effect of changes in weather conditions and energy consumption on future revenue as described in the section entitled "Summary of Quarterly Results of Operations"; the Corporation's plans to lower overall financing costs and enhance borrowing flexibility as described in the section entitled "Liquidity and Capital Resources"; the effect of overhead and underground infrastructure initiatives on LDC's ability to provide service to its customers, as described in the section entitled "Liquidity and Capital Resources"; the Corporation's available sources of liquidity and capital resources and the sufficiency thereof to satisfy working capital requirements for the next 12 months as described in the section entitled "Liquidity and Capital Resources"; the City's climate-related objectives, including TransformTO, and the Corporation's climate action plan and relevant City strategies and programs, including Toronto Hydro's climate change advisory services business and anticipated costs, as described in the section entitled "Corporate Developments"; 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 expected results of successful completion and implementation of the project work plan related to the 2025-2029 rates application as described in the section entitled "Oversight Risk"; Toronto Hydro's monitoring of external competitive factors as described in the section entitled "Franchise Risk"; the pervasiveness of competition and the presence of alternatives to Toronto Hydro's distribution services, and the resultant effects on LDC's distribution business as described in the section entitled "Franchise Risk"; Toronto Hydro's focus on increasing the intelligence, automation and interactive nature of its distribution system, and the incorporation of a greater level of technology and information systems into its infrastructure as described in the section entitled "Cyber Security Risk"; Toronto Hydro's hybrid work arrangement as described in the section entitled "Cyber Security Risk"; risk that serious workplace incidents arising from workplace hazards can cause and/or contribute to critical injuries, fatal injuries, and occupational illnesses as described in the section entitled "Safety Risk"; the Corporation's reliance on debt financing through its MTN Program, Commercial Paper Program or existing credit facilities to finance Toronto Hydro's daily operations, repay existing indebtedness, and fund capital expenditures as described in the section entitled "Financial Risk"; the impact on Toronto Hydro's operating results and financial position in the future due to uncertain economic factors, including macroeconomic factors such as a global recession, 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"; Toronto Hydro's ability to monitor its exposure to credit risk and risk of counterparties defaulting on their obligations as described in the section entitled "Financial Risk"; the continued ability of the Corporation to arrange sufficient and cost-effective debt financing in order to meet its short and long term obligations as described in the section entitled "Financial Risk"; the 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 effect of inflation on the Corporation's costs for supplies and materials as well as general employee and overhead costs, as described in the section entitled "Financial 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"; future infrastructure investments to increase the capacity and resilience of the grid 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 2028] as described in the section entitled "Operations Risk"; risk that Toronto Hydro may not be able to acquire or obtain necessary equipment, materials or service supplies on-time due to global supply chain disruptions 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"; and 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"; the expectation that none of the legal actions and claims as described further in the section entitled "Legal Proceedings" would have a material adverse effect on the Corporation and the ability to claim under applicable liability insurance policies and/or pay any damages with respect to legal actions and claims as described in the section entitled "Legal Proceedings", and the Corporation's assessment of the impact on adoption of the amendments to IAS 1, IAS 8, IAS 12, and IAS 37, if any, as described in the sections entitled "Changes in Accounting Standards" and "Future Accounting Pronouncements".

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

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

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

Selected Annual Information

The following table sets forth selected annual financial information for the three years ended December 31, 2022, 2021 and 2020. This information has been derived from the Corporation's consolidated financial statements.

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

	2022 $	2021 $	2020 $
Year Ended December 31			
Total revenues [1]	**3,601.7**	3,567.1	3,929.6
Net income after net movements in regulatory balances [1]	**163.9**	141.0	117.1
As at December 31			
Total assets and regulatory balances [2]	**6,947.0**	6,413.8	6,069.0
Total debentures [2,3]	**2,729.1**	2,430.7	2,382.2
Other non-current financial liabilities [4]	**21.6**	27.5	22.1
Total equity [2]	**2,062.0**	1,982.7	1,912.0
Dividends [5]	**84.6**	70.3	92.6

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

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

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

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

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

Additional Information

Additional information with respect to the Corporation [including its annual information form] is available on the System for Electronic Document Analysis and Retrieval website at www.sedar.com.

Toronto, Canada

March 1, 2023

ANNUAL INFORMATION FORM

FOR THE YEAR ENDED DECEMBER 31, 2022

March 28, 2023

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PART 1 - FORWARD-LOOKING INFORMATION

Certain information included in this AIF 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", "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 this AIF includes, but is not limited to, the statements regarding: certain regulated and unregulated entities competing with LDC to provide customers with sources of energy as described in the section entitled "Competitive Conditions"; the validity of the ISO 14001:2015 certificate as described in the section entitled "Environmental Policy and Oversight"; the audit, review and approval of environmental policies, programs and procedures by management as described in the section entitled "Environmental Policy and Oversight"; the gender diverse talent pipeline to fulfill short and long-term workforce staffing and succession management requirements as described in the section entitled "Environmental, Social and Governance"; Toronto Hydro's new metrics aimed at managing climate related risks and opportunities as described in the section entitled "Environmental, Social and Governance"; the terms of existing collective agreements with unionized staff and expected collective bargaining between Toronto Hydro and Society of United Professionals for IT professionals as described in the section entitled "Employees"; continual updates to the infectious disease plan as described in the section entitled "Health and Safety"; the undertaking of surveillance audits to verify the ISO 45001:2018 requirements and the ISO 14001:2015 requirements continue to be met as described in the sections entitled "Health and Safety" and "Environmental Policy and Oversight", respectively; the current coverage, amounts, and terms of the Corporation's insurance policies being consistent with industry practice as described in the section entitled "Insurance"; the effect of changes in energy consumption on future revenue as described in the section entitled "Seasonal Effects"; the hybrid work arrangement as described in the section entitled "COVID-19 Pandemic Considerations"; electricity distribution rates and rate applications as described in the section entitled "Rate Applications"; the termination of the ECA, the continuance of participant agreements that were in effect before April 1, 2019, the extension of the date by which participants are to complete the projects thereunder and LDC's continued responsibility for its obligations under the participant agreements as described in the section entitled "Conservation and Demand Management"; 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"; the climate advisory service and its ability to facilitate reductions in GHG emissions by reducing stakeholder-identified barriers and the expected annual costs of the climate advisory services business as described in the section entitled "Toronto Hydro Climate Action Plan"; the effects of the Corporation or a subsidiary ceasing to be exempt from tax under the ITA and the TA and the payment of transfer taxes and the prescribed transfer tax rate for any future transfer of interest by the Corporation and its subsidiaries, or any changes to tax rates, as described in the section entitled "Tax Regime"; 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 expected results of successful completion and implementation of the project work plan related to the 2025-2029 rates application as described in the section entitled "Oversight Risk"; Toronto Hydro's monitoring of external competitive factors as described in the section entitled "Franchise Risk"; the pervasiveness of competition and the presence of alternatives to Toronto Hydro's distribution services, and the resultant effects on LDC's distribution business as described in the section entitled "Franchise Risk"; Toronto Hydro's focus on increasing the intelligence, automation and interactive nature of its distribution system, and the incorporation of a greater level of technology and information systems into its infrastructure as described in the section entitled "Cyber Security Risk"; Toronto Hydro's hybrid work arrangement as described in the section entitled "Cyber Security Risk"; risk that serious workplace incidents arising from workplace hazards can cause and/or contribute to critical injuries, fatal injuries, and occupational illnesses as described in the section entitled "Safety Risk"; the Corporation's reliance on debt financing through its MTN Program, CP Program or existing credit facilities to finance Toronto Hydro's daily operations, repay existing indebtedness, and fund capital expenditures as described in the section entitled "Financial Risk"; the impact on Toronto Hydro's operating results and financial position in the future due to uncertain economic factors, including macroeconomic factors such as a global recession, 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"; Toronto Hydro's ability to monitor its exposure to credit risk and risk of counterparties defaulting on their obligations as described in the section entitled "Financial Risk"; the continued ability of the Corporation to arrange sufficient and cost-effective debt financing in order to meet its short and long term obligations as described in the section entitled "Financial Risk"; the 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 effect of inflation on the Corporation's costs for supplies and materials as well as general employee and overhead costs, as described in the section entitled "Financial 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"; future infrastructure investments to increase the capacity and resilience of the grid 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 2028] as described in the section entitled "Operations Risk"; risk that Toronto Hydro may not be able to acquire or obtain necessary equipment, materials or service supplies on-time due to global supply chain disruptions 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"; the specific details and amounts of such compensation that certain Toronto Hydro executives will receive as described in the section entitled "Compensation of NEOs in 2022 – Narrative Discussion", and the expectation that none of the legal actions and claims as described further in the section entitled "Legal Proceedings" would have a material adverse effect on the Corporation and the ability to claim under applicable liability insurance policies and/or pay any damages with respect to legal actions and claims as described in the section entitled "Legal Proceedings".

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

The forward-looking information is subject to risks, uncertainties and other factors that could cause actual results to differ materially from historical results or results anticipated by the forward-looking information. The factors which could cause results or events to differ from current expectations include, but are not limited to, risks associated with the execution of LDC's capital and maintenance programs necessary to maintain the performance of aging distribution assets and make required infrastructure improvements, including to deliver a modernized grid and meet electrification requirements to achieve government net zero GHG emissions targets; risks associated with capital projects; risks associated with electricity industry regulatory developments and other governmental policy changes including factors relating to LDC's distribution activities and to climate change; risks associated with increased competition from regulated and unregulated entities; risks associated with the timing and results of regulatory decisions regarding LDC's revenue requirements, cost recovery and rates; risks associated with information system security and with maintaining complex information technology systems; risks associated with maintaining the security of Toronto Hydro's information assets, including but not limited to the collection, use and disclosure of personal information; risks associated with the failure of critical IT systems; risk of external threats to LDC's facilities and operations posed by unexpected weather conditions caused by climate change and other factors; risks associated with changing weather patterns due to climate change and resultant impacts to electricity consumption based on historic seasonal trends, terrorism and pandemics, including but not limited to COVID-19, and LDC's limited insurance coverage for losses resulting from these events; risks related to COVID-19, including but not limited to restrictive measures affecting the mobility and availability of human and non-human resources, operational disruptions and the availability of financing; risk to Toronto Hydro's employees or the general public of serious/fatal injuries and illnesses relating to or impacting upon Toronto Hydro's activities; risks of municipal government activity, including the risk that the City could introduce rules, policies or directives, including those relating to net zero GHG emissions targets, that can potentially limit Toronto Hydro's ability to meet its business objectives as laid out in the Shareholder Direction principles; risks related to LDC's work force demographic, the available labour markets and the changing expectations of potential employees, and Toronto Hydro's potential inability to attract, train and retain skilled employees; risks of being unable to retain necessary qualified external contracting forces relating to its capital, maintenance and reactive infrastructure program; risks associated with possible labour disputes and LDC's ability to negotiate appropriate collective agreements; risk related to the approval of the rate application to the OEB for the 2025-2029 rate period; risk that Toronto Hydro may fail to monitor the external environment and or develop and pursue strategies through appropriate business models, thus failing to gain a strategic advantage; risk that Toronto Hydro is not able to arrange sufficient and cost-effective debt financing to repay maturing debt and to fund capital expenditures and other obligations; risk that the Corporation is unable to maintain its financial health and performance at acceptable levels; risk that insufficient debt or equity financing will be available to meet the Corporation's requirements, objectives, or strategic opportunities; risk of downgrades to the Corporation's credit rating; risks related to the timing and extent of changes in prevailing interest rates and discount rates and their effect on future revenue requirements and future post-employment benefit obligations; risks arising from inflation, the course of the economy and other general macroeconomic factors; risk associated with the impairment to the Corporation's image in the community, public confidence or brand; risk associated with the Corporation failing to meet its material compliance obligations under legal and regulatory instruments; risk of substantial and currently undetermined or underestimated environmental costs and liabilities; risk that assumptions that form the basis of LDC's recorded environmental liabilities and related regulatory balances may change; risk that the presence or release of hazardous or harmful substances could lead to claims by third parties and/or governmental orders; risk concerning the renewal of the LDC's distribution licence, and other factors which are discussed in more detail under Part 8 "Risk Factors" in this AIF.

All of the forward-looking information included in this AIF is qualified by the cautionary statements in this "Forward-Looking Information" section and the "Risk Factors" section of this AIF. 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 AIF or as of the date specified in this AIF, 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.

PART 2 - GLOSSARY OF DEFINED TERMS

In addition to terms defined elsewhere in this AIF, the below defined terms shall have the following meanings:

"2020-2024 CIR Decision and Rate Order" has the meaning set forth under section 5.3 entitled "Rate Applications".

"Affiliate Relationships Code" refers to the Affiliate Relationships Code for Electricity Distributors and Transmitters that was published by the OEB and became effective on April 1, 1999, as amended.

"AIF" refers to the Corporation's Annual Information Form for the year ended December 31, 2022.

"Board" refers to the board of directors of the Corporation.

"BOMA BEST" refers to the Canadian environmental assessment and certification program launched by BOMA Canada in 2005.

"BOMA Canada" refers to the Building Owners and Managers Association of Canada.

"Building Emissions Reduction" refers to a measure of the reduction of GHG emissions from Toronto Hydro occupied work centres [measured in tonnes of carbon dioxide equivalent].

"CAIDI" refers to the Customer Average Interruption Duration Index and is a measure [in hours] of the average duration of interruptions experienced by customers, not including MED. CAIDI represents the quotient obtained by dividing SAIDI by SAIFI.

"Canadian Environmental Protection Act" refers to the *Canadian Environmental Protection Act, 1999* [Canada], as amended.

"Capital Assets" refers to the sum of property, plant and equipment and intangible assets, net of accumulated depreciation and amortization. See note 6 and note 7 to the Consolidated Financial Statements.

"CDM" refers to conservation and demand management.

"CDS" refers to CDS Clearing and Depository Services Inc.

"CEO" refers to the President and Chief Executive Officer of the Corporation.

"CFO" refers to the Executive Vice-President and Chief Financial Officer.

"CIR" refers to Custom Incentive Rate-setting.

"City" refers to the *city incorporated under the City of Toronto Act, 1997* [Ontario], as amended.

"City Council" refers to Toronto City Council.

"City Councillor" refers to a councillor of Toronto City Council.

"**Climate Advisory Services**" refer to a new, 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.

"Consolidated Financial Statements" refers to the audited consolidated financial statements of the Corporation together with the auditors' report thereon and the notes thereto as at and for the years ended December 31, 2022 and December 31, 2021, a copy of which is available on the SEDAR website at www.sedar.com.

"Consumer Price Index" refers to the index measuring price movements published by Statistics Canada.

"Copeland Station" refers to the Clare R. Copeland transformer station, formerly called "Bremner Station".

"Corporation" refers to Toronto Hydro Corporation.

"COVID-19" refers to Coronavirus Disease 2019 and its variants.

"CPAB" refers to Canadian Public Accountability Board.

"CP Program" refers to the commercial paper program established by the Corporation under which the Corporation issues commercial paper. See section 9.3 entitled "Credit Facilities".

"DBRS" refers to DBRS Limited.

"Debentures" has the meaning set forth under section 9.2 entitled "Debentures".

"Distribution System Code" refers to the Distribution System Code that was published by the OEB on July 14, 2000, as amended.

"EBITDA" refers to earnings before interest, taxes, depreciation and amortization.

"EC" refers to Electricity Canada (formerly the Canadian Electricity Association).

"ECA" refers to the Energy Conservation Agreement between Toronto Hydro and IESO, dated July 1, 2017.

"EHSMS" refers to the Environment, Health and Safety Management System.

"Electricity Act" refers to the *Electricity Act, 1998* [Ontario], as amended.

"Electricity Property" refers to a municipal corporation's or an MEU's interest in real or personal property used in connection with generating, transmitting, distributing or retailing electricity.

"Energy Competition Act" refers to the *Energy Competition Act, 1998* [Ontario], as amended.

"Energy Consumer Protection Act" refers to the *Energy Consumer Protection Act, 2010* [Ontario], as amended.

"Environmental Policy" refers to the policy applicable to all Toronto Hydro employees and contractors performing work on behalf of Toronto Hydro covering, amongst other things, core environmental principles by which Toronto Hydro is committed to conducting its business, as approved by the Board most recently at August 24, 2022 meeting.

"Environmental Protection Act" refers to the *Environmental Protection Act, 1990* [Ontario], as amended.

"ERM" refers to Enterprise Risk Management.

"ESG" refers to environmental, social, and governance criteria that are factored into LDC's investment processes and decision-making.

"Fire Protection and Prevention Act" refers to the *Fire Protection and Prevention Act, 1997* [Ontario], as amended.

"Fleet Electrification" refers to the percentage of Toronto Hydro's fleet that is an electric vehicle, plug-in hybrid electric vehicle, or hybrid vehicle.

"GAAP" refers to Generally Accepted Accounting Principles.

“GHG” refers to Greenhouse Gas.

“GRI” refers to Global Reporting Initiative.

“Hydro One” refers to Hydro One Limited, Hydro One Inc. or Hydro One Networks Inc. and their respective subsidiaries, as appropriate.

“ICD.D” refers to the designation granted by the Institute of Corporate Directors, through the Directors Education Program jointly developed by the Institute of Corporate Directors and the University of Toronto’s Rotman School of Management.

“ICM” refers to Incremental Capital Module. See section 4.3(e)(i) entitled “Rate Setting Mechanism” for more information.

“Idling Time” refers to the number of hours Toronto Hydro vehicles spend idling without a power take-off engaged.

“IEEE” refers to the Institute of Electrical and Electronic Engineers.

“IESO” refers to the Independent Electricity System Operator. Through amendments to the Electricity Act, the operations of the IESO and the OPA were merged under the name Independent Electricity System Operator on January 1, 2015, bringing together real-time operations of the grid with long-term planning, procurement and conservation efforts.

“IRM” refers to Incentive Regulation Mechanism. See section 4.3(e)(i) entitled “Rate Setting Mechanism” for more information.

“ISO” refers to the International Organization for Standardization.

“ISO 14001:2015” refers to ISO 14001:2015 Environmental Management Systems.

“ISO 26000” refers to ISO 26000 Social Responsibility.

“ISO 45001:2018” refers to ISO 45001:2018 Occupational Health and Safety Management Systems.

“ISO 55001” refers to ISO 55001:2014 Asset Management Systems.

“IT” refers to Information Technology.

“ITA” refers to the *Income Tax Act, 1985* [Canada], as amended.

“J.D.” refers to the Juris Doctor degree.

“KPI” refers to Key Performance Indicator.

“kW” refers to a kilowatt, a common measure of electrical power equal to 1,000 Watts.

“kWh” refers to a kilowatt-hour, a standard unit for measuring electrical energy produced or consumed over time. One kWh is the amount of electricity consumed by ten 100-Watt light bulbs burning for one hour.

“LDC” refers to the Corporation’s wholly-owned subsidiary, Toronto Hydro-Electric System Limited.

“LED” refers to a light-emitting diode.

“LL.B.” refers to the Bachelor of Laws degree.

"LL.M." refers to the Master of Laws degree.

"Management's Discussion and Analysis" or **"MD&A"** refers to Management's Discussion and Analysis of Financial Condition and Results of Operations of the Corporation for the year ended December 31, 2022, a copy of which is available on the SEDAR website at www.sedar.com.

"MED" refers to Major Event Days as defined by IEEE Std 1366-2012, IEEE Guide for Electric Power Distribution Reliability Indices.

"MEU" refers to a Municipal Electricity Utility in the Province of Ontario.

"Moody's" refers to Moody's Canada Inc.

"MTN Program" refers to the medium term note program established by the Corporation under which the Corporation issues debentures. See section 9.2 entitled "Debentures" for the debentures currently outstanding.

"Named Executive Officer" or **"NEO"** means, collectively, the Corporation's CEO, the CFO, and/or a person serving in either of those capacities during the year and the three most highly compensated executive officers of Toronto Hydro who were serving as executive officers as at December 31, 2022, and each individual who would be amongst the three most highly compensated executive officers for Toronto Hydro, but for the fact that such individual was not an executive officer on December 31, 2022, if any.

"Oakville Hydro" refers to Oakville Hydro Electricity Distribution Inc.

"OBCA" refers to the *Business Corporations Act, 1990* [Ontario], as amended.

"Occupational Health and Safety Policy" refers to the policy applicable to all Toronto Hydro employees and contractors performing work on behalf of Toronto Hydro covering, amongst other things, a commitment to providing safe and healthy working conditions, as approved by the Board most recently at its August 24, 2022 meeting.

"OEB" refers to the Ontario Energy Board.

"OEB Act" refers to the *Ontario Energy Board Act, 1998* [Ontario], as amended.

"**OEFC"** refers to the Ontario Electricity Financial Corporation.

"OHSAS" refers to the Occupational Health and Safety Assessment Series.

"**OHSAS 18001"** refers to BS OHSAS 18001:2007, British Standard Occupational Health and Safety Assessment Series.

"OMERS" refers to the Ontario Municipal Employees Retirement System, a multi-employer, contributory, defined benefit pension plan established in 1962 by the Province for employees of municipalities, local boards and school boards in Ontario.

"OPA" refers to the Ontario Power Authority. Through amendments to the Electricity Act, the operations of the IESO and the OPA were merged under the name Independent Electricity System Operator on January 1, 2015, bringing together real-time operations of the grid with long-term planning, procurement and conservation efforts.

"Open Access" refers to the opening of the Province's wholesale and retail electricity markets to competition pursuant to the requirement under the Electricity Act that transmitters and distributors of electricity in the Province provide generators, retailers and consumers with non-discriminatory access to their transmission and electricity distribution systems. Open Access commenced on May 1, 2002.

"OPG" refers to Ontario Power Generation Inc.

"OREC Act" refers to *Ontario Rebate for Electricity Consumers Act, 2016* [Ontario].

"OSC" refers to the Ontario Securities Commission.

"PCBs" refers to polychlorinated biphenyls, a synthetic chemical compound consisting of chlorine, carbon and hydrogen. PCBs are used primarily as insulating and cooling elements in electrical equipment. Secondary uses include hydraulic and heat transfer fluids, flame proofing adhesives, paints, sealants and cable insulating paper.

"PILs" refers to the Payments In Lieu of Corporate Taxes regime contained in the Electricity Act pursuant to which MEUs that are exempt from tax under the ITA and the TA are required to make, for each taxation year, payments in lieu of corporate taxes to the OEFC. See note 25[o] and note 20 to the Consolidated Financial Statements.

"PP&E" refers to property, plant and equipment.

"Province" refers to the Province of Ontario.

"Prudential Facility" refers to a $100.0 million demand facility that the Corporation entered into with a Canadian chartered bank for the purpose of issuing letters of credit mainly to support LDC's prudential requirements with the IESO. See section 9.3 entitled "Credit Facilities".

"PWU" refers to the Power Workers' Union.

"Recycling Rate" refers to the percentage amount of solid, non-hazardous waste diverted from the landfill through recycling at work centres and stations.

"Retail Settlement Code" refers to the Retail Settlement Code that was published by the OEB on December 13, 2000 and became effective on the commencement of Open Access [except with respect to "Service Agreements", as that term is defined in the Retail Settlement Code, which came into effect on March 1, 2001], as amended.

"Revolving Credit Facility" refers to the Corporation's credit agreement with a syndicate of Canadian chartered banks which established a revolving credit facility. See section 9.3 entitled "Credit Facilities".

"S&P" refers to Standard & Poor's Financial Services LLC, a subsidiary of S&P Global Inc.

"SAIDI" means System Average Interruption Duration Index and is a measure [in hours] of the annual system average interruption duration for customers served, not including MED. SAIDI represents the quotient obtained by dividing the total customer hours of interruptions longer than one minute by the number of customers served.

"SAIFI" means System Average Interruption Frequency Index and is a measure of the frequency of service interruptions for customers served, not including MED. SAIFI represents the quotient obtained by dividing the total number of customer interruptions longer than one minute by the number of customers served.

"SEDAR" refers to the Canadian Securities Administrators' System for Electronic Document Analysis and Retrieval. SEDAR's website is www.sedar.com.

"Shareholder Direction" refers to the Shareholder Direction adopted by the Council of the City with respect to the Corporation, as amended and/or restated from time to time, pursuant to which the City has set out certain corporate governance principles with respect to the Corporation.

"Smart Meter" refers to a metering device capable of recording and transmitting hourly consumption information of a residential or general service customer.

"Standard Supply Customers" refers to persons connected to an electricity distributor's distribution system who are not served by retailers or whose retailer is unable to sell them electricity or who request the distributor to sell electricity to them.

“Standard Supply Service” refers to an electricity distributor’s obligation to sell electricity to Standard Supply Customers, or to give effect to such rates as determined by the OEB under section 79.16 of the OEB Act.

“Standard Supply Service Code” refers to the Standard Supply Service Code for Electricity Distributors that was published by the OEB on December 8, 1999 and became effective on the commencement of Open Access, as amended.

“Stewardship Ontario” refers to a not-for-profit organization which operates the Blue Box and Orange Drop Programs under the authority of the *Waste-Free Ontario Act, 2016* [Ontario].

“TA” refers to the *Taxation Act, 2007* [Ontario], as amended.

“Technical Standards and Safety Act” refers to the *Technical Standards and Safety Act, 2000* [Ontario], as amended.

“TH Energy” refers to the Corporation’s wholly-owned subsidiary, Toronto Hydro Energy Services Inc.

“Toronto Hydro” refers to Toronto Hydro Corporation and its subsidiaries.

“Total Recordable Injury Frequency” refers to the number of recordable injuries multiplied by 200,000 divided by exposure hours, as per EC standards.

“TOU” refers to Time-Of-Use.

“Transfer By-law” refers to By-law No. 374-1999 of the City made under section 145 of the Electricity Act pursuant to which the Toronto Hydro-Electric Commission and the City transferred their assets and liabilities and employees in respect of the electricity distribution system to LDC and in respect of electricity generation, co-generation and energy services to TH Energy. The Transfer By-law permits the Treasurer of the City to adjust the fair market value of the assets and the consideration paid in respect of the electricity distribution assets transferred to LDC as a consequence of OEB rate orders and permitted rates of return for 2000 or any subsequent year.

“TransformTO” refers to the City’s TransformTO Net Zero Strategy, which outlines a pathway to achieve net zero emissions in Toronto by 2040.

“Transportation of Dangerous Goods Act” refers to the *Transportation of Dangerous Goods Act, 1992* [Canada], as amended.

“Unit Smart Meter” refers to a unit Smart Meter installed by LDC in a unit of a multi-unit complex where the multi-unit complex is not connected solely to a bulk meter, and includes such other meters as may be prescribed by the Energy Consumer Protection Act.

“Watt” or **“W”** refers to a common measure of electrical power. One Watt equals the power used when one ampere of current flows through an electrical circuit with a potential of one volt.

“Working Capital Facility” refers to a $20.0 million demand facility the Corporation entered into with a Canadian chartered bank for the purpose of working capital management. See section 9.3 entitled “Credit Facilities”.

Unless otherwise specified, all references to statutes are to statutes of the Province and all references to dollars are to Canadian dollars.

PART 3 - CORPORATE STRUCTURE

3.1 Name, Address, Incorporation

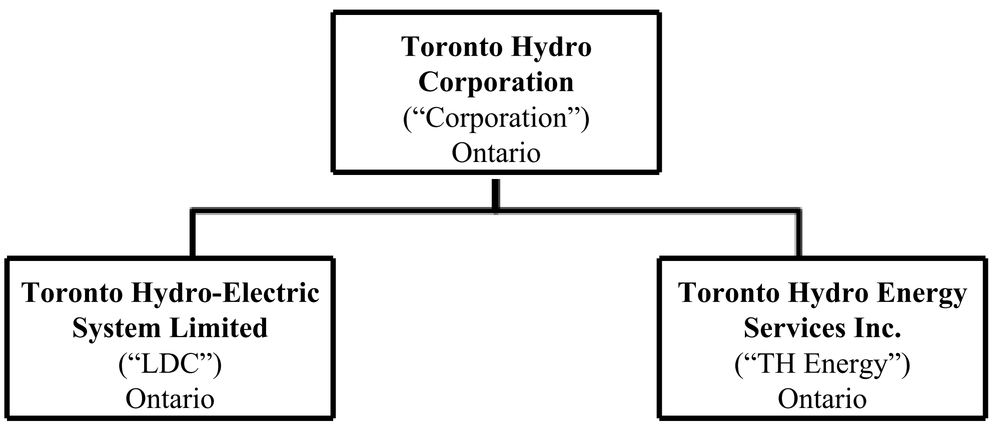
On January 1, 1998, the former municipalities of Metropolitan Toronto, Toronto, East York, Etobicoke, North York, Scarborough and York amalgamated to form the City. At the same time, the electric commissions of Toronto, East York, Etobicoke, North York, Scarborough and York were combined to form the Toronto Hydro-Electric Commission. Toronto Hydro is the successor to the Toronto Hydro-Electric Commission.

The Corporation, LDC and TH Energy were incorporated under the OBCA on June 23, 1999. Pursuant to the Transfer By-law, the Toronto Hydro-Electric Commission and the City transferred their assets and liabilities in respect of the electricity distribution system to LDC and electricity generation, co-generation and energy services to TH Energy.

The registered and head office of the Corporation is located at 14 Carlton Street, Toronto, Ontario, M5B 1K5.

3.2 Inter-corporate Relationships

The sole shareholder of the Corporation is the City. The Corporation, in turn, owns 100% of the shares of the subsidiaries listed below:



PART 4 - BUSINESS OF TORONTO HYDRO

4.1 Industry Structure

The electricity industry in the Province is generally comprised of three principal segments:

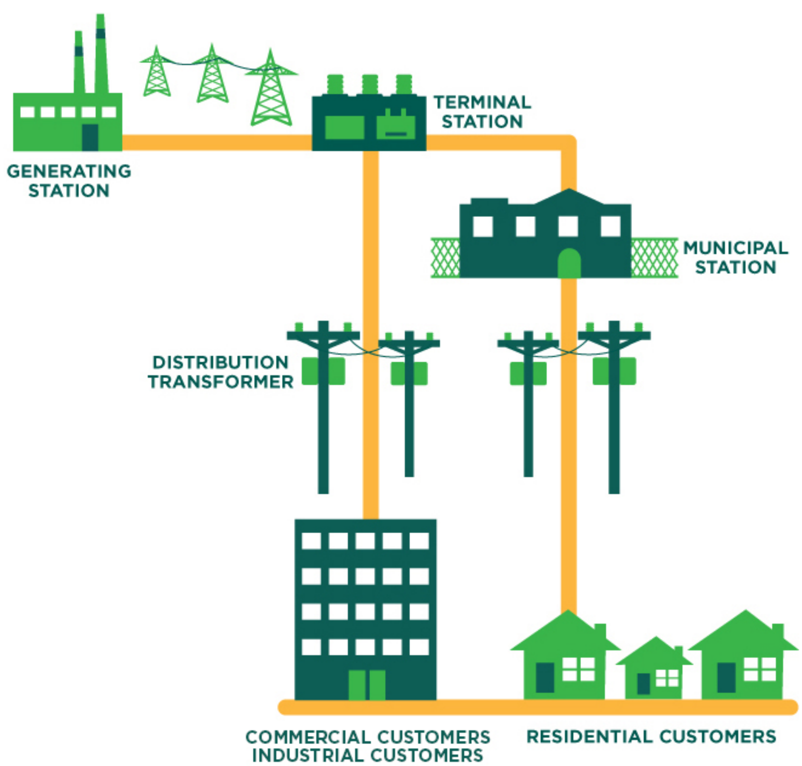
- Generation - the production of electricity at generating stations using nuclear, natural gas, hydro, solar, wind, biofuel or other sources of energy;

- Transmission - the transfer of electricity from generating stations to local areas using large, high-voltage power lines; and

- Distribution - the delivery of electricity to homes and businesses within local areas using relatively low-voltage power lines.

Electricity produced at generating stations is boosted to high voltages by nearby transformers so that the electricity can be transmitted long distances over transmission lines with limited power loss. The voltage is then reduced [stepped down] at terminal stations for supply to electricity distributors or large customers. Electricity distributors carry the electricity to distribution transformers that further reduce the voltage for supply to local customers. Electricity is distributed in the Province through a network of local electricity distributors that includes municipal electricity distributors, privately owned electricity distributors and Hydro One. This traditional structure is evolving and has the potential to become more decentralized as local customers invest in distributed energy resources such as behind-the-meter generation facilities and energy storage systems. Distributed energy resources connected directly to local electricity distribution grids can serve various functions ranging from selling power to the bulk or local electricity grid to providing reliability services and voltage control.

The following diagram illustrates the basic structure of an electricity infrastructure system:



4.2 Toronto Hydro Corporation

Toronto Hydro 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.

4.3 Toronto Hydro-Electric System Limited [“LDC”]

The principal business of Toronto Hydro is the distribution of electricity by LDC. LDC owns and operates $6.1 billion of Capital Assets comprised primarily of an electricity distribution system that delivers electricity to approximately 790,000 customers located in the city of Toronto. LDC serves the largest city in Canada and distributes approximately 18% of the electricity consumed in the Province.

(a) LDC’s Electricity Distribution System

Electricity produced at generating stations is transmitted through transmission lines owned by Hydro One to terminal stations, at which point the voltage is then reduced [or stepped down] to distribution-level voltages. Distribution-level voltages are then distributed across LDC’s electricity distribution system to distribution class transformers, at which point the voltage is further reduced [or stepped down] for supply to end use customers. Electricity typically passes through a meter before reaching a distribution board or service panel that directs the electricity to end use customers [and their circuits].

LDC’s electricity distribution system is serviced from one control centre and 37 terminal stations, and is comprised of approximately 17,060 primary switches, approximately 61,300 distribution transformers, 139 in-service municipal substations, approximately 15,393 circuit kilometres of overhead wires supported by approximately 183,620 poles, and approximately 13,765 circuit kilometres of underground wires.

(i) *Control Centre*

LDC has one control centre. The control centre co-ordinates and monitors the distribution of electricity throughout LDC’s electricity distribution assets, and provides isolation and work protection for LDC’s construction and maintenance crews and external customers. LDC’s control centre utilizes supervisory control and data acquisition [SCADA] systems to monitor, operate, sectionalize and restore the electricity distribution system.

(ii) *Terminal Stations*

LDC receives electricity at its terminal stations which contain power transformers, high-voltage switching equipment, and lower-voltage equipment such as circuit breakers, switches and station busses.

One of LDC’s largest capital initiatives, the construction of which was completed in 2019, is Copeland Station, which was constructed in response to the developing need for distribution solutions in the downtown core of the city of Toronto. Copeland Station is the first transformer station built in downtown Toronto since the 1960’s and is the second underground transformer station in Canada. It provides electricity to buildings and neighbourhoods in the central-southwest area of downtown Toronto.

(iii) *Distribution Transformers and Municipal Substations*

Electricity at distribution voltages is distributed from the terminal stations to distribution transformers that are typically located in buildings or vaults or mounted on poles or surface pads that are used to reduce or step down voltages to utilization levels for supply to customers. The electricity distribution system also includes in-service municipal substations that are located in various parts of the city of Toronto and are used to reduce or step down electricity voltage prior to delivery to distribution transformers. LDC also delivers electricity at distribution voltages directly to certain commercial and industrial customers that own their own substations.

(iv) *Wires*

LDC distributes electricity through a network of electrical circuits made up of a combination of overhead and underground wires.

(v) *Metering*

LDC provides its customers with meters through which electricity passes before reaching a distribution board or service panel that directs the electricity to end use circuits on the customer's premises. The meters are used to measure electricity consumption and/or demand. LDC owns the meters and is responsible for their maintenance and accuracy.

As part of its metering services, LDC also installs Unit Smart Meters in multi-unit complexes that fall within the OEB's Competitive Sector Multi-Unit Residential rate class. As at December 31, 2022, LDC had installed approximately 92,000 Unit Smart Meters in these types of multi-unit complexes.

(vi) *Reliability of Distribution System*

The table below sets forth certain industry recognized measurements of system reliability with respect to LDC's electricity distribution system and the composite measures reported by LDC and EC for the 12-month periods ending December 31 in the years indicated below.

	LDC 2022	**LDC 2021**	**EC 2021 (1)**
SAIDI	0.97	0.99	4.50
SAIFI	1.63	1.55	2.28
CAIDI	0.59	0.64	1.97

Note:

(1) Data was extracted from the EC's 2021 Service Continuity Report on Distribution System Performance in Electrical Utilities, for all Canadian utilities, excluding significant events. At the date of this AIF, such report for the year 2022 has not been published by EC.

(b) LDC's Service Area and Customers

LDC is the sole provider of electricity distribution services in the city of Toronto, and serves approximately 790,000 customers. The City is the largest city in Canada with a population of approximately 3.0 million. The City is a financial centre with large and diversified service and industrial sectors.

The table below sets out LDC's customer classes and certain operating data with respect to each class for each of the years in the two-year period ended December 31, 2022:

	Year ended December 31	
	2022	**2021**
Residential Service (1)		
Number of customers	707,178	703,947
kWh	5,394,320,650	5,427,336,381
Revenue	$1,007,806,243	$1,000,471,911
% of total service revenue	28.9%	28.9%
General Service (2)		
Number of customers	82,820	82,711
kWh	16,853,764,874	16,265,446,850
Revenue	$2,309,827,994	$2,270,659,641
% of total service revenue	66.1%	65.6%
Large Users (3)		
Number of customers	42	46
kWh	1,722,691,956	1,680,085,796
Revenue	$174,411,972	$190,381,458
% of total service revenue	5.0%	5.5%
Total		
Number of customers	790,040	786,704
kWh	23,970,777,480	23,372,869,027
Revenue	$3,492,046,209	$3,461,513,010

Notes:

(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.

(c) LDC's Real Property

The following table sets forth summary information with respect to the principal real property owned, leased or otherwise used by LDC as at December 31, 2022:

Property	Total
Terminal stations	37 sites
Municipal substations	139 sites
Decommissioned municipal substations	33 sites
Control centre (1)	1 site
Operation centres (2)	4 sites
Other (3)	36 sites

Notes:

(1) LDC's control centre is located within one of its operation centres.

(2) LDC's operation centres accommodate office, staff, crews, vehicles, equipment and material necessary to operate and monitor the electricity distribution system.

(3) Other properties include locations under construction, small work centres and surplus properties.

Under the OEB Act, electricity distributors may apply to the OEB for authority to expropriate land required in connection with new or expanded electricity distribution lines or interconnections. If, after a hearing, the OEB is of the opinion that the expropriation of land is in the public interest, the OEB may make an order authorizing expropriation upon payment of specified compensation. The Electricity Act grandfathered thousands of existing unregistered easements, principally for distribution over third-party lands. The Electricity Act also authorizes electricity distributors to locate assets on, over or under public streets and highways.

(d) Regulation of LDC

(i) *Legislative Framework*

The Electricity Act and the OEB Act provide the broad legislative framework for the Province's electricity market.

The Electricity Act requires electricity distributors to provide generators, retailers, market participants, and consumers with non-discriminatory access to distribution systems in Ontario in accordance with distribution licences. Furthermore, an electricity distributor is required to connect to its distribution system any building that lies along its distribution lines upon request. The Electricity Act also requires an electricity distributor to sell electricity to every person connected to its distribution system, effectively acting as the electricity supplier of last resort, except where the person connected opts out of such supply by the distributor.

Additionally, the Electricity Act requires electricity distributors in the Province to keep their distribution businesses separate from their other businesses.

The business of LDC and other electricity distributors is regulated by the OEB, which has broad powers relating to licensing, standards of conduct and service, the regulation of electricity distribution rates charged by LDC and other electricity distributors, and transmission rates charged by Hydro One and other transmitters. The OEB Act states that, subject to certain exceptions, LDC and other electricity distributors shall not carry on any business activity other than the distribution of electricity, except through affiliated companies. As exceptions to the general restriction on its business activities, the OEB Act permits LDC to own and operate alternative, cleaner and renewable sources of energy and energy storage and provide additional services related to the promotion of CDM activities. See section 5.4 entitled "Conservation and Demand Management" for more information on LDC's CDM activities. As well, the OEB may in particular cases and circumstances authorize LDC to carry on a non-distribution business activity.

The Energy Consumer Protection Act, which came into force in 2011, enables and sets out the requirements relating to LDC's installation of Unit Smart Meters in multi-unit complexes and provides the rules regarding the manner in which Unit Smart Metered consumers are to be billed for their electricity consumption.

Since 2017, LDC has been providing financial assistance to eligible electricity consumers in accordance with the OREC Act. Pursuant to the applicable legislative requirements, LDC applies a credit [rebate] to the bills of eligible consumers and is reimbursed by the IESO for monthly total assistance amounts provided.

(ii) *Licences*

Distribution Licence

The OEB has granted LDC a distribution licence. The term of the current licence is until October 16, 2023. LDC expects to apply for the renewal of its distribution licence by the second quarter of 2023 to retain the licence and continue operations in the normal course of business. The licence allows LDC to own and operate an electricity distribution system in the city of Toronto. Amongst other things, the licence provides that LDC must allow non-discriminatory access to its distribution system by a consumer, generator or retailer upon request and sell electricity in accordance with the Electricity Act, must keep financial records associated with distributing electricity separate from its financial records associated with other activities, may not impose charges for the distribution of electricity except in accordance with distribution rate orders approved by the OEB, and must comply with industry codes established by the OEB.

Electricity Generation Licence

On December 18, 2002, the OEB issued an electricity generation licence to TH Energy and TREC Windpower Co-operative [No.1] Incorporated [the "Co-Venturers"], in connection with a wind turbine located at Exhibition Place in the city of Toronto. The licence allows the Co-Venturers to generate electricity or provide ancillary services for sale through the IESO-administered markets, or directly to another person, subject to certain terms and conditions. On August 19, 2022, TH Energy applied to the OEB to have its interest in the generation licence transferred to a new entity in accordance with the sale of TH Energy's interest in the wind turbine to Rankin Integrated Energy Inc., which assumed TH Energy's role as one of the Co-Venturers of TREC Windpower Co-operative [No.1] Incorporated [see Section 4.4 entitled "Toronto Hydro Energy Services Inc."]. On October 6, 2022, the OEB authorized the transfer of the generation licence, which took effect as of October 27, 2022.

(iii) *Industry Codes*

The OEB has established the Affiliate Relationships Code, the Distribution System Code, the Retail Settlement Code, and the Standard Supply Service Code. These codes prescribe minimum standards of conduct, as well as standards of service, for electricity distributors in the non-competitive electricity market, and have been assigned the following ranking in the event there is a conflict between them:

(1) Affiliate Relationships Code
(2) Distribution System Code
(3) Retail Settlement Code
(4) Standard Supply Service Code

These codes are summarized below.

Affiliate Relationships Code

The Affiliate Relationships Code establishes standards and conditions for the interaction between electricity distributors and their affiliated companies. It is intended to minimize the potential for an electricity distributor to cross-subsidize competitive or non-monopoly activities, protect the confidentiality of consumer information collected by an electricity distributor and ensure that there is no preferential access to regulated services. The Affiliate Relationships Code prescribes standards of conduct for an electricity distributor with respect to the following: the degree of separation from affiliates; sharing of services and resources; transfer pricing; financial transactions with affiliates; equal access to services; and confidentiality of customer information.

Distribution System Code

The Distribution System Code establishes the minimum conditions that an electricity distributor must meet in carrying out its obligations to distribute electricity under its licence and under the Energy Competition Act [which enacted the Electricity Act and the OEB Act], and has been amended as the regulatory environment has evolved. Generally, the Distribution System Code prescribes the rights and responsibilities of electricity distributors and electricity distribution customers with respect to the following: connections; connection agreements and conditions of service; expansion projects; alternative bids [available to customers for work otherwise done by an electricity distributor]; metering; billing; distribution operations; disconnections and reconnections; customer service standards; security deposits; certain financial assistance programs; and regional planning.

Retail Settlement Code

The Retail Settlement Code outlines the minimum obligations of an electricity distributor with respect to its relationship with retail market participants such as retailers and consumers and the administration of service transaction requests where a competitive retailer provides service to a consumer, in accordance with the Electricity Act and the distribution licence. Under the terms of the Retail Settlement Code, an electricity distributor is required to do the following: unbundle the costs of competitive electricity services and non-competitive electricity services; record, in variance accounts, the difference between amounts billed by the IESO to the electricity distributor for competitive and non-competitive electricity services, and the aggregate amounts billed by the electricity distributor to consumers, retailers and others for the same services; provide electricity billing and settlement services to retailers and customers; process service transaction requests; and provide access to consumer information to retailers and consumers as prescribed.

Standard Supply Service Code

The Standard Supply Service Code requires an electricity distributor to act as a default supplier and provide Standard Supply Service to persons connected to the electricity distributor's distribution system in accordance with the Electricity Act. The Standard Supply Service Code also specifies the conditions and manner by which OEB approved Standard Supply Service rates are to be charged and billed to customers. Under the Standard Supply Service Code, an electricity distributor's rates for Standard Supply Service must be approved by the OEB and must consist of the price of electricity and an administrative charge that will allow the electricity distributor to cover its costs of providing the service.

(e) Distribution Rates

(i) *Rate Setting Mechanism*

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 [i.e., the aggregate of approved investment in PP&E and intangible assets excluding work in progress, less accumulated depreciation and amortization and unamortized capital contributions from customers, plus an allowance for working capital]. 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.

Administratively, the OEB currently regulates the electricity rates for distributors through one of three specific rate-setting methods: Price Cap Incentive Rate-setting [typically applicable to most distributors], CIR [typically applicable to distributors with large or highly variable capital requirements], and the Annual Incentive Rate-setting Index [typically applicable to distributors requiring limited rate adjustments]. Under each of these methods, the OEB also allows recovery of costs arising from significant events satisfying certain criteria which are considered external to the regulatory regime and beyond the control of management.

Under the Price Cap Incentive Rate-setting method, rates are set on a single forward test-year cost of service basis for the first year and indexed for four subsequent years through an industry-standard IRM adjustment. Under this method, the ICM is available to apply for incremental funding to address any additional capital investment needs that may arise during the term.

Under the CIR method, rates are set for a minimum period of five years, typically on a forward test-year cost of service basis for the first year with subsequent annual adjustments based on a distributor-specific custom index. The particular mechanics through which rates are set and adjusted are proposed by utilities and determined by the OEB on a case-by-case basis.

The Annual Incentive Rate-setting Index method sets a distributor’s rates through an industry-standard IRM adjustment [using a limited form of the industry standard IRM formula] for one or more years.

Under each method, actual operating conditions may vary from forecasts such that actual achieved returns can differ from approved returns. Approved electricity rates are generally not adjusted as a result of actual costs or revenues being different from forecasted amounts, other than for certain prescribed costs that are eligible for deferral for future collection from, or refund to, customers.

See section 5.3 entitled “Rate Applications” for more information on LDC’s rate applications.

(f) Competitive Conditions

The OEB distribution licence issued to LDC stipulates a service area that reflects the territory within the city of Toronto. By law, only the OEB can grant such a licence for a service area and only an entity with such a licence can provide licenced services to the public-at-large within a service area. The OEB has not granted any other distribution licence that permits distribution within LDC’s service area. In addition to this regulatory barrier to entry, there are other barriers to entry, including the cost of constructing an electricity distribution system, physical space limitations within and legal access to the right-of-way, the specialized skills associated with the distribution business, the level of expertise required to achieve operational and regulatory compliance, and LDC’s relationships with its customers. Notwithstanding the existing barriers to entry, other regulated and unregulated entities have competed with LDC and its predecessors to provide customers with other sources of energy, including electricity. The pervasiveness of this competition and its particular effects on LDC’s distribution business have varied over time and are expected to continue to vary based on many factors, including the relative price of energy sources [e.g., natural gas, grid-supplied electricity, behind-the-meter generation], government-based policy and incentives [e.g., green energy generation], and technology advancements [e.g., micro-grids, behind-the-meter generation facilities, energy storage systems, virtual power].

4.4 Toronto Hydro Energy Services Inc.

TH Energy owns and operates $58.3 million of Capital Assets as of December 31, 2022. TH Energy owns certain street lighting assets located in the city of Toronto, and has an agreement with the City to provide street lighting system maintenance and capital improvement services to the City. TH Energy sub-contracts street lighting services to LDC.

From December 18, 2002 to October 27, 2022, TH Energy also operated a wind turbine located at the Better Living Centre [Exhibition Place] in a joint venture with TREC Windpower Co-operative [No.1] Incorporated. Effective October 27, 2022 TH Energy transferred its interest in the wind turbine to Rankin Integrated Energy Inc. for nominal consideration.

4.5 Environmental Matters

(a) Environmental Protection Requirements

Toronto Hydro is subject to extensive federal, provincial and local regulation relating to the protection of the environment. The principal federal legislation is the Canadian Environmental Protection Act which regulates the use, import, export and storage of toxic substances, including PCBs and ozone-depleting substances. Toronto Hydro is also subject to the federal Transportation of Dangerous Goods Act which prescribes safety standards and requirements for the handling and transportation of hazardous goods including PCBs and sets reporting, training and inspection requirements relating thereto.

The principal provincial legislation is the Environmental Protection Act which regulates releases and spills of contaminants, including PCBs, ozone-depleting substances and other halocarbons, contaminated sites, waste management, and the monitoring and reporting of airborne contaminant discharge. The provincial Technical Standards and Safety Act also applies to Toronto Hydro’s operations with respect to the handling of and training related to compressed gas, propane and liquid fuels. The provincial Fire Protection and Prevention Act requires Toronto Hydro to incorporate procedures and training for dealing with any spills of flammable or combustible liquids. The provincial Transportation of Dangerous Goods Act prescribes safety standards and requirements for the transportation of dangerous goods on provincial highways and sets out inspection requirements related thereto.

Municipal by-laws regulate discharges of industrial sewage and storm water run-off to the municipal sewer system and the reporting of the release of certain toxic substances into the environment.

(b) Financial and Operational Effects of Environmental Protection Requirements

In 2022, LDC spent approximately $2.1 million to meet environmental protection requirements. This includes costs for hazardous and non-hazardous waste disposal, testing, asbestos abatement, site remediation, wood and concrete pole removal, manifest and tonnage fees, and Stewardship Ontario fees.

Toronto Hydro recognizes a liability for its best estimate of the future removal and handling costs for contamination in electricity distribution equipment in service. The liability is recognized when there is a present obligation, a probable outflow of resources and the amount can be estimated reliably. Actual future environmental costs may vary from the estimates used in the calculation.

(c) Environmental Policy and Oversight

Toronto Hydro has a strong commitment to the environment through the enforcement of a well-defined Environmental Policy. Conformance with the Environmental Policy is managed by Toronto Hydro’s Environment, Health and Safety department led by the Executive Vice-President and Chief Human Resources & Safety Officer. The content of the Environmental Policy is reviewed and approved annually by the Board.

Toronto Hydro's Environmental Policy identifies several core environmental principles, which include:

- Mitigation of the potential adverse effects of climate change and other environmental conditions on the organization, and action to eliminate or reduce, as far as practicable, any potentially adverse environmental impacts through the implementation of policies, programs and procedures;
- Commitment to achieve net zero direct greenhouse gas emissions by 2040;
- Commitment from leadership to provide suitable and sufficient resources for the environmental management system;
- Compliance with all applicable laws, codes and standards;
- Continual improvement of environmental performance through the establishment of annual objectives, targets and programs;
- Employee engagement through education, training and providing general awareness of the Environmental Policy requirements and the environmental management system;
- Stakeholder engagement including consultation and engagement of environmental issues within the community and various stakeholders such as suppliers, customers, regulators, industry and the public; and
- Integration of environmental considerations into Toronto Hydro business processes.

LDC manages its environmental aspects in conformance with ISO 14001:2015 and was re-certified on December 6, 2021 as meeting the requirements of the ISO 14001:2015 standard by a third-party auditor. The certificate is valid until February 4, 2025. Throughout the certification period, Toronto Hydro undertakes annual third-party surveillance audits to verify the ISO 14001:2015 requirements continue to be met. The latest verification occurred on November 23, 2022, with the auditors confirming the management system remained in conformance with the requirements.

Legislative environmental reporting for federal, provincial and municipal governments is compiled and submitted in accordance with applicable obligations and authorities. Third party environmental compliance audits are also conducted biennially in conformance with LDC's environment, health and safety audit plan.

Toronto Hydro's environmental policies, programs and procedures are reviewed and approved by management. Information on environmental performance, environmental risks, mitigation strategies and other material environmental matters are presented to the Human Resources and Environment Committee of the Board as part of Toronto Hydro's regular update on ESG performance.

(d) Environmental, Social and Governance

Toronto Hydro operates substantially in conformance with ISO 26000, an internationally recognized social responsibility standard. The focus of Toronto Hydro's ESG and sustainability actions is guided in part by an external materiality study and may be supplemented with information obtained through customer surveys. Toronto Hydro's Board receives updates on Toronto Hydro's ESG performance through the Human Resources and Environment Committee of the Board. This includes updates on performance on climate change metrics and targets and progress towards Toronto Hydro ESG-related goals, including those that are climate-related.

In 2022, the key areas of Toronto Hydro's ESG and sustainability activities were:

- Climate change mitigation and adaptation;
- Reduction of GHG emissions;
- Occupational health, safety and wellness;
- Transportation electrification;
- Ethics and integrity;
- Diversity, equity and inclusion;
- Service reliability; and
- Customer relationships and support.

In 2014, Toronto Hydro was one of the earliest Canadian electrical utilities to receive the prestigious "Sustainable Electricity Leader" designation. This designation is issued by EC to organizations following a successful third-party assessment of documented evidence that demonstrates an organization's conformance to ISO 26000, ISO 14001:2015, and integration of ESG and sustainability requirements into the organization's supply chain. Toronto Hydro has maintained this designation continuously since 2014. Further details on Toronto Hydro's activities in respect of ISO 14001:2015 can be found in section 4.5(c) entitled "Environmental Policy and Oversight".

Starting in 2013-2014, Toronto Hydro has reported publicly on its ESG and sustainability performance, substantially in conformance with the requirements of the GRI and electric utility sector-specific guidelines. The GRI Sustainability Reporting Standards are generally considered to be the most widely adopted global standards for sustainability reporting. In 2020, Toronto Hydro began reporting substantially in conformance with the requirements of the GRI on an annual basis and has begun to include metrics from the Sustainability Accounting Standards Board.

Specifically, with respect to its environmental objectives, these reports aim to aid stakeholders in understanding how oversight processes may translate into tangible climate-related accomplishments and details the Corporation's activities in:

- Enabling climate action;
- Reducing GHG emissions;
- Leading environmental initiatives;
- Renewable energy [and enabling infrastructure];
- Energy security;
- Climate change adaptation; and
- Emergency preparedness.

Toronto Hydro has a robust process for establishing and approving key metrics to challenge the performance of the organization and support the drive for continual improvement. Toronto Hydro has met the established targets for the following ESG metrics since 2017: Recycling Rate, Total Recordable Injury Frequency, Idling Time and SAIDI. Beginning in 2022, Toronto Hydro has developed two new metrics aimed at managing climate related risks and opportunities: Building Emissions Reduction and Fleet Electrification. Two of the largest sources of GHG emissions at Toronto Hydro are the buildings and vehicle fleet. The new metrics are expected to support Toronto Hydro's target of net-zero GHG emissions by 2040.

Since 2018, Toronto Hydro has been a signatory to Electricity Human Resources Canada's Leadership Accord on Diversity, Equity and Inclusion to affirm the organization's commitment to advance governance, education and practices that support women to both understand the opportunities available in the electricity industry and achieve equal opportunities for growth and development. In 2022, Toronto Hydro developed and implemented an unconscious bias training program and engagement events for front-line leaders. The training program and engagement events aimed to support leaders to improve the identification of unconscious bias and promote a more inclusive workplace. The program and events built on the success of an unconscious bias program for executives and senior leaders was implemented in 2021.

Through collaborations with EC and local colleges and universities, the focus of Toronto Hydro's continuous efforts has been on the promotion and mentorship of women to pursue educational programs in electrical engineering fields of study to avail a gender diverse talent pipeline to fulfill short and long-term workforce staffing and succession management requirements.

As at the date of this AIF, 40% [4 of 10] of the members of the Corporation's Board, 67% [2 out of 3] of the executive officers of the Corporation and 38% [3 out of 8] of the executive officers of LDC are female. As of December 31, 2022, 27% of the workforce is female, inclusive of the executive officers.

Toronto Hydro has received recognition for its leadership in ESG and sustainability and climate change adaptation from multiple sources for several years, including being recognized ninth in 2022 on the Corporate Knights' Best 50 Corporate Citizens in Canada list and first overall amongst electricity transmission and distribution companies.

Also, three of Toronto Hydro's four work centres have been certified as meeting BOMA Canada's requirements for building environmental standards [BOMA BEST].

Overall, Toronto Hydro continues to strive to achieve zero injuries and remain a sustainable electricity company. Toronto Hydro regularly monitors and assesses aspects of its environmental performance in an effort to reduce its environmental footprint and improve efficiency. Toronto Hydro also enables customers to be part of the shift to a sustainable economy by connecting renewable power and energy storage to the grid; facilitating the use of electrified transportation; and offering online billing to reduce paper consumption.

4.6 Additional Information Regarding Toronto Hydro

(a) Employees

At December 31, 2022, Toronto Hydro had approximately 1,245 employees. Included in Toronto Hydro's employees are 517 members of bargaining units represented by PWU and 79 professional engineers and 70 IT professionals represented by the Society of United Professionals. The Society of United Professionals Engineers Collective Agreement covers a four-year period, from January 1, 2020 and expiring December 31, 2023. On June 9, 2022, the PWU ratified collective agreements governing inside and outside employees for a five-year period beginning February 1, 2022 and expiring January 31, 2027. On October 7, 2022, the IT professionals ratified a five-year collective agreement for a period beginning January 1, 2021 and expiring December 31, 2025.

Full time employees of Toronto Hydro are required to participate in the OMERS pension plan. Both participating employers and participating employees are required to make equal plan contributions based on participating employees' eligible contributory earnings. Optional participation has been expanded by OMERS to all fixed term contract employees, including students of Toronto Hydro. Plan benefits are determined based on a formula that considers the highest 5-year average contributory earnings and the number of years of service. The pension benefits at retirement are indexed to increases in the Consumer Price Index, subject to an annual maximum of 6%. Any increase in the Consumer Price Index above 6% per year is carried forward for later years. All obligations to make payments to retirees under the OMERS pension plan are the responsibility of OMERS.

In addition to OMERS, Toronto Hydro provides other employment and post-employment benefits to employees, including medical, dental and life insurance benefits. See note 25[m] and note 13 to the Consolidated Financial Statements.

(b) Specialized Skills and Knowledge

Certified and skilled trades and designated and technical professional roles are important in the safe and reliable design, construction, maintenance, restoration and customer connections to support the LDC's electricity distribution system operations. Toronto Hydro hires a mix of experienced workers and new graduates to perform a variety of technician, technologist, engineering, information technology and corporate professional roles. Technician and technologist apprenticeships require between 4 and 6 years to become fully competent and capable of performing all aspects of their job. LDC provides specialized knowledge and technical programs, on the job learning and legislative and compliance training to support entry to the organization and throughout the apprenticeship program for required skills and knowledge outcomes.

(c) Health and Safety

Toronto Hydro is committed to a healthy, safe and injury free work environment for all employees, contractors, visitors and the public. LDC manages its health and safety management system in conformance with ISO 45001:2018 and was re-certified on December 6, 2021 as meeting the requirements of the ISO 45001:2018 standard by a third-party auditor. The certificate is valid until February 4, 2025. Throughout the certification period, Toronto Hydro undertakes annual third-party surveillance audits to verify the ISO 45001:2018 requirements continue to be met. The latest verification occurred on November 23, 2022, with the auditors confirming the management system remained in conformance with the requirements.

Through LDC's EHSMS, LDC maintains and reviews procedures, programs and the Occupational Health and Safety Policy which outlines several core principles including:

- Compliance
- Continual improvement
- Engagement and consultation
- Communication
- Accountability
- Risk management
- Contractor management
- Incident investigation
- Performance monitoring
- Wellness

The content of the Occupational Health and Safety Policy is reviewed and approved annually by the Board.

Toronto Hydro's health and safety performance, occupational health and safety risks, mitigation strategies and other occupational health and safety matters are reviewed periodically by the Human Resources and Environment Committee of the Board as part of Toronto Hydro's regular update on ESG performance.

Despite the ongoing COVID-19 pandemic in 2022, the Total Recordable Injury Frequency rate was 0.47 recordable injuries per 200,000 hours which was our most successful performance on record and 16% better than the previous year.

Toronto Hydro also has in place an infectious disease plan, which continues to be reviewed regularly as the COVID-19 emergency continues to evolve. This plan contains rigorous measures that often exceed applicable minimum public health standards and guidelines, which have been a significant part of Toronto Hydro's emergency response to COVID-19 and has been used to seek to limit exposure within its workforce. The plan continues to be updated and enhanced for use in the current conditions of the COVID-19 pandemic, as well as future potential infectious disease emergencies.

LDC's legislated occupational health and safety requirements come under provincial jurisdiction exclusively and all legislated occupational health and safety reporting requirements are complied with. Management assurance that these requirements are met is accomplished by commissioning third party health and safety compliance and management system audits conducted in conformance with LDC's environmental, health and safety audit plan.

Toronto Hydro's occupational health and safety policies, programs and procedures are reviewed and approved by management.

(d) Code of Business Conduct and Whistleblower Procedure

All employees, officers and directors of Toronto Hydro are required to comply with the principles set out in the Code of Business Conduct and Whistleblower Procedure [the "Code"], which was originally implemented by Toronto Hydro in 2003, and is reviewed, revised and approved by the Board from time to time. The Code provides guidance to all employees in situations of potential perceived conflict of interest. All employees, officers and directors of Toronto Hydro are required to complete training in respect of the Code and sign an attestation in accordance with the Code upon commencement of employment and every three years thereafter.

The Code provides for the appointment of an Ethics Officer and establishes a direct hotline to the Ethics Officer by which perceived violations of the principles set out in the Code may be reported, anonymously or otherwise. Where the complaint involves the conduct of a director or officer of Toronto Hydro, the Ethics Officer is required to report it to the Chair of the Human Resources and Environment Committee of the Board, or, where such conduct relates to questionable auditing or accounting matters, to the Chair of the Audit Committee of the Board, who oversees the investigation of that complaint. In addition to the provisions of the Code, the Ethics Officer reports quarterly to the Human Resources and Environment Committee of the Board on the nature of complaints received and the Director, Internal Audit and Compliance reports quarterly to the Audit Committee on matters related to audit and accounting. A copy of Toronto Hydro's Code of Business Conduct and Whistleblower Procedure is available on the SEDAR website at www.sedar.com.

(e) Insurance

Toronto Hydro's current insurance policies provide coverage for a variety of losses and expenses which might arise from time to time, including:

- comprehensive general liability insurance;
- all risk property, boiler and machinery insurance;
- automobile liability insurance;
- directors and officers' liability insurance;
- cyber insurance;
- crime insurance; and
- insurance covering loss or damage on certain physical assets.

Toronto Hydro believes that the coverage, amounts and terms of its insurance arrangements are consistent with industry practice.

(f) Intangible Property

The Corporation owns various intangible assets, such as computer software systems used in the course of business, and intellectual property, including the "Toronto Hydro" brand name and the trademark Toronto Hydro & Star Design. The Corporation also owns the trademark POWERSHIFT®.

(g) Seasonal Effects

Toronto Hydro'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. Toronto Hydro's revenues are also impacted by fluctuations in electricity prices and the timing and recognition of regulatory decisions.

PART 5 - GENERAL DEVELOPMENT OF THE BUSINESS

5.1 Business Operations

(a) Three Year History

The following table sets forth selected annual financial information of the Corporation for the three years ended December 31, 2022, 2021 and 2020. This information has been derived from the Consolidated Financial Statements and is presented in millions of dollars.

	Year ended December 31		
	2022	2021	2020
Net income after net movements in regulatory balances	$163.9	$141.0	$117.1
Capital expenditures	$722.7	$647.4	$617.2
Total assets and regulatory balances	$6,947.0	$6,413.8	$6,069.0
Total equity	$2,062.0	$1,982.7	$1,912.0

(b) Business Operations

Over the past three years, Toronto Hydro continues to focus its business operations on LDC's core business of distributing electricity.

5.2 COVID-19 Pandemic Considerations

On March 11, 2020, the World Health Organization declared that the COVID-19 outbreak was a global pandemic. The COVID-19 pandemic has not had a significant impact on the Consolidated Financial Statements.

On November 15, 2021, the OEB's standard winter disconnection ban commenced and remained in effect until May 1, 2022. Concurrent with the effective end date of the OEB's standard winter disconnection ban, the Corporation ended its voluntary ban on disconnections, which had been in place since the beginning of the pandemic. The Corporation's disconnection practices remain subject to the applicable OEB rules.

On January 7, 2022, the Ontario Government announced further targeted relief measures setting both the TOU rates for on-peak, mid-peak, and off-peak and tiered rates at the TOU off-peak rate of 8.2 cents per kWh, 24 hours a day, seven days a week, effective January 18, 2022 until February 7, 2022. There was no net income impact to the Corporation.

On October 1, 2022, Toronto Hydro transitioned to a hybrid work arrangement, which enabled employees who could perform their work from home the flexibility to attend their assigned work centre a minimum number of days a week, with flexibility as to work location on other days.

5.3 Rate Applications

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 24, 2020, LDC filed the 2021 rate application seeking the OEB's approval to finalize distribution rates and other charges for the period commencing on January 1, 2021 and ending on December 31, 2021. On December 10, 2020, the OEB issued a decision and rate order approving LDC's 2021 rates and providing for other deferral and variance account dispositions.

On August 20, 2021, LDC filed 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.

5.4 Conservation and Demand Management

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.

5.5 Toronto Hydro Climate Action Plan

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

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

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

At its meeting held on July 19-22, 2022, City Council received reports from the City Manager and Toronto Hydro in accordance with the December 2021 direction. City Council adopted the recommendations of those reports, as well as additional motions from City Councillors. The resolutions include a request that Toronto Hydro establish a new climate advisory services business in keeping with the proposal set out in Toronto Hydro's Climate Action Plan and Toronto Hydro's Climate Action Plan Status Report filed with the City in June 2022. City Council directed that a memorandum of understanding between the City and Toronto Hydro with respect to climate advisory services implementation targets and coordination details return to City Council in the first quarter of 2023.

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

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

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

PART 6 - RELATIONSHIP WITH THE CITY

6.1 Shareholder Direction

As sole shareholder of the Corporation, the City has adopted the Shareholder Direction that sets out the following corporate governance principles with respect to Toronto Hydro:

- the objectives and principles that govern the operations of Toronto Hydro;
- the matters in addition to those set out in the OBCA that require the approval of the City as the sole shareholder of the Corporation; and
- certain financial and administrative arrangements between the Corporation and the City.

The Shareholder Direction requires Toronto Hydro to conduct its affairs and govern its operations in accordance with such rules, policies, directives or objectives as directed by City Council from time to time, subject to Toronto Hydro's requirements under law.

(a) Shareholder Objectives and Principles

The Shareholder Direction provides that the following objectives and principles shall govern the operations of Toronto Hydro:

- to operate Toronto Hydro on an efficient and commercially prudent basis;
- to optimize the City's return on equity as the sole shareholder of the Corporation and operate Toronto Hydro with a view to meeting the financial performance objectives of the City as set out in the Shareholder Direction;
- to provide a reliable, effective and efficient electricity distribution system that supports the electricity demands of residents and businesses in the City;
- to operate Toronto Hydro in an environmentally responsible manner consistent with the City's energy, climate change and urban forestry objectives and, as appropriate, utilizing emerging green technologies;

- to ensure that the business is managed in material compliance with all law; and
- to engage in recruitment and procurement practices designed to attract employees and suppliers from the City's diverse community.

The Shareholder Direction provides that the Board is responsible for determining and implementing the appropriate balance among these objectives and principles and for causing Toronto Hydro to conduct its affairs in accordance with the same.

(b) Shareholder Approval

In addition to those matters set out in the OBCA, the following matters, among others, require the approval of the City as the sole shareholder of the Corporation:

- subject to certain exceptions in the case of LDC, creating any security over the assets of the Corporation or LDC;
- in the case of LDC, providing any financial assistance to any person other than in accordance with the Shareholder Direction;
- in the case of the Corporation and LDC, making any investment in or providing any financial assistance to any subsidiary of the Corporation [other than LDC], other than trade payables incurred in the ordinary course of business on customary terms and an investment in or financial assistance to a subsidiary that originally was an investment in or financial assistance to LDC, in excess of 12% of the shareholder's equity of LDC as shown in its most recent financial statements; and
- acquiring any interest in the electricity distribution system, undertaking or securities of a distributor operating outside the City unless, among other things, the acquisition does not adversely affect the dividend payable to the City and there is no dilution of the City's shareholding in the Corporation.

The City has authorized the Corporation to provide financial assistance to its subsidiaries for the purpose of enabling them to carry on their respective businesses, including, in the case of LDC, for the purpose of satisfying the prudential requirements of the IESO. The Shareholder Direction limits the financial assistance that may be provided by the Corporation to its subsidiaries to an aggregate amount of $500.0 million, except in the case of LDC, which financial assistance is unlimited.

(c) Financial Performance

The Shareholder Direction provides that the Board will use its best efforts to ensure that Toronto Hydro meets certain financial performance standards, including those relating to the credit rating and dividends.

(d) Credit Rating

The Shareholder Direction provides that the Corporation will obtain and maintain a rating of A minus or higher [or its equivalent rating, depending on the credit rating agency] on its senior debt securities, as rated by two accredited credit rating agencies in Ontario [which include S&P, DBRS and Moody's]. See section 9.4 entitled "Credit Rating" for more information on the Corporation's credit ratings as at December 31, 2022.

(e) Dividends

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

The Corporation declared and paid dividends to the City totaling $92.6 million in 2020, $70.3 million in 2021, and $84.6 million in 2022.

On March 1, 2023, the Board declared a dividend in the amount of $24.6 million, payable to the City by March 31, 2023.

LDC declared and paid dividends to the Corporation of $0.7 million in 2020, $0.6 million in 2021 and $nil in 2022.

TH Energy declared and paid $nil dividends to the Corporation in 2020, 2021, and 2022.

6.2 Services Provided to the City

Toronto Hydro provides certain services to the City at commercial and regulated rates, including street lighting services. Ongoing street lighting services are provided by TH Energy and sub-contracted to LDC. See section 4.4 entitled "Toronto Hydro Energy Services Inc." for more information. See note 22 to the Consolidated Financial Statements.

6.3 Shareholder Engagement

The Corporation believes that regular and constructive engagement with the City, its sole shareholder, is an important part of creating an open, candid and informed dialogue. In addition to the Corporation's annual shareholder meetings, representatives of the Corporation engage with the City through formal attendance at City Council meetings and other engagements with the Mayor, City Councillors and City management throughout the year as required. Other means of communications with the City include the Corporation's annual and quarterly financial and management reports, and ward-specific updates.

PART 7 - TAXATION

7.1 Tax Regime

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

The Electricity Act provides that an MEU that is exempt from tax under the ITA and the TA is required to make, for each taxation year, a PILs payment to the OEFC 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 OEFC.

If the Corporation or a subsidiary ceases to be exempt from tax under the ITA and the TA, it will become subject to tax under those statutes, will no longer be required to make PILs payments to the OEFC, and will be deemed to have disposed of its assets for proceeds of disposition equal to their fair market value at that time and to have reacquired its assets at the same amount with the result that:

- such corporation would become liable to make a PILs payment in respect of any income or gains arising as a result of these deemed dispositions; and

- the amount of annual taxes payable by the corporation under the ITA, and the TA may be different from the PILs payment that would be payable without a loss of tax-exempt status to reflect, among other things, the consequences of these deemed dispositions and acquisitions.

The Electricity Act also provides that a municipal corporation or an MEU is required to pay a transfer tax when it transfers Electricity Property. An interest in Electricity Property includes any interest in a corporation, partnership or other entity that derives its value in whole or in part from Electricity Property. The transfer tax is the prescribed percentage [22% for transfers occurring between January 1, 2016 and December 31, 2024 (originally set to expire in December 2018 and extended to December 2022 as part of the 2018 Ontario Economic Outlook and Fiscal Review, further extended to December 2024 as set out in the 2022 Ontario Budget), and 33% for transfers occurring thereafter] of the fair market value of the interest transferred. The amount of transfer tax payable where the interest that is transferred is an interest in a corporation, partnership or other entity, is calculated in accordance with a special rule. The amount of transfer tax payable by an MEU on a transfer of Electricity Property may be reduced by:

- any PILs payment made by the MEU in respect of the part of the taxation year up to and including the date that the transfer takes place or a previous taxation year;

- any amount that the MEU has paid as tax under Part III of the TA in respect of the part of the taxation year up to and including the date of the transfer or a previous taxation year; and

- any amounts that the MEU would be liable to pay as tax under Part I of the ITA in respect of the taxation year if that tax were computed on the basis that the MEU had no income other than the capital gain realized on the transfer of its interest in the property.

Transfers of Electricity Property will be an excluded transfer and thereby exempt from the transfer tax if made to an MEU, Hydro One or OPG, or a subsidiary of either of them if the transferee is exempt from tax under the ITA at the time of transfer. Capital gains arising from a transfer of Electricity Property occurring between January 1, 2016 and December 31, 2024 are also exempt from the transfer tax.

In addition, a refund of transfer tax may be made where such tax had been paid on the sale or transfer of Electricity Property and where the proceeds of that transfer were reinvested in certain other capital or depreciable assets used in connection with generating, transmitting, distributing or retailing electricity in Ontario and, subject to certain deeming rules, before the end of the second taxation year following the taxation year in which the liability to pay the transfer tax arose.

PILs payments are deductible in computing the transfer tax only to the extent that they have not been previously applied to reduce transfer tax payable by a municipal corporation or an MEU.

7.2 PILs Recoveries through Rates

The OEB's Filing Requirements for Electricity Distribution Rate Applications provides for electricity distribution rate adjustments to permit recoveries relating to PILs payments. These recoveries are recalculated and submitted for recovery by LDC in each cost of service or rebasing distribution rate application. LDC is also generally at risk for variances between forecasted and actual PILs paid, excluding variances arising from changes in tax legislation not assumed in the setting of rates for the period in question, which variances are disposed of through deferral accounts under cost of service, IRM or CIR. See note 8[g] to the Consolidated Financial Statements.

PART 8 - RISK FACTORS

Risk Management

Toronto Hydro faces various risks that could impact the achievement of its strategic objectives. It adopts an enterprise-wide approach to risk management, based on an overall enterprise risk philosophy, and achieved through a process of consolidating and aligning the various views of risk across the enterprise via a risk governance structure.

Toronto Hydro's ERM framework utilizes industry best practices and international guidelines tailored to meet Toronto Hydro's circumstances, and focuses on identifying emerging trends in risks and related opportunities particular to Toronto Hydro through a comprehensive evaluation of Toronto Hydro's business and the electricity industry generally. Toronto Hydro views ERM as a management activity undertaken to add value and improve overall operations and has made it an important part of its decision-making processes. The ERM framework helps Toronto Hydro by enabling the attainment of its strategic goals and objectives through a systematic, disciplined approach towards identifying, evaluating, treating, monitoring and reporting of risks. Accordingly, ERM is an integral part of the strategic management of Toronto Hydro and is routinely considered in forecasting, planning and executing key aspects of the business.

The ERM framework is operationalized by a consistent and disciplined methodology that clearly defines the risk management process and which incorporates judgment of subject matter experts within Toronto Hydro, risk quantification, risk trends and risk interdependencies. The risk criteria used to assess each enterprise risk relate to: strategic, reputational, financial, stakeholder management, distribution system, information system, compliance, occupational health and safety, and public safety impacts.

Toronto Hydro has assigned a designated responsible member of senior management for each enterprise risk [and several key component risks] to seek to ensure that such risks are being monitored through qualitative and quantitative risk indicators and that short interval controls and medium to long-term mitigation plans are in place. Each designated responsible person provides regular risk reporting and briefings to the executive team on their enterprise risk and the key components of such risk. Additionally, Toronto Hydro's risk governance structure includes internal coordination efforts to align outreach to key external stakeholders, both from a strategic and consistency perspective, to help reduce risks and identify opportunities for engagement.

Internal ERM professionals meet regularly with the designated responsible persons to gather and review risk indicators and trends, and identify potential emerging facts that could impact Toronto Hydro, augment other risks or curtail opportunities. Such risk management processes and tools help Toronto Hydro prioritize its mitigation efforts, strengthen its planning efforts, and identify areas for improvement.

While Toronto Hydro's philosophy is that ERM is the responsibility of all business units at all levels, in strategic and functional matters, the ERM governance structure is comprised of three key levels.

At the first level is the Board, which maintains a general understanding of Toronto Hydro's risk profile, the risk categories and the types of risks to which Toronto Hydro may be exposed, and the practices used to identify, assess, measure and manage those risks. The risk profile is a list of key areas that may impede Toronto Hydro from achieving certain or all of its strategic objectives, and which are most material to its operational success. The Board also reviews Toronto Hydro's risk philosophy on an annual basis and is responsible for approving any new enterprise risk areas.

The second level is the executive team, which ensures systems are in place to identify, manage, and monitor risks and trends. Through input from the business and other considerations, the executive team assesses the appropriateness and consistent application of systems to manage risks within Toronto Hydro. The executive team also ensures that key risks are brought forward to the attention of the Board for discussion and action, as required.

Finally, the third level is the senior leadership team. The senior leadership team supports the executive team and is a collection of subject matter experts from across Toronto Hydro who actively engage in the day-to-day management of risks. Members of the senior leadership team have been assigned to be the designated responsible person for managing and reporting upon enterprise risks. Understanding the critical linkages between external stakeholder management and the impact and likelihood of the emergence of enterprise risk, members of this group are among those that have also been assigned as stakeholder coordinators to ensure that Toronto Hydro is working effectively with external stakeholders to mitigate risks. Working with the executive team, the senior leadership team oversees Toronto Hydro's risk profile and its performance against the defined risk philosophy. This group understands changes in risk status and trends, identifies potential opportunities, and determines responses and action plans that are then implemented by the organization. These senior leaders also work to ensure effective, efficient, complete and transparent risk reporting to the executive team.

Toronto Hydro reviews its risk philosophy and enterprise risks areas continuously for alignment with business and industry conditions and regularly updates and enhances its ERM program to ensure that Toronto Hydro is focused upon and responsive to risks of the greatest significance, likelihood and impact. Toronto Hydro's ERM program is focused on the key strategic and functional risk categories facing the organization. This allows Toronto Hydro's executive team and responsible business units to concentrate on these risks, focus on key data points and undertake deeper dives into root causes and risk trends in these areas on both a short-interval and long-term basis. By focusing in particular on the strategic risks to the organization, decision-making is strengthened and Toronto Hydro has a greater ability to realize opportunities central to its interests.

Toronto Hydro's business is subject to a variety of risks including those key risk areas described in the following sections. The strategic risk areas of Toronto Hydro are identified as the governance, oversight and franchise risks, while the key functional risks of the organization are the cybersecurity, safety, financial, operations, human capital and compliance risks. There can be no assurance that any steps Toronto Hydro may take to manage risks will avoid future loss resulting from the occurrence of the identified key enterprise risk areas or any other risks.

Governance Risk

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

The Corporation is a government-controlled enterprise whose sole shareholder is the City. The operations of Toronto Hydro are influenced by the broad by-law enactment and enforcement powers of the City. The City is also responsible for developing policies and municipal initiatives of general application and there is no guarantee that such policies, including climate change and energy policies, will align with Toronto Hydro's strategic objectives or long-term financial health. The City may also implement additional requirements relating to reduction in GHG emissions and adaptation to climate change as part of initiatives such as the City's TransformTO. In this respect, in response to resolutions passed by City Council in 2021, Toronto Hydro proposed a climate action plan to assist the City in meeting its 2040 net zero GHG emission objective. In July, 2022, City Council passed resolutions to support the implementation of the climate action plan [see section 5.5 entitled "Toronto Hydro Climate Action Plan"]. 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, as described in section 6.1 entitled "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.

Toronto Hydro engages on a systematic basis with the City Mayor, City Councillors, the City Manager's office, and other departments and agencies to ensure a sharing of perspectives on the vital interests of Toronto Hydro and its customers. Through such engagements the parties review and consider the challenges to Toronto Hydro achieving the objectives and principles set out under the Shareholder Direction, and in particular the impact that proposed changes in city by-laws, municipal policies or directions by the shareholder may create for Toronto Hydro's ability to meet its business objectives and serve 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, 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;

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

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

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

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

Toronto Hydro actively participates in industry engagement efforts in order to mitigate the above risks and realize potential opportunities in regulatory, climate change and energy policy development. Through these types of engagements, Toronto Hydro monitors proposed regulatory, climate change and energy policy changes that may support or impede its business. LDC also employs a comprehensive organizational regulatory application program, which includes a risk assessment, to ensure that all applications to the OEB achieve the highest utility standard of evidence gathering, preparation and presentation, and most accurately reflects the needs of LDC. The preparation of the LDC distribution rates application to the OEB for the 2025-2029 rate period is currently underway. Successful completion and implementation of the project work plan related to the application is expected to yield long-term results for Toronto Hydro: specifically, funding certainty and flexibility to invest in the modernization and renewal of the distribution system and to prepare for growth and electrification driven by the City's TransformTO. However, there can be no assurance that the OEB will substantially approve the activities, plans and methodologies set out therein or the revenue requirement related thereto.

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 such as COVID-19 or other adverse public health developments. Toronto Hydro actively engages with government entities and participates in industry organizations to monitor emerging policies and where possible plays an advocacy role.

Franchise Risk

Risk that restrictions in LDC's business model and/or external conditions impede its ability to maintain and grow its legal right to be the sole provider of electricity distribution and connection services in the city of Toronto [its franchise] and serve 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 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, 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 image in the community, public confidence or brand. Toronto Hydro is committed to delivering safe and reliable electricity to its customers in an environmentally responsible manner at optimal costs. Negative views regarding this commitment and the 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.

Toronto Hydro is focused on monitoring external competitive factors and industry developments, including alternative service providers and technologies, through indicators such as customer engagements related to innovative technologies and pre-assessment requests and connection applications for energy storage. Toronto Hydro is also focused on enhancing the intelligence, automation and interactivity of LDC's electricity distribution grid, including utilizing developing technology and facilitating customer use of technology and business models, to support the reliability of its core infrastructure grid operations, prepare for increased electricity demand from net zero GHG emission policies, promote greater value, and deliver solutions for its customers. Additionally, Toronto Hydro takes measures to maintain relationships with its customers to better understand the specific needs and expectations of each class of customer, and develop or enhance service offerings to address those needs. Toronto Hydro conducts customer research and consultations in the ordinary course of its operations, and as part of the development of its rate application whereby it directly considers customer preferences and feedback, in addition to other inputs, as part of developing its business plan. Toronto Hydro also has dedicated personnel focused on the utility's key account customers, who respond to issues raised by large commercial, industrial and institutional customers and assist with their energy management needs. Toronto Hydro also provides climate advisory services as part of its climate action plan to facilitate customers in developing their own climate action plans and reduce stakeholder-identified barriers that prevent or inhibit customers from participating in the energy transition [see section 5.5 entitled "Toronto Hydro Climate Action Plan"]. Through these types of engagements, Toronto Hydro can monitor its customers' specific needs and can work with them to develop energy solutions.

Cyber Security Risk

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

Toronto Hydro's ability to operate effectively is also in part dependent on the development, maintenance and management of complex information technology and operational technology systems. Computer systems are employed to operate LDC's electricity distribution system, and Toronto Hydro's financial, customer billing and business systems to capture data and to produce timely and accurate information.

LDC's electricity distribution infrastructure and technology systems are potentially vulnerable to damage or interruption from cyber-attacks, breaches or other compromises, which could result in business interruption, service disruptions, theft of intellectual property and confidential information [about customers, suppliers, counterparties and employees], additional regulatory scrutiny, litigation and reputational damage. The cybersecurity threat landscape is continually evolving and actors are using more sophisticated methods to penetrate information technology systems. In particular, the utilities sector, as operators of critical infrastructure and providers of essential services with large customer bases, has become an increasing target for cybersecurity activity. Toronto Hydro has implemented security controls substantially aligned with industry best practices and standards, including the National Institute of Standards and Technology Cybersecurity Framework and the OEB's Ontario Cyber Security Framework, and maintains cyber insurance. Cyber-attacks, breaches or other compromises of electricity distribution infrastructure and technology systems could result in service disruptions and system failures, including as a result of a failure to provide electricity to customers, property damage, data corruption, and/or loss of confidential employee, supplier, counterparty or customer information. A significant breach could materially adversely affect the financial performance of Toronto Hydro or its reputation and standing with customers, regulators and in the financial markets. It could also expose Toronto Hydro to third-party claims. Overseeing the management of these risks, Toronto Hydro's Audit Committee receives comprehensive updates on the cybersecurity environment and the organization's cybersecurity program and responses.

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

Preventative controls are employed to protect information and technology assets against cyber-attacks and mitigate their effects. Toronto Hydro maintains close coordination with industry partners and agencies and technology vendors who provide near real-time threat intelligence. Detective controls are employed to continuously monitor information systems so that Toronto Hydro can respond appropriately to minimize the damage in the event of a cyber-attack. Additionally, in respect of Toronto Hydro's operational technology systems in general, controls are in place which mitigate against wider systemic risk to business systems. Toronto Hydro has also developed robust processes for assessment of third-party providers and contractors that interact with its information technology systems, and has contractual protection and technical safeguards in place to safeguard against third-party risks. Even with these measures in place, since the techniques used to obtain unauthorized access, disable or degrade service, or sabotage systems change frequently and may only be detected once a cyber incident has initiated, Toronto Hydro may be unable to anticipate these techniques or to implement adequate preventative measures.

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

As public health measures and pandemic restrictions have lifted, Toronto Hydro has transitioned to a hybrid work arrangement. Threat vectors related to remote working (i.e. scams, spams, phishing, vishing, etc.) are expected to persist to exploit hybrid work infrastructure and target employees' home networks and personal devices to gain access to Toronto Hydro's networks. As such, the Corporation will continue to deploy preventative and detective controls to protect and continuously monitor information systems and technology assets to help minimize damage in the event of a cyber-attack, breach or other compromise. The Corporation also has internal cybersecurity and technology use policies in place, as well as a cybersecurity training program for its employees.

Despite the proactive steps taken to adapt to the current environment, the Corporation's ability to operate effectively is dependent on the security, development, maintenance, and management of complex information technology systems.

Safety Risk

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

Potential and existing health and safety risks related to worksites and tasks being performed by Toronto Hydro are regularly assessed 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 can cause and/or contribute to critical injuries, fatal injuries, and occupational illnesses, as defined by provincial health and safety legislation.

The nature of the work performed in electrical utilities operations requires that employees receive extensive training on health and safety, including on personal protective equipment and the implementation of workplace safety procedures and protocols. This is due to the hazards inherent to electrical utilities work, which, depending on the required task, can include electrical contact, 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. On occasion, hazards can result in personal injury, operational interruptions, and loss or damage to equipment, property, or information technology systems. In an active and ongoing manner, Toronto Hydro further mitigates health and safety risks to employees, customers and members of the public through equipment inspection, replacement and maintenance, employee training, communications programs and reactive and emergency work. "Safety by Design" principles are applied in the development of construction standards and design practices. New products for use in the distribution system go through a thorough review and introduction process. The selection process for new products and the development of standards promotes employee, customer, and public health and safety.

Toronto Hydro is subject to compliance with provincial health and safety legislation. Toronto Hydro's management approach to occupational health and safety is to meet, and often where possible, exceed legal compliance requirements and eliminate or safeguard known occupational hazards and risks. Toronto Hydro also follows the internal responsibility system to clearly define responsibility and accountability for every workplace party at each level within the organization. There are processes in place to develop and nurture good leadership practices through recruitment, education, training and performance management practices that encourage the application of Toronto Hydro's corporate values, including health and safety.

Toronto Hydro also has in place an infectious disease plan, which was activated by the COVID-19 emergency, as well as previous pandemics and epidemics. This plan has been a significant part of Toronto Hydro's emergency response to COVID-19 and has been used to seek to limit health and safety exposures to employees, members of the public, and the communities serviced by Toronto Hydro.

In 2013, LDC received OHSAS 18001 certification which was the international standard for occupational health and safety management systems. OHSAS was later replaced by ISO 45001:2018 which Toronto Hydro successfully migrated to in 2019 and was subsequently re-certified in 2021. LDC conducts annual third-party audits to maintain ISO 45001:2018 certification. In addition, occupational health and safety legal compliance audits are conducted by an external third party every two years. The ISO 45001:2018 certificate expires on February 4, 2025.

Financial Risk

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

Toronto Hydro is directly and indirectly subject to various macroeconomic and local market forces, which could have material adverse impacts. As a consequence of uncertainties in the recovery of economic and market conditions, Toronto Hydro remains exposed to inflationary pressures, an increased interest rate cost environment, indeterminate levels of customer consumption, credit risk with respect to customer non-payment of electricity bills and increased supply chain, operating and infrastructure development costs. The general rate of inflation in Canada and many other countries saw a significant increase during 2021 and continuing throughout 2022, with some regions experiencing multi-decade highs. Certain underlying factors include, but are not limited to, global supply chain disruptions, shipping restrictions, labour market constraints, geopolitical instability and side effects from monetary policies and fiscal expansions. The global economic recovery remains 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 global economic recovery and rising inflationary trends are widely expected to result in elevated interest rates. In 2022, the Bank of Canada began raising its benchmark interest rates for the first time since 2018 and further interest rate increases may occur. The Corporation closely monitors market trends and seeks to mitigate cost impacts through various measures, including project management, procurement and other management actions. There can be no assurance that the OEB will allow full recovery of increased costs relating to these factors.

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

Actions by the provincial government or regulatory authorities may impede LDC's ability to mitigate the risk of customer non-payment using means normally permitted by law at certain times of the year, including security deposits [i.e., letters of credit, surety bonds, cash deposits or lock-box arrangements, under terms prescribed by the OEB], late payment penalties, pre-payment, pre-authorized payment, load limiters or disconnection. LDC may have no option in certain cases but to assume the amount of any default, whether in whole or in part, and LDC's security interest or other measures, if any, may not provide sufficient protection. While LDC would be liable for the full amount of the default, there can be no assurance that the OEB would allow recovery of the expected credit loss allowance or of the increased operating or construction costs, and such expenses and costs could have a material adverse effect on the Corporation's business, operations, financial condition or prospects. The OEB would examine any electricity distributor's application for recovery of extraordinary expected credit loss allowance and other expenses on a case-by-case basis. 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. If the level of customer payment delays or non-payment, or increased costs contribute to liquidity challenges, the Corporation expects that it would utilize various mitigation tools at its disposal in seeking to improve its liquidity, including accessing further debt under, or increasing limits in, any of its MTN Program, CP Program, or its credit facilities, or by reducing costs and delaying payments. 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.

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.

Toronto Hydro seeks to target an optimal capital structure and cash to debt range to access capital markets at the lowest interest rates to finance its capital plans, including those related to meeting increased electricity demand resulting from net zero GHG emission policies [such as the City's TransformTO]. The Corporation's ability to arrange sufficient and cost-effective debt financing could be materially adversely affected by a number of factors, including financial market conditions, inflationary pressure, Bank of Canada monetary 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 in general and consumers. In addition, any of the above factors can also be affected by financial or geopolitical events in the global economy, Toronto Hydro's business, operations, financial condition or prospects, compliance with contractual debt covenants, the ratings assigned to the Corporation or the debentures issued under the Corporation's MTN Program by credit rating agencies, the rating assigned to short-term borrowings under the CP Program by a credit rating agency, the availability of the commercial paper market, and the interest rates and availability of borrowing capacity under its Revolving Credit Facility, Working Capital Facility and other credit arrangements. In the event the Corporation is unable to maintain a required credit rating for its CP Program, the Corporation's cost to access short-term capital could be materially adversely affected. In addition, if the Corporation cannot maintain attractive credit ratings for its MTN Program, debt capital under such program may become too costly or unavailable, which could materially adversely affect the Corporation's capital and operational programs, and its 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 uncertainty. Therefore, as further indebtedness is incurred to finance Toronto Hydro's capital program and its climate action plan, the Corporation's debt to equity capital structure may not be maintained at a level in alignment with the OEB's deemed capital structure for rate making purposes (60% debt:40% equity). The Corporation regularly reviews the external market environment and has regular engagements with its credit rating agencies, securities dealers and investor community to monitor capital structure risk.

Generally, Toronto Hydro is exposed to fluctuations in interest rates for the valuation of its post-employment benefit obligations. As at December 31, 2022, Toronto Hydro estimates that a 1% [100 basis point] increase in the discount rate used to value these obligations would decrease the accrued benefit obligation by $27.1 million, and a 1% [100 basis point] decrease in the discount rate would increase the accrued benefit obligation by $33.3 million.

Toronto Hydro is also 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 most recently completed financial year were either non-interest bearing or bear fixed interest rates, and its financial assets for the most recently completed financial year were predominately short-term in nature and mostly non-interest bearing. Toronto Hydro manages interest rate risk by monitoring its mix of fixed and floating rate instruments, and taking action as necessary to maintain an appropriate balance as established under its treasury policies. Toronto Hydro estimates that a 25-basis point increase [decrease] in short-term interest rates, with all other variables held constant, would result in an increase [decrease] of approximately $1.1 million to annual finance costs.

Toronto Hydro typically has limited exposure to the changing values of foreign currencies. While Toronto Hydro purchases goods and services which are payable in United States dollars, and purchases United States currency to meet the related commitments when required, the impact of these transactions as at December 31, 2022 was not material.

Toronto Hydro's financial health and performance may also be adversely affected by events or measures, as well as changes in economic, policy, customer preference or technological conditions, that reduce the demand for electricity. Such events or measures may include, but are not limited to, closures of businesses and other institutions such as schools and government operations as a result of extreme storms and other weather conditions, natural disasters, terrorism, and pandemics such as COVID-19. A reduction in demand for grid-supplied electricity distribution may also arise from conservation measures. Additionally, the adoption by customers of new technologies in the electricity industry, including those related to self-generation, could reduce customer demand for grid-supplied electricity distribution. Toronto Hydro is focused on investing in its infrastructure to modernize the grid to drive resiliency, reliability, customer effectiveness and efficiency. See section 4.5(d) entitled "Environmental, Social and Governance" for more information on Toronto Hydro's ESG and sustainability activities.

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, supply chain, customer management, physical security, and business interruption.

Toronto Hydro may be unable to maintain reasonable levels of reliability for its customers due to failure of existing distribution infrastructure and assets [including assets not directly involved in electricity distribution such as facilities and computer systems], access to the supply of electricity from the provincial and local generation and transmission systems, and the inability to replace or expand distribution infrastructure in an optimal timeframe. Electricity distribution is a capital-intensive business. As the municipal electricity distribution company serving the largest city in Canada, LDC continues to invest in the renewal of existing aging infrastructure and in the development of new infrastructure to address safety, reliability, hardening the resiliency of the distribution system against the effects of climate change, and customer service requirements now and in the future. As well, infrastructure investments will be made to increase the capacity and resilience of the grid required to facilitate the electrification of the economy and people's daily lives in order to achieve government net zero GHG emissions targets.

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 2028]. Asset condition assessment demographics also indicate substantial asset investment needs for a number of critical assets during this period. At the same time, Toronto is one of the fastest growing cities in North America and LDC must make upgrades to keep pace with urban intensification and electrification, optimize flexibility of connection to generation and transmission systems, including distributed energy resources; and ensure good stewardship of the distribution system in a manner that accounts for a changing climate. Further, extreme weather is no longer an infrequent experience, and has instead become a regular condition of operating a distribution system. Toronto Hydro has experienced several extreme weather events in recent years, including ice storms, freezing rain, extreme wind and flooding, that have led to a significant number of customers experiencing electricity outages and challenges to maintaining access to electricity supply from the transmission system.

In addition, as the City, provincial government and the Government of Canada implement policies and programs to respond and adapt to climate change, including greater electrification through the adoption of electric vehicles, distributed energy resources, building heating and cooling retrofits and energy efficiency/demand management technologies, the pressures on Toronto Hydro's system are expected to increase. Such factors may drive a need for incremental capital expenditures for system upgrades and new technologies 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.

LDC is focused on overcoming the above challenges and executing its capital and maintenance programs. It uses a variety of asset and project management tools to implement its plans, measures progress on a recurring short interval basis, and regularly monitors and manages the health of its assets. Toronto Hydro continues to align its asset management system to the ISO 55001: Asset Management standard and has commenced a formal process which is expected to lead to certification under the standard and to cause the lifecycle of assets to be managed more effectively, reduce system costs and improve system visibility and reliability. Toronto Hydro employs sophisticated, granular scenarios analysis based upon customer preferences to support its investment planning programs at the local level. LDC is also extensively engaged in regional planning activities and processes with the IESO to ensure the adequacy of the regional transmission system serving the City. Toronto Hydro also utilizes a diverse set of contractors and suppliers through its rigorous procurement practices and monitors market conditions closely. However, if LDC is unable to carry out these plans in a timely and optimal manner, becomes subject to significant unforeseen equipment failures, or is unable to access sufficient supplies or human resources, equipment performance will degrade. Such degradation may compromise the reliability of distribution assets, climate change readiness, the ability to deliver sufficient electricity and/or customer supply security, including in response to government net zero GHG policies and public goals, and increase the costs of operating and maintaining these assets. Similarly, there is no certainty that regional planning efforts controlled by external governing agencies and regulators will address all electricity supply matters as identified by LDC.

Additionally, Toronto Hydro's ability to operate effectively is in part dependent upon timely access to equipment, materials and service suppliers. Loss or delay of key equipment, materials and service suppliers and the reputational and financial risk exposures of key vendors could affect the Corporation's operations and execution of capital projects. Disruptions to the Corporation's supply chain, driven by the geopolitical environment, inflation, shifts in demand, and labour shortages, have resulted 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. Uncertainty and disruption resulting from international conflicts and military operations may also affect Toronto Hydro, including by contributing to supply chain or financial markets disruption. Toronto Hydro has a number of mitigation plans in place, including purchasing material requirements beyond lead times, sourcing and approving new suppliers to alleviate single point of supply issues, adjusting re-order points to increase certain stock codes, extending planning horizons, and re-using/repairing existing equipment where possible. Toronto Hydro utilizes its procurement processes and a diverse supplier and contractor base to mitigate against supply chain risks and costs.

Toronto Hydro may also fail to accurately measure customer electricity consumption, respond to and address customer service issues or bill customers correctly or on time [including meter to cash management]. In order to provide timely and accurate billing and customer service, Toronto Hydro has implemented a number of policies, procedures and guidelines including those related to metering, accounts receivable and connections/disconnections. Toronto Hydro monitors metering/billing accuracy, customer communications and customer service quality on an ongoing basis. The Corporation has also commenced a multi-phase customer enhancement program to harmonize the customer experience by delivering a digital enablement of customer interactions, seamless meter to cash process, updating customer billing technology and other customer service processes in a cost-effective and unified manner.

As noted above under "COVID-19 Pandemic Considerations", Toronto Hydro has implemented a number of provincial government and OEB-based programs, including changes to commodity prices, as well as its own initiatives such as extensions of disconnect moratoriums and reductions in late payment charges, in order to assist customers. The wind-down and removal of these supports for customers may lead to negative customer sentiment toward Toronto Hydro. As a result of net zero GHG emissions policies, LDC may need to accelerate capital investments to accommodate increasing electrification. These system enhancements may lead to material customer bill increases and a more challenging customer relationship environment for Toronto Hydro, as well as customer backlash against the energy transition and related expenditures by Toronto Hydro.

Toronto Hydro also faces external threats to its physical and perimeter security. This includes the security of Toronto Hydro's facilities including office buildings and distribution stations. In order to safeguard its assets and staff, Toronto Hydro has developed policies and guidelines around physical and perimeter security and facilities related emergency preparedness. Toronto Hydro has also implemented electronic security technologies to ensure that only authorized personnel have access to Toronto Hydro facilities.

Similarly, Toronto Hydro may be unable to maintain continuing and sustainable business operations, or recover from business interruption after an incident that is beyond normal operations. Toronto Hydro's operations are exposed to the effects of natural and other unexpected occurrences such as extreme storm and other weather conditions, natural disasters, loss of the supply of electricity from the provincial and local generation and transmission system, as well as terrorism and pandemics, such as COVID-19. LDC is also exposed to risks that informational and operational technology systems may not operate as anticipated and could result in sustained interruptions to key corporate systems that would have a substantial impact on continuing normal business operations. Costs and operational changes, associated with such business interruption events may have a material and adverse effect on Toronto Hydro's business and operations in both its short and longer term. These impacts may also include limiting Toronto Hydro's ability to build, repair and maintain capital infrastructure, with resultant impacts on reliability and revenue. Toronto Hydro has implemented various initiatives aimed at improving the system's resiliency to increasingly frequent extreme weather events caused by climate change. These initiatives include updating major equipment specifications, revising planning guidelines, reviewing the load forecast impacts, revising design practices, and enhancing maintenance programs.

Toronto Hydro has also implemented an emergency and business continuity management program to support organizational-wide resiliency and build measures in response to major threats to operations such as the COVID-19 pandemic, and major power outage events. Although Toronto Hydro's facilities and operations are constructed, operated and maintained with such occurrences in mind, there can be no assurance that they will successfully withstand such occurrences in all circumstances. Any major damage to Toronto Hydro's facilities or interruption of Toronto Hydro's operations arising from these occurrences could result in lost revenues and repair costs that can be substantial. Although Toronto Hydro has continued to place insurance which it considers to be consistent with industry practice, there is no guarantee that insurance will continue to be available at reasonable rates for certain types of coverage and policy limits. If Toronto Hydro sustained a large uninsured loss caused by natural or other unexpected occurrences, LDC may apply to the OEB for the recovery of the loss related to the electricity distribution system. There can be no assurance that the OEB would approve, in whole or in part, such an application.

Human Capital Risk

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

Toronto Hydro is subject to the risk that human resources may not be available with the necessary knowledge, skills and education to support Toronto Hydro's future talent requirements and, as a result, its strategic activities and business objectives. This risk could be heightened in economic conditions where inflation rates are rising as this may result in pressure on wages and salaries, and where employee expectations with respect to work-life balance and flexibility are evolving. Furthermore, Toronto Hydro expects that labour force availability for certain positions will continue to tighten, resulting in increased competition and turnover for certain skilled employees, which may negatively impact knowledge management and business continuity at Toronto Hydro.

Development and retention of talent to meet the evolving needs of the business, particularly those related to the adoption of new technologies central to electrification and implementation of grid-connected energy resources to enable the clean energy transition and other needs of a modernized distribution grid requires Toronto Hydro to focus on a series of proactive activities and programs to mitigate these risks, such as strategic workforce planning, promotion of apprenticeship programs, diversity and inclusiveness awareness and training, investments in colleges and universities, succession planning, knowledge transfer and a robust training program. See section 4.5(d) entitled "Environmental, Social and Governance" for more information on Toronto Hydro's ESG and diversity activities.

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 infectious diseases or other factors. If such disruption occurs, there may be a material adverse effect on Toronto Hydro's business and operations. One way in which Toronto Hydro seeks to mitigate this risk is through its use of business practices and internal procedures to identify a diverse group of reputable third-party service providers with access to advanced skill sets and entering into contracts with, and monitoring the performance of, these third-party service providers.

Compliance Risk

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

Toronto Hydro is committed to complying with applicable legal and regulatory requirements and other requirements to which the organization subscribes. Toronto Hydro has a Corporate Compliance program that strengthens the organization's culture of compliance and aims to provide reasonable assurance, to Toronto Hydro's senior leadership and Toronto Hydro's Board of Directors, of adherence with material compliance requirements. Regular senior leadership reporting on the completion status of planned mitigation actions, monitoring of compliance issue turnover rates, and a responsible employee attestation process assist with ensuring effective management of identified compliance risks. Despite these mitigations, there can be no certainty that Toronto Hydro will be in material compliance with applicable future laws, rules, regulations and policies at all times. Constraints on access to human and materials resources due to 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.

PART 9 - CAPITAL STRUCTURE

9.1 Share Capital

The authorized capital of the Corporation consists of an unlimited number of common shares without par value, of which 1,200 common shares are issued and outstanding as at the date of this AIF. See note 16 to the Consolidated Financial Statements.

9.2 Debentures

As at December 31, 2022, the Corporation had the following debentures [the "Debentures"] outstanding, which have been issued pursuant to its MTN Program:

- $200.0 million of 5.54% Series 6 senior unsecured debentures due May 21, 2040;
- $250.0 million of 2.91% Series 8 senior unsecured debentures due April 10, 2023;
- $245.0 million of 3.96% Series 9 senior unsecured debentures due April 9, 2063;
- $200.0 million of 4.08% Series 10 senior unsecured debentures due September 16, 2044;
- $200.0 million of 3.55% Series 11 senior unsecured debentures due July 28, 2045;
- $200.0 million of 2.52% Series 12 senior unsecured debentures due August 25, 2026;
- $200.0 million of 3.485% Series 13 senior unsecured debentures due February 28, 2048;
- $200.0 million of 2.43% Series 14 senior unsecured debentures due December 11, 2029;
- $200.0 million of 2.99% Series 15 senior unsecured debentures due December 10, 2049;
- $200.0 million of 1.50% Series 16 senior unsecured debentures due October 15, 2030;
- $150.0 million of 2.47% Series 17 senior unsecured debentures due October 20, 2031;
- $200.0 million of 3.27% Series 18 senior unsecured debentures due October 18, 2051; and
- $300.0 million of 4.95% Series 19 senior unsecured debentures due October 13, 2052

The Debentures are not listed, posted for trading or quoted on any stock exchange or quotation system.

The Debentures have been issued under the CDS book entry system administered by CDS with BNY Trust Company of Canada as trustee. Accordingly, a nominee of CDS is the registered holder of the Debentures and beneficial ownership of the Debentures is evidenced through book entry credits to securities accounts of CDS participants [e.g., banks, trust companies and securities dealers], who act as agents on behalf of beneficial owners who are their customers, rather than by physical certificates representing the Debentures.

9.3 Credit Facilities

The Corporation has a Revolving Credit Facility, pursuant to which it may borrow up to $800.0 million, of which up to $210.0 million is available in the form of letters of credit. On September 2, 2021, the maturity date of the Revolving Credit Facility was extended from October 10, 2024 to September 2, 2026. On November 18, 2022, the maturity date of the Revolving Credit Facility was extended from September 2, 2026 to September 17, 2027. Borrowings under the Revolving Credit Facility bear interest at fluctuating rates plus an applicable margin based on the Corporation's credit rating. On March 17, 2023, the amount available for borrowing under the Revolving Credit Facility was increased by $200.0 million from $800.0 million to $1.0 billion.

The Revolving Credit Facility contains certain covenants, including a requirement that the Corporation's debt to capitalization ratio not exceed 75%. As at December 31, 2022, the Corporation was in compliance with all covenants included in its Revolving Credit Facility agreement.

The Corporation has a CP Program allowing up to $750.0 million of unsecured short-term promissory notes to be issued in various maturities of no more than one year. The CP 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 CP Program are used for general corporate purposes. Borrowings under the CP Program bear interest based on the prevailing market conditions at the time of issuance. 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 amount available under the Revolving Credit Facility as well as outstanding borrowings under the Revolving Credit Facility and CP Program are as follows:

	Revolving Credit Facility Limit	Revolving Credit Facility Borrowings	Commercial Paper Outstanding	Revolving Credit Facility Availability
December 31, 2022	$ 800.0 million	—	$ 355.0 million	$ 445.0 million
December 31, 2021	$ 800.0 million	—	$ 275.0 million	$ 525.0 million

Additionally, the Corporation has a Prudential Facility and a Working Capital Facility. On September 2, 2021, the amount which can be issued against the Prudential Facility was increased from $75.0 million to $100.0 million. For the year ended December 31, 2022, the average aggregate outstanding borrowings under the Corporation's Revolving Credit Facility, Working Capital Facility and CP Program were $459.5 million with a weighted average interest rate of 2.15%.

As at December 31, 2022, $12.8 million had been drawn under the Working Capital Facility and letters of credit in the amount of $57.6 million were issued against the Prudential Facility.

9.4 Credit Rating

As at December 31, 2022, the credit ratings of the Corporation were as follows:

	DBRS		S&P	
	Credit Rating	**Trend**	**Credit Rating**	**Outlook**
Issuer rating	A	Stable	A	Positive
Debentures	A	Stable	A	-
Commercial paper	R-1 (low)	Stable	-	-

DBRS rates long-term debt instruments by rating categories ranging from a high of "AAA" to a low of "D". All rating categories other than AAA and D also contain the subcategories "(high)" and "(low)" to indicate relative standing within the major rating categories. The absence of either a "(high)" or "(low)" designation indicates the rating is in the middle of the category. An A rating is the third highest of the ten rating categories. Long-term debt instruments which are rated in the "A" category by DBRS are considered to be of good credit quality, with substantial capacity for the payment of financial obligations. Entities in the "A" category may be vulnerable to future events, but qualifying negative factors are considered manageable.

DBRS rates short-term debt instruments by rating categories ranging from a high of "R-1 (high)" to a low of "D". An R-1 (low) rating is the third highest of the ten rating categories. Short-term debt instruments which are rated in the "R-1 (low)" category by DBRS are considered to be of good credit quality, with substantial capacity for the payment of financial obligations. Entities in the "R-1 (low)" category may be vulnerable to future events, but qualifying negative factors are considered manageable.

S&P rates long-term debt instruments by rating categories ranging from a high of "AAA" to a low of "D". Ratings from "AA" to "CCC" may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within the major rating categories. An A rating is the third highest of the ten rating categories. Long-term debt instruments which are rated in the "A" category by S&P are considered somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher-rated categories; however, the obligor's capacity to meet its financial commitment on the obligation is still strong.

Credit ratings are intended to provide investors with an independent measure of the credit quality of an issue of securities. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the rating agency.

For the years ended December 31, 2022 and 2021, payments were made to both DBRS and S&P for credit rating services only.

PART 10 - DIRECTORS AND OFFICERS

10.1 Changes to the Corporation's Board of Directors

Effective April 6, 2022, the City Council appointed James Hinds and Annie Ropar to the Board of the Corporation. Also effective on April 6, 2022, all then-current citizen directors were re-appointed to the Board of the Corporation other than Tamara Kronis and Juliana Lam who ceased to be directors of the Corporation.

Effective September 15, 2022, Annie Ropar resigned from the Board of the Corporation and as a member of the Audit and Human Resources and Environment Committees. Concurrently, Michael Eubanks was appointed to the Audit Committee and David McFadden was appointed to the Human Resources and Environment Committee.

On November 14, 2022, Deputy Mayor Denzil Minnan-Wong's term as a director of the Corporation ended with the expiry of his term as City Councillor.

On November 22, 2022, Councillor Paul Ainslie's term as a director of the Corporation ended.

On November 23, 2022, the City Council appointed the following Councillor directors to the Corporation's Board: Councillor Stephen Holyday, Deputy Mayor Jennifer McKelvie, and Councillor Jaye Robinson as the Mayor's designate.

10.2 Nomination of Directors

As at the date of this AIF, the Board consists of ten directors all of whom are appointed by the sole shareholder of the Corporation, the City. There is one vacancy on the Board, which is to be filled upon the appointment of a citizen director by City Council.

Pursuant to the Shareholder Direction, in electing directors to the Board, the City gives due regard to the qualifications of a candidate, including: experience or knowledge; commercial sensitivity and acumen; independence of judgment; and personal integrity. The City seeks candidates with experience and knowledge in: public utility commissions or boards of major corporations or other commercial enterprises; corporate finance; corporate governance; market development; large system operation and management; urban energy industries; and public policy issues and laws relating to Toronto Hydro, the electricity industry, environmental matters, labour relations and occupational health and safety issues. The City may also utilize the skills matrix prepared by Toronto Hydro as referenced in section 10.3(b) below. Each citizen director is elected to serve for a term of up to two years or until his or her successor is appointed, and may be elected for a maximum of four consecutive terms for a maximum of eight consecutive years or such longer term until a successor is appointed. The terms of all current citizen directors expire upon the effective date of the appointment of their successors unless re-appointed. Each City Councillor director is elected to serve for two years or until his or her successor is elected. The terms of the current City Councillor directors expire on December 31, 2024 or upon the effective date of the appointment of their successors. As at the date of this AIF, female directors constituted 40% [4 of 10] of the members of the Corporation's Board.

10.3 Committees of the Board of Directors

The Board had established three standing committees [Audit Committee, Corporate Governance and Nominating Committee, and Human Resources and Environment Committee] as shown in the following chart.

Board of Directors

Audit Committee	**Corporate Governance and Nominating Committee**	**Human Resources and Environment Committee**
Michael Nobrega [Chair] Michael Eubanks James Hinds	Mary Ellen Richardson [Chair] Heather Zordel Howard Wetston	Michael Eubanks [Chair] David McFadden Councillor Stephen Holyday

(a) Audit Committee

The Audit Committee is responsible for overseeing the adequacy and effectiveness of financial reporting, accounting systems, internal financial control structures and financial risk management systems. The Audit Committee reviews the Corporation's quarterly and annual financial statements as well as financial statements prepared in connection with the requirements of applicable regulatory authorities, reviews the audit plans of the external auditors, oversees the internal audit of the Corporation, reviews and makes recommendations to the Board with respect to the payment of dividends or distribution of capital by the Corporation, and recommends the external auditor to the Board for appointment by the Corporation's sole shareholder. The Audit Committee also receives updates on cyber security related matters including management reporting on the Corporation's cyber security programs. See Part 11 entitled "Audit Committee" below for further information on the Audit Committee.

(b) Corporate Governance and Nominating Committee

The Corporate Governance and Nominating Committee is responsible for considering and making recommendations to the Board with respect to matters relating to the corporate governance of Toronto Hydro, including board and committee composition and mandates, and guidelines for assessing the effectiveness of the Board and its committees and procedures to ensure that the Board functions independently from management.

As part of its governance function, the Corporate Governance and Nominating Committee develops and reviews a skills matrix for all potential director candidates, which is then forwarded to the Corporation's sole shareholder by the Board for use in its director appointment process. The skills matrix incorporates best practice elements while considering the unique requirements of Toronto Hydro in order to identify key skills required of directors and help to ensure that these skills are accounted for among current and prospective directors. The skills matrix also takes into account diversity considerations, with a view to ensuring that the Board benefits from the broader exchange of perspectives made possible by diversity of backgrounds, as well as thought, skills and experience.

The Corporate Governance and Nominating Committee also nominates independent candidates for appointment to the Board of Directors of LDC for approval by the Corporation's Board as required by the Affiliate Relationships Code. The Corporate Governance and Nominating Committee reviews and approves orientation and education materials and programs for new and current directors undertaken by management.

Each of the current members of the Corporate Governance and Nominating Committee is independent within the meaning of applicable Canadian securities laws.

(c) Human Resources and Environment Committee

The Human Resources and Environment Committee is responsible for reviewing and assisting the Board in overseeing the recruitment and assessment of the CEO and the compensation of the CEO, reviewing and approving the compensation of the executive officers, reviewing and making recommendations to the Board concerning executive compensation disclosure under applicable securities laws, and reviewing and making recommendations to the Board regarding the compensation structure and benefit plans and programs of Toronto Hydro. The Human Resources and Environment Committee is also responsible for reviewing and approving the parameters of collective bargaining negotiations, the oversight of health and safety related matters and processes, and the oversight of environmental and climate change-related matters, processes and reporting of Toronto Hydro. Reporting on ESG performance and activities is also regularly provided to the Human Resources and Environment Committee. See section 12.1(a) entitled "Human Resources and Environment Committee" for further information on the Human Resources and Environment Committee.

(d) Other Committees

The Board also has a Steering Committee, consisting of the Chair of the Board and the Chairs of the respective standing committees, to assist the Board and its standing committees in fulfilling their responsibilities by providing timely guidance on emerging, time-sensitive, significant issues arising with respect to matters that overlap with the mandates of the standing Board committees. The Steering Committee does not replace any of the functions of the Board or its standing committees unless otherwise expressly delegated by the Board from time to time. The role of the Steering Committee is to provide advice and recommendations to the respective Board committees(s) that will enable them to successfully carry out their responsibilities and ultimately properly advise and make recommendations to the Board.

Further, the Board may establish ad-hoc committees from time to time for a specific task or subject matter.

10.4 Directors

The following summaries set forth, for each of the directors of the Corporation, the director's name, province and country of residence, the date on which the person became a director and the expiry date of the director's current term, the director's relevant education and experience, principal occupations within the five preceding years and board memberships with other reporting issuers. The following tables also summarize the attendance of individual directors at the Board and standing committee meetings held during 2022 and 2023 as of the date of this AIF. See section 10.1 entitled "Changes to the Corporation's Board of Directors" for more information on the Corporation's Board of Directors.

David McFadden, Chair of the Board
Ontario, Canada

Director since:	December 10, 2015
Expiry of current term:	April 8, 2024, or effective date of appointment of a successor director

Mr. McFadden is a former Partner and Counsel at Gowling WLG where his practice focused on the energy, infrastructure and financial services industries. He is a former member of Gowling's Board of Trustees and Executive Committee. Mr. McFadden currently serves as Chair of the Board of Directors of 407 International Inc., Makwa Development Corp. and PCI Geomatics Inc. He is a member of the MaRS Energy Board and of the Council for Clean & Reliable Energy. In the past, Mr. McFadden served as the Chair of the Board of Directors of the Ontario Energy Association. Mr. McFadden served as Chair of the Energy Transformation Network of the Independent Electricity System Operator and of the Electricity Transition Committee of the Ontario Government, and as a member of the Ontario Government's Electricity Distribution Sector Review Panel and the Electricity Conservation and Supply Task Force. Mr. McFadden was named the Energy Leader of the Year by the Ontario Energy Association in 2013. Mr. McFadden has been active in the higher education sector. He served as Chair of the Ontario Centres of Excellence from 2004-2010 and as a member of the Board of Governors of York University from 2013 to 2020. Mr. McFadden is the Chair of the Board of Directors of the Yonge Street Mission. Mr. McFadden holds a Bachelor of Laws at Osgoode Hall Law School and a Bachelor of Arts at the University of Toronto, and is a member of the Law Society of Ontario. Mr. McFadden received an Honorary Doctor of Laws from York University in 2012.

Mr. McFadden currently serves as Chair of the Board. He is also an ex-officio member of the Audit Committee, and Corporate Governance and Nominating Committee and has been appointed as a member of the Human Resources and Environment Committee effective November 5, 2022. Mr. McFadden has considerable experience in policy matters relating to renewable energy, decarbonization and climate change mitigation strategies through his work with the Energy Transformation Network and other bodies. Mr. McFadden also has considerable experience in executive compensation matters from his various Chair and Director roles. Through these roles at major organizations, he is familiar with the structure of compensation systems and related benefit programs, and is experienced in executive performance evaluation.

Principal Occupation:
Corporate Director

Board/Committee Membership	**2022 Attendance**	
Board	9 of 9	100%
Human Resources and Environment Committee	1 of 1 (1)	100%
	2023 Attendance (2)	
Board	1 of 1	100%
Human Resources and Environment Committee	1 of 1	100%

Board Memberships for other Reporting Issuers:
407 International Inc. [Reporting Jurisdictions: All provinces]

Notes:

(1) Mr. McFadden was appointed to the Human Resources and Environment Committee on November 15, 2022. 2022 attendance was reported for the period Mr. McFadden was actively serving on the Committee.
(2) 2023 attendance is for the period of January 1, 2023 to the date of this AIF.

Heather Zordel
Ontario, Canada

Director since: December 10, 2015
Expiry of current term: April 8, 2024, or effective date of appointment of a successor director

Ms. Zordel is a lawyer with extensive experience in corporate finance, securities regulatory compliance and corporate governance. A Lawyer of Counsel in the Securities Group at Gardiner Roberts LLP, she is also Chair of the Condominium Authority of Ontario. Ms. Zordel is a former non-executive Chair of the OSC's Board of Directors and a past OSC Commissioner. She previously was a Bencher of the Law Society of Ontario and part-time adjudicator for the Law Society Tribunal and part-time adjudicator for the OSC Tribunal. Ms. Zordel is a former member of the federally-appointed Expert Panel on Securities Regulation and a past Chair of the Securities Advisory Committee to the Ontario Securities Commission. Academically, she is a past Co-Director and a current Course Director for the Osgoode Professional LL.M. program in securities law. Ms. Zordel has a Bachelor of Commerce from the University of Saskatchewan and a LL.B./J.D./LL.M. [Securities] from Osgoode Hall Law School.

Ms. Zordel currently serves as Chair of the Board of Directors of TH Energy.

Principal Occupation:
Lawyer of Counsel, Gardiner Roberts LLP

Board/Committee Membership	**2022 Attendance**	
Board	9 of 9	100%
Audit Committee	1 of 1 (1)	100%
Corporate Governance and Nominating Committee	5 of 6	83%
	2023 Attendance (2)	
Board	1 of 1	100%
Corporate Governance and Nominating Committee	1 of 1	100%

Board Memberships for other Reporting Issuers:
None

Notes:

(1) Ms. Zordel ceased to be a member of the Audit Committee on April 27, 2022. 2022 attendance was reported for the period Ms. Zordel was actively serving on the Committee.
(2) 2023 attendance is for the period of January 1, 2023 to the date of this AIF.

The Honourable Howard Wetston
Ontario, Canada

Director since:	December 10, 2015
Expiry of current term:	April 8, 2024, or effective date of appointment of a successor director

The Honourable Mr. Wetston is a distinguished lawyer with a breadth of experience and expertise in competition law and policy, securities regulation, energy regulation and administrative law. In 2016, Mr. Wetston was awarded the Order of Canada for his significant contributions as a public servant, jurist and regulator. Mr. Wetston is a former Canadian Senator between November 10, 2016 and June 3, 2022. Mr. Wetston has served as Chair and Chief Executive Officer of the OSC, as Vice-Chair of the OSC, and as Chair and Chief Executive Officer of the OEB. During his time as Chair and Chief Executive Officer of the OSC, Mr. Wetston played a significant role in Canadian and international securities regulatory bodies by serving as a senior member of the Canadian Securities Administrators and as a Vice Chair of the International Organization of Securities Commissions. Mr. Wetston has served as a Judge of the Federal Court of Canada, Trial Division, an ex-officio member of the Federal Court's Appeal Division, and Director of Investigations and Research at the Bureau of Competition Policy. Mr. Wetston is a Senior Fellow of the C.D. Howe Institute and has served on several Advisory Boards, including the Program on Ethics in Law and Business at the University of Toronto, and the Shannon School of Business at Cape Breton University. Mr. Wetston is a former Trustee of the International Valuations Standards Council. Mr. Wetston is a Member of the C.D. Howe Institute's Competition Policy Council. Mr. Wetston holds a Bachelor of Laws from Dalhousie University and a Bachelor of Science from Mount Allison University, and holds an ICD.D designation from the Institute of Corporate Directors. He has received special recognition as a Board Diversity Champion from Catalyst Canada Honours. Mr. Wetston holds honorary doctorate degrees from Cape Breton University and Dalhousie University and he is a recipient of the Queen Elizabeth II Diamond Jubilee Medal.

Mr. Wetston currently serves as Chair of the Board of Directors of LDC.

Principal Occupation:
Corporate Director

Board/Committee Membership	**2022 Attendance**	
Board	7 of 9	78%
Corporate Governance and Nominating Committee	6 of 6	100%
	2023 Attendance (1)	
Board	1 of 1	100%
Corporate Governance and Nominating Committee	1 of 1	100%

Board Memberships for other Reporting Issuers:
None

Note:

(1) 2023 attendance is for the period of January 1, 2023 to the date of this AIF.

Mary Ellen Richardson
Ontario, Canada

Director since:	December 11, 2016
Expiry of current term:	April 8, 2024, or effective date of appointment of a successor director

Ms. Richardson is a retired energy executive and independent board director in the energy sector, with extensive experience in the oil, natural gas, district energy and electricity industries. Ms. Richardson currently serves as Vice-Chair of the Board of Directors and Chair of the Human Resources and Governance Committee of Markham District Energy Inc. In the past, Ms. Richardson has served as President of the Canadian District Energy Association, Vice-President, Corporate Affairs and Vice-President, Conservation Programs and External Relations at the OPA, President of the Association of Major Power Consumers in Ontario, and was a member of the Board of Directors and Human Resources Committee of Guelph Municipal Holdings Inc. Ms. Richardson has also served on the management board of the Ontario Centre of Excellence in Energy, on the Board of Directors of Environmental Careers Organization of Canada, on the Ontario Government's Electricity Conservation and Supply Task Force, on the Executive of the Stakeholders' Alliance for Competition and Customer Choice, and on Hydro One's Customer Advisory Board. Ms. Richardson holds an Honours degree in Economics from the University of Calgary, and the ICD.D designation.

Ms. Richardson currently serves as a member of the Board of Directors of LDC.

Principal Occupation:
President, Mary Ellen Richardson Inc.

Board/Committee Membership	**2022 Attendance**	
Board	9 of 9	100%
Corporate Governance and Nominating Committee	6 of 6	100%
	2023 Attendance (1)	
Board	1 of 1	100%
Corporate Governance and Nominating Committee	1 of 1	100%

Board Memberships for other Reporting Issuers:
None

Note:

(1) 2023 attendance is for the period of January 1, 2023 to the date of this AIF.

Michael Anthony Eubanks
Ontario, Canada

Director since: November 27, 2020
Expiry of current term: April 8, 2024, or effective date of appointment of a successor director

Mr. Eubanks is an executive with significant experience in technology leadership. He is currently the Senior Vice-President Operations Support and Chief Information Officer of goeasy Ltd., a reporting issuer in all Canadian provinces, which provides leasing and lending services. Mr. Eubanks is also a member of the Board of Directors of Allstate Insurance Company of Canada. Prior to his employment with goeasy Ltd., Mr. Eubanks was the Chief Information Officer at the Liquor Control Board of Ontario [LCBO] and the Ontario Cannabis Store. Prior to that Mr. Eubanks served in progressive leadership roles focused on technology in the retail industry having worked for Canadian Tire Corporation and Best Buy International. Through his executive leadership roles at major organizations, he is familiar with the structure of compensation systems and related benefit programs, and is experienced in executive performance evaluation. Mr. Eubanks is a graduate of York University, ICD-Rotman Directors Education Program.

Mr. Eubanks is currently a member of the Board of Directors of TH Energy.

Principal Occupation:
Senior Vice-President Operations Support and Chief Information Officer of goeasy Ltd.
Former Senior Vice- President and Chief Information Officer of LCBO [Liquor Control Board of Ontario]

Board/Committee Membership	**2022 Attendance**	
Board	8 of 9	89%
Audit Committee	2 of 2 (1)	100%
Human Resources and Environment Committee	5 of 5	100%
	2023 Attendance (2)	
Board	1 of 1	100%
Audit Committee	1 of 1	100%
Human Resources and Environment Committee	1 of 1	100%

Board Memberships for other Reporting Issuers:
None

Notes:

(1) Mr. Eubanks ceased to be a member of the Audit Committee on April 27, 2022, but was reappointed as an Audit Committee member on November 16, 2022. 2022 attendance was reported for the periods Mr. Eubanks was actively serving on the Committee.
(2) 2023 attendance is for the period of January 1, 2023 to the date of this AIF.

Michael Nobrega, Vice-Chair of the Board
Ontario, Canada

Director since:	May 10, 2016
Expiry of current term:	April 8, 2024, or effective date of appointment of a successor director

Mr. Nobrega is a Chartered Professional Accountant with extensive experience in finance and business. Mr. Nobrega has served as President & Chief Executive Officer of OMERS, Chief Investment Officer of OMERS, and as President & Chief Executive Officer of Borealis [OMERS] Infrastructure. Mr. Nobrega acted as interim President and Chief Executive Officer of Waterfront Toronto, and is the former Chair of Ontario Centres of Excellence. Mr. Nobrega has served as the Chair of the Board of Directors of IBI Group Inc. In the past, Mr. Nobrega was also president of a merchant bank, a tax partner at Arthur Anderson, Chartered Accountants, and a member of the Board of Directors of the Global Risk Institute. Mr. Nobrega is the Chair of the Centre for the Commercialization of Regenerative Medicine. Mr. Nobrega earned an Honours Bachelor of Arts [Economics and Mathematics] from the University of Toronto, where, in 2002, he was honoured with the Arbor Award for outstanding community service. He holds a chartered accountancy designation from the Chartered Professional Accountants of Ontario [formerly the Institute of Chartered Accountants of Ontario] and Chartered Professional Accountants of Canada, and was named a Fellow of Chartered Professional Accountants of Ontario [formerly the Institute of Chartered Accountants of Ontario] in 2009. Mr. Nobrega has considerable experience in executive compensation matters from his years as the Chief Executive Officer of OMERS and Borealis [OMERS] Infrastructure. Through his executive leadership roles at major organizations, he is familiar with the structure of compensation systems and related benefit programs, and is experienced in executive performance evaluation. Mr. Nobrega also has considerable experience in climate change matters and developing climate-resilient strategies, including through his involvement in formalizing investment policies and supporting green energy projects at OMERS and participation on committees focusing on investments in technologies aimed at reducing the carbon footprint.

Mr. Nobrega currently serves as a member of the Board of Directors of LDC.

Principal Occupation:
Corporate Director
Former Interim President and CEO, Waterfront Toronto
Former Chair, Ontario Centres of Excellence

Board/Committee Membership	**2022 Attendance**	
Board	8 of 9	89%
Audit Committee	4 of 4	100%
Human Resources and Environment Committee	1 of 1 (1)	100%
	2023 Attendance (2)	
Board	1 of 1	100%
Audit Committee	1 of 1	100%

Board Memberships for other Reporting Issuers:
None

Notes:

(1) Mr. Nobrega ceased to be a member of the Human Resources and Environment Committee on April 27, 2022. 2022 attendance was reported for the period Mr. Nobrega was actively serving on the Committee.
(2) 2023 attendance is for the period of January 1, 2023 to the date of this AIF.

James Hinds
Ontario, Canada

Director since:	April 6, 2022
Expiry of current term:	April 8, 2024, or effective date of appointment of a successor director

Mr. Hinds has many years of public service in Ontario's electricity sector, most recently as a director of Hydro One (2015-2018). Prior to that, he was Chair of the IESO and has also served as Chair of the former OPA (until its merger with the IESO in 2015). Prior to joining the OPA Board (2010-2015), he served as a Director on and as Chair of the IESO Board (2005-2010). Mr. Hinds is a retired investment banker, having specialized in public equity markets underwriting and advice. He previously served as Managing Director of TD Securities Inc. and has also held positions with CIBC Wood Gundy Inc. and Newcrest Capital Inc.

Mr. Hinds received an undergraduate degree in political economy from the University of Toronto, a Masters of Business Administration from the Wharton School of Business at the University of Pennsylvania, and a law degree from the University of Toronto.

Mr. Hinds currently serves as a member of the Board of Directors of LDC.

Principal Occupation:
Corporate Director

Board/Committee Membership	**2022 Attendance**	
Board (1)	6 of 6 (2)	100%
Audit Committee	3 of 3 (3)	100%
	2023 Attendance (4)	
Board	1 of 1	100%
Audit Committee	1 of 1	100%

Board Memberships for other Reporting Issuers:
None

Notes:

(1) Mr. Hinds was appointed to the Board on April 6, 2022.
(2) Six Board meetings occurred since the date of Mr. Hinds' appointment to the Board.
(3) Three Audit Committee meetings occurred in 2022 since the date of Mr. Hinds' appointment to the Committee.
(4) 2023 attendance is for the period of January 1, 2023 to the date of this AIF.

Jaye Robinson
Ontario, Canada

Director since:	November 23, 2022
Expiry of current term:	December 31, 2024, or effective date of appointment of a successor director

Councillor Robinson is the Mayor's designate to the Board. Councillor Robinson is the City Councillor for Ward 15 - Don Valley West and was previously City Councillor for Ward 25 - Don Valley West since 2010. Currently, Councillor Robinson serves as Vice-Chair of the Economic and Community Development Committee and on the Board of Directors for the Art Gallery of Ontario, Leaside Memorial Gardens Arena, and Toronto Symphony Orchestra. Councillor Robinson has also been named to a special role leading the 2026 FIFA World Cup in Toronto. Before running for municipal office, Councillor Robinson was a senior manager in economic development at the City of Toronto for over 20 years. With an entrepreneurial approach, Councillor Robinson successfully merged arts and community building initiatives with economic development strategies to launch a vibrant roster of annual events that generated significant financial benefits for the City. Her resume includes Nuit Blanche, Summerlicious, and Winterlicious.

From 2018-2022, Councillor Robinson served as Chair of the Toronto Transit Commission (TTC) and during the 2014-2018 City Council term, as Chair of the Public Works and Infrastructure Committee.

Principal Occupation:
Councillor, City of Toronto

Board/Committee Membership	**2022 Attendance**	
Board (1)	1 of 1 (2)	100%
	2023 Attendance (3)	
Board	1 of 1	100%

Board Memberships for other Reporting Issuers:
None

Notes:

(1) Ms. Robinson was appointed to the Board on November 23, 2022.
(2) One Board meeting occurred since the date of Ms. Robinson's appointment to the Board.
(3) 2023 attendance is for the period of January 1, 2023 to the date of this AIF.

Jennifer McKelvie
Ontario, Canada

Director since: November 23, 2022
Expiry of current term: December 31, 2024, or effective date of appointment of a successor director

Deputy Mayor McKelvie is a graduate of the University of Toronto Scarborough (B.Sc. Environmental Science) and a Professional Geoscientist (P. Geo. non-practicing). Her graduate (Ph.D. 2006) and postgraduate research was supported by numerous provincial, national and international awards, including the Natural Sciences and Engineering Research Council (NSERC) Canada Graduate Scholarship and the L'Oréal/United Nations Educational Scientific Organization (UNESCO) Women in Science Fellowship. Deputy Mayor McKelvie is currently serving as Chair of City Council's Infrastructure and Environment Committee, Striking Committee, Vice-Chair of City Council's Executive Committee, member of the Scarborough Community Council, and City Council's Committee of Revision. She is also a member of the Board of Management of the Toronto Zoo. Prior to becoming Councillor for Scarborough-Rouge Park, Deputy Mayor McKelvie managed industrial-academic partnerships and environmental research in the non-profit sector. Deputy Mayor McKelvie has a long-record of community service. She served as first President of the Scarborough Community Renewal Organization (2016-2018), and as President of the Centennial Community & Recreation Association (2015 to 2017). In this capacity, Deputy Mayor McKelvie worked collaboratively with stakeholders and residents to advocate for investment in Scarborough. Deputy Mayor McKelvie has also served as a member of the University of Toronto Scarborough Campus Council (2015-2018), as a citizen member of the Toronto Region Conservation Authority (2015-2018) and as a member of the Scarborough Women of Philanthropy (2015-2018), council in support of the Scarborough & Rouge Hospital Foundation.

Principal Occupation:
Deputy Mayor and Councillor, City of Toronto

Board/Committee Membership	**2022 Attendance**	
Board (1)	1 of 1 (2)	100%
	2023 Attendance (3)	
Board	1 of 1	100%

Board Memberships for other Reporting Issuers:
None

Notes:

(1) Ms. McKelvie was appointed to the Board on November 23, 2022.
(2) One Board meeting occurred since the date of Ms. McKelvie's appointment to the Board.
(3) 2023 attendance is for the period of January 1, 2023 to the date of this AIF.

Stephen Holyday
Ontario, Canada

Director since:	December 3, 2014
Expiry of current term:	December 31, 2024, or effective date of appointment of a successor director

Councillor Stephen Holyday has been the City Councillor for Ward 2 - Etobicoke Centre since 2018, and was previously City Councillor for Ward 3 - Etobicoke Centre since December 2014. Councillor Holyday is currently serving as Chair of City Council's Audit Committee, Chair of the Etobicoke York Community Council, Chair of City Council's Corporations Nominating Panel, and Vice Chair of City Council's General Government Committee. Councillor Holyday is a member of the Toronto Transit Commission, the Board of Directors of the Hockey Hall of Fame, and the Board of Directors of the Canadian National Exhibition Association. Before being elected to public office, Stephen Holyday was Manager, Service Management at the Ontario Ministry of Energy. He holds a Bachelor of Technology in Architectural Science from Ryerson University. Through his previous experience as Vice-Chair of City Council’s Employee and Labour Relations Committee, Mr. Holyday is familiar with compensation systems and related benefit programs at all levels. Formerly a member of the Board of Directors of The Atmospheric Fund, Councillor Holyday was engaged in various issues and mitigation programs relating to climate change matters and actions to combat climate change and improve regional air quality through collaborative work with private, public and non-profit sectors.

Principal Occupation:
Councillor, City of Toronto

Board/Committee Membership	**2022 Attendance**	
	9 of 9	100%
Human Resources and Environment Committee	5 of 5	100%
	2023 Attendance (1)	
Board	1 of 1	100%
Human Resources and Environment Committee	1 of 1	100%

Board Memberships for other Reporting Issuers:
None

Note:

(1) 2023 attendance is for the period of January 1, 2023 to the date of this AIF.

10.5 Executive Officers

The following table sets forth the name, province and country of residence, office, and principal occupation for each of the executive officers of the Corporation as of December 31, 2022.

Name	Residence	Office	Principal Occupation
Anthony Haines(1)	Ontario, Canada	President and Chief Executive Officer	President and Chief Executive Officer, Toronto Hydro Corporation
Celine Arsenault(2)	Ontario, Canada	Executive Vice-President, Chief Financial Officer	Executive Vice-President, Chief Financial Officer, Toronto Hydro Corporation
Amanda Klein(3)	Ontario, Canada	Executive Vice-President, Public and Regulatory Affairs and Chief Legal Officer	Executive Vice-President, Public and Regulatory Affairs and Chief Legal Officer, Toronto Hydro Corporation

Notes:

(1) Mr. Haines has been the President of LDC since September 2006. He was also appointed the CEO of the Corporation effective October 1, 2009.

(2) Ms. Arsenault was appointed the Executive Vice President, Chief Financial Officer of the Corporation effective June 6, 2022.

(3) Ms. Klein was Vice-President, Regulatory Affairs and General Counsel of the Corporation [from January 1, 2015 to August 31, 2016] and then Executive Vice-President, Regulatory Affairs and General Counsel of the Corporation [from September 1, 2016 to September 30, 2018]. Ms. Klein was appointed as the Corporation's Executive Vice-President, Public and Regulatory Affairs and Chief Legal Officer effective as of October 1, 2018.

10.6 Cease Trade Orders, Bankruptcies, Penalties or Sanctions

Mr. Nobrega was a director of CellCube Energy Storage Systems Inc. (now Saltbae Capital Corp.) when its shareholders, directors and officers were subject to a cease trade order. The cease trade order was issued by the Ontario Securities Commission on November 1, 2019 for the company's failure to file its corporation's annual audited financial statements, management's discussion and analysis and certification of the annual filings by the filing deadline under applicable law. The cease trade order remains in effect.

1. Except as noted above, no director or executive officer of the Corporation is, as at the date of this AIF, or has within ten years prior to the date of this AIF:

   (a) been a director, chief executive officer or chief financial officer of any company [including the Corporation] that was the subject of a cease trade or similar order or an order that denied the company access to any exemption under securities legislation for a period of more than 30 consecutive days, where such order was issued while the director or executive officer was acting in the capacity as director, chief executive officer or chief financial officer;

   (b) been a director, chief executive officer or chief financial officer of any company [including the Corporation] that was the subject of a cease trade or similar order or an order that denied the company access to any exemption under securities legislation for a period of more than 30 consecutive days, where such order was issued after the director or executive officer ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while that person was acting in the capacity as director, chief executive officer or chief financial officer;

2. No director, executive officer of the Corporation or, to the Corporation's knowledge, the City is, as at the date of this AIF, or has within ten years prior to the date of this AIF:

(a) been a director or executive officer of any company [including the Corporation] that, while that person was acting in that capacity or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets; or

(b) become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold the assets of such director or executive officer.

3. No director, executive officer of the Corporation or, to the Corporation's knowledge, the City, has been subject to:

(a) any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; or

(b) any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

10.7 Independence

As at the date of this AIF, the Board consists of ten directors, all of whom are appointed by the City in its capacity as sole shareholder of the Corporation. Three of the directors are Councillors of the City and are not considered independent because of their positions. None of the other directors have a direct or indirect material relationship with the Corporation and are independent within the meaning of applicable Canadian securities law.

No members of management sit on the Board. The Board meets regularly to discuss the management of the Corporation. A portion of each Board and Board committee meeting is reserved for Directors to meet without management present. Under its mandate, the Board is authorized to retain independent legal counsel and other advisors if it considers this appropriate. The mandate also provides that the Board shall have unrestricted access to the officers of the Corporation and is authorized to invite officers and employees of the Corporation and others to attend or participate in its meetings and proceedings if it considers this appropriate. The full text of the Board's written mandate is attached as Annex B.

The Corporation has developed a written position description for the Chair of the Board. The Chair is responsible for reporting to the Board, leading the directors and managing the day-to-day activities of the Board. The Chair is also responsible for engaging in discussions with the shareholder and its representatives as are necessary and desirable, maintaining an active and cooperative relationship with the CEO and other senior management of the Corporation, acting as the principal interface between the Board and the CEO of the Corporation, and providing advice and counsel to the CEO and other senior management of the Corporation.

The Board has also developed written position descriptions for the Chair of each Board committee and the CEO.

10.8 Board Orientation and Continuing Education

Each new director, upon joining the Board, is given an orientation session with access to a comprehensive set of materials designed to provide a summary of the key organizational, financial, regulatory and operational aspects of Toronto Hydro. These materials also contain information on the various Toronto Hydro boards and committees.

On an ongoing basis, as part of regular and special board meetings, directors receive presentations, reports and training on topics related to Toronto Hydro's businesses and the obligations and responsibilities of directors. Topics covered are either suggested by management or requested by the directors. As well, directors receive information from management in response to any actions arising at a board meeting or otherwise. Educational programs through external service providers are also made available to the directors and the directors have access to an on-line resource centre populated with materials relating to Toronto Hydro which is updated regularly.

10.9 Board, Committee and Director Assessments

The Corporate Governance and Nominating Committee oversees a process used to evaluate the effectiveness of the Board as a whole, its committees and the individual directors. The process may be facilitated by an independent consultant with expertise in board assessments as selected by the Board. Alternatively, the Board may complete an internal assessment. The process may consist of an in-person interview and/or a written evaluation questionnaire that are completed periodically by each director. The directors' responses to the questionnaire and/or interviews related to the operation of the Board and its committees are compiled into a summary report that is reviewed by the Chair of the Board. This report and recommended remedial actions are presented to the Board for review, consideration and implementation.

10.10 Board Oversight and Management of Risks

In accordance with its mandate, the Board is responsible for overseeing the identification of the principal risks of the business and implementation of appropriate systems to manage these risks. Toronto Hydro has an ERM program which is focused upon improving the Corporation's operations through enabling the attainment of its strategic goals and objectives. The ERM program helps the Corporation achieve this by bringing a systematic and disciplined approach towards identifying, evaluating, treating, monitoring and reporting of risks applicable to Toronto Hydro. Accordingly, ERM is an integral part of the strategic management of the Corporation's business and is routinely considered in forecasting, planning and executing key aspects of Toronto Hydro's operations.

See Part 8 entitled "Risk Factors – Risk Management" above for further information on ERM.

10.11 Indebtedness of Directors and Executive Officers

No director, executive officer, employee, former director, former executive officer or former employee or associate of any director or executive officer of the Corporation or any of its subsidiaries had any outstanding indebtedness to the Corporation or any of its subsidiaries except routine indebtedness or had any indebtedness that was the subject of a guarantee, support agreement, letter of credit or other similar arrangement or understanding provided by the Corporation or any of its subsidiaries.

PART 11 - AUDIT COMMITTEE

11.1 Composition, Independence and Financial Literacy

The Audit Committee comprises Michael Nobrega [Chair], James Hinds and Michael Eubanks, each of whom is independent and financially literate within the meaning of applicable Canadian securities laws.

For a description of the relevant education and experience of each member of the Audit Committee, please refer to each member's profile under the section entitled "Directors and Officers – Directors".

11.2 Audit Committee Charter

Under the terms of its charter, the Audit Committee is responsible for: managing the relationship between Toronto Hydro and its external auditors; overseeing the external audit; overseeing the internal audit; reviewing and recommending to the Board for approval the financial statements, management's discussion and analysis and interim reports of the Corporation and its subsidiaries, the annual information form and other public disclosure of financial information extracted from the financial statements of the Corporation; overseeing internal financial control structure and financial risk management systems; establishing and reviewing certain procedures and policies; reviewing policy reporting; and reviewing and making recommendations to the Board with respect to the payment of dividends or distribution of capital by the Corporation.

The full text of the Corporation's Audit Committee Charter is attached as Annex A.

11.3 Policy on the Provision of Services by the External Auditors

The Audit Committee has developed a Policy on the Provision of Services by the External Auditors. Under the terms of the Policy:

- the external auditors may not provide services to Toronto Hydro that impair or have the potential to impair the independence and objectivity of the external auditors in relation to the external audit function [generally, prohibited services include services where the external auditors participate in activities that are normally undertaken by management of Toronto Hydro, are remunerated through a "success fee" structure, act in an advocacy role for Toronto Hydro or may be required to audit their own work];

- the Audit Committee has pre-approved certain audit and permitted non-audit services as services that the auditors may provide to Toronto Hydro, including: services that constitute the agreed scope of the external audit or interim reviews of Toronto Hydro; services that are outside the agreed scope of, but are consistent with, the external audit or interim reviews of Toronto Hydro; tax services that do not compromise the independence and objectivity of the external auditors in relation to the external audit; and other services of an advisory nature that do not compromise the independence and objectivity of the external auditors in relation to the external audit work; and

- an authorization process has been established which provides, among other things: the Chief Financial Officer may authorize in advance all engagements of the external auditors to provide pre-approved services [other than audit services] to Toronto Hydro up to a maximum of $50,000 for any engagement and up to a maximum of $100,000 for all engagements in any fiscal year [the Chief Financial Officer must report all such authorized engagements to the Audit Committee at its next meeting]; the Chair of the Audit Committee may authorize in advance all engagements of the external auditors to provide pre-approved services [other than audit services] to Toronto Hydro up to a maximum of $100,000 for any engagement and up to a maximum of $250,000 for all engagements in any fiscal year [the Chair must report all such authorized engagements to the Audit Committee at its next meeting]; and the Audit Committee must authorize in advance all engagements of the external auditors to provide pre-approved services to Toronto Hydro above the prescribed thresholds and all engagements to provide services that are not pre-approved services regardless of the dollar value of the services.

Exceptions can be made to this Policy where the exceptions are in the interests of Toronto Hydro and appropriate arrangements are established to ensure the independence and objectivity of the external auditors in relation to the external audit. Any exception must be authorized by the Audit Committee and must be reported to the Board.

11.4 External Auditors Service Fees

The table below sets out the fees charged by Toronto Hydro's external auditor, KPMG LLP, on an accrual basis, for each of last two fiscal years in respect of the services noted below.

	Year ended December 31	
	2022	2021
Audit fees (1)	$725,257	$759,427
Audit-related fees (2)	$40,660	$45,766
Tax fees (3)	$50,000	—
All other fees (4)	$5,549	—

Notes:

(1) Fees for audit services and interim reviews, excluding CPAB levy.
(2) Fees for assurance and related services that are reasonably related to the performance of the audit or review of the Corporation's financial statements and are not reported under (1) above, specifically French translation.
(3) Fees for tax compliance services.
(4) Fees for compilation report.

PART 12 - EXECUTIVE COMPENSATION

12.1 Compensation Governance

(a) Human Resources and Environment Committee

(i) *Composition and Independence*

The Human Resources and Environment Committee, under the direction of the Board has oversight for Toronto Hydro's senior executive compensation program. The Human Resources and Environment Committee is comprised of Michael Eubanks (Chair), David McFadden, and Stephen Holyday. Michael Eubanks and David McFadden are each independent within the meaning of applicable Canadian securities laws. Since the City is the sole shareholder of the Corporation, Stephen Holyday is not independent within the meaning of applicable Canadian securities laws. The appointment of one of the Corporation's City Councillor directors to the Human Resources and Environment Committee is a requirement under the Shareholder Direction.

(ii) *Human Resources and Environment Committee Charter*

The Human Resources and Environment Committee operates under a written charter adopted by the Board. One of the primary functions of the Human Resources and Environment Committee is to advise and assist the Board in overseeing Toronto Hydro's compensation program and assessing the performance and compensation of the CEO and the other officers of Toronto Hydro. Specifically, under the terms of its charter, the Human Resources and Environment Committee is responsible for assisting the Board in fulfilling its responsibilities with respect to: the recruitment and assessment of the performance of the CEO; the review and approval of the compensation of the CEO and the other senior executive officers of Toronto Hydro; the review and approval of senior executive compensation policies; the review and approval of senior executive compensation disclosure; the review of the alignment of compensation programs with Toronto Hydro's strategic plans and risk profile; and the general oversight of the compensation structure and benefit plans and programs for Toronto Hydro.

(b) Compensation Risk Oversight

Toronto Hydro has a rigorous risk management and governance structure in place to assist the Board with its oversight and management of all of Toronto Hydro's risks, including risks related to Toronto Hydro's compensation policies and practices. While the Board and the Human Resources and Environment Committee have not conducted a formal assessment of the implications of risks specifically associated with Toronto Hydro's compensation policies and practices, the Human Resources and Environment Committee has and continues to consider the Corporation's strategic objectives, plans and risk strategy in its review and recommendations regarding Toronto Hydro's compensation program. In addition to Toronto Hydro's ERM program, the practices, processes and systems in place to identify and mitigate compensation policies and practices that could encourage an executive officer to take inappropriate or excessive risks include: the periodic review and audit of Toronto Hydro's senior executive compensation program by Toronto Hydro's internal auditor; the development and application of a management control reporting system providing transparency and control to compensation measures; the use of a balanced scorecard of corporate, divisional and individual performance objectives; the periodic benchmarking of Toronto Hydro's compensation program; the review of Toronto Hydro's compensation program by an independent compensation consultant and, from time to time, the OEB; and the application of maximum payout amounts for achievement of individual performance goals. See Part 8 under the heading "Risk Factors – Risk Management" and section 10.10 under the heading "Board Oversight and Management of Risks" for more information on Toronto Hydro's ERM program, section 12.2(c)(ii) under the heading "Benchmarking" for more information on Toronto Hydro's benchmarking of its compensation program, section 12.2(c)(iii) under the heading "Compensation Consultants and Advisors" for more information on the Corporation's compensation consultant and section 12.2(d)(ii) under the heading "Performance-Based Incentive Compensation" for more information on Toronto Hydro's performance-based incentive compensation program.

12.2 Compensation Discussion and Analysis

(a) Named Executive Officers

This Compensation Discussion and Analysis describes and explains all significant elements of compensation awarded to, earned by, paid to, or payable to the NEOs for the financial year ended December 31, 2022. The NEOs are:

(i) **Anthony Haines**
President and Chief Executive Officer, Toronto Hydro Corporation

(ii) **Aida Cipolla** (1)
Former Executive Vice-President and Chief Financial Officer, Toronto Hydro Corporation

(iii) **Federico Zeni** (2)
Former Interim, Chief Financial Officer, Toronto Hydro Corporation

(iv) **Celine Arsenault** (3)
Executive Vice-President and Chief Financial Officer, Toronto Hydro Corporation

(v) **Amanda Klein**
Executive Vice-President, Public and Regulatory Affairs and Chief Legal Officer, Toronto Hydro-Electric System Limited

(vi) **Sheikh Nahyaan**
Executive Vice-President, Customer Care and Chief Information Officer, Toronto Hydro-Electric System Limited

(vii) **Elias Lyberogiannis**
Executive Vice-President, Planning and Chief Engineering and Modernization Officer, Toronto Hydro-Electric System Limited

Notes:

(1) Effective March 5, 2022, Ms. Cipolla resigned from her role as Executive Vice-President and Chief Financial Officer.
(2) Effective March 5, 2022, Mr. Zeni began acting in the capacity of Interim, Chief Financial Officer of the Corporation until June 6, 2022 when he resumed his role of Controller.
(3) Effective June 6, 2022, Ms. Arsenault began her role as Executive Vice-President and Chief Financial Officer.

(b) General Objectives of Compensation Program

Toronto Hydro's senior executive compensation program is designed to attract and retain executives who have the skills and experience to help Toronto Hydro achieve its strategic goals, to motivate executives to achieve such corporate goals and to reward senior executives for superior performance and achievement of corporate, divisional and individual objectives.

(c) Process for Establishing Compensation

(i) *Policies and Practices*

Toronto Hydro's overall senior executive compensation policy, structure and program is developed and supervised by the Human Resources and Environment Committee with the assistance of a compensation consultant, and approved by the Board. The senior executive compensation policy was reviewed and approved November 2021. See section 12.2(c)(iii) under the heading "Compensation Consultants and Advisors" for more information on the compensation consultant.

Pursuant to the terms of its charter, the Human Resources and Environment Committee has the responsibility to annually, and more frequently if appropriate, review and make recommendations to the Board with respect to the individual performance-based incentive compensation goals and objectives related to the compensation of the CEO and to assess the CEO's performance against those goals and objectives. The Human Resources and Environment Committee also makes recommendations to the Board with respect to the overall compensation and benefits of the CEO. The Board ultimately sets and approves the CEO's compensation.

The CEO has the responsibility to annually, and more frequently if appropriate, review and approve the individual performance-based incentive compensation goals and objectives related to the compensation of the other senior executive officers, including the NEOs, and assess the other senior executive officers' performance against those goals and objectives. The CEO proposes the other senior executive officers' performance-based incentive compensation and overall compensation, subject to the Human Resources and Environment Committee's review and approval.

(ii) *Benchmarking*

Toronto Hydro periodically benchmarks the compensation it provides to the NEOs to ensure reasonableness, competitiveness and effectiveness of Toronto Hydro's compensation program, including the level and type of compensation provided. The Human Resources and Environment Committee periodically engages a compensation consultant to conduct executive compensation benchmarking for the NEOs, to ensure that Toronto Hydro is able to attract, retain, and motivate high-performing senior executives in the markets in which it competes for talent.

Toronto Hydro's objective is to pay competitively with other Canadian utility and energy industry companies of comparable size and complexity. NEO compensation is generally benchmarked against:

- industry comparators in the public sector of like size: publicly owned utility / energy companies in Canada with revenues of approximately ½ to 2x Toronto Hydro's distribution revenue and / or total revenue;
- publicly and privately owned (including publicly traded) utility / energy companies in Canada with revenues of approximately ½ to 2x Toronto Hydro's distribution revenue and / or total revenue;
- industrial companies in the Greater Toronto Area;
- industrial companies in Canada; and
- public sector organizations in Canada.

The benchmark data comes from proprietary compensation surveys, and publicly disclosed executive compensation information in Canada.

The senior executive compensation information derived from the benchmarking analysis is designed to assist the Human Resources and Environment Committee in establishing, over a reasonable period of time, total cash compensation for NEOs in the range of the median total cash compensation of the benchmark data. Total cash compensation to NEOs may exceed the median of the marketplace when corporate, divisional and individual performance significantly exceeds objectives.

(iii) *Compensation Consultants and Advisors*

The Human Resources and Environment Committee engaged the services of Willis Towers Watson ("WTW") for senior executive compensation consulting services since 2016. The consulting services provided to the Human Resources and Environment Committee include providing advice on the competitiveness and appropriateness of Toronto Hydro's senior executive compensation program, compensation benchmarking services, and other compensation related matters that may arise from time to time. The Corporation also engages Willis Towers Watson for actuarial services. The Human Resources and Environment Committee or the Board is advised of any actuarial services Willis Towers Watson provides to Toronto Hydro in accordance with the Corporation's Policy on the Provision of Services by External Executive Compensation Advisors. The actuarial services provided by Willis Towers Watson do not present any conflicts with the services provided as compensation advisor to the Human Resources and Environment Committee.

The table below sets out the fees billed by Willis Towers Watson and Exec Comp Advisory Services Inc. for each of last two fiscal years in respect of the services noted below.

		Year ended December 31,	
		2022	**2021**
Executive Compensation – Related Fees (1)	Willis Towers Watson	$44,606	—
	Exec Comp Advisory Services Inc. (3)	—	$8,250
All Other Fees (2)	Willis Towers Watson	$122,841	$132,463

Notes:

(1) Aggregate fees billed for consulting services to Toronto Hydro's Human Resources and Environment Committee.
(2) Aggregate fees billed by Willis Towers Watson, or any of its affiliates, for services which include actuarial services that are not reported under note (1) above.
(3) Exec Comp Advisory Services Inc. fees billed for consulting services to Toronto Hydro's Human Resources and Environment Committee in 2021 only.

(d) Elements of Compensation

The principal components of compensation for NEOs are:

- base salary;
- performance-based incentive compensation;
- personal benefits and perquisites;
- pension plan;
- post-employment benefits; and
- retirement allowances.

As the Corporation has a single shareholder that is the registered and beneficial owner of all of its issued and outstanding shares, the Corporation is not able to offer an equity incentive plan or other stock-based compensation to its NEOs.

(i) *Base Salary*

In accordance with the general objectives and process for establishing compensation noted above, Toronto Hydro provides NEOs with a base salary to compensate them for services rendered during the fiscal year. Toronto Hydro provides reasonably competitive market-based base salaries to help attract, motivate, and retain NEOs who are critical to Toronto Hydro's success.

Annually, adjustments to base salaries for NEOs generally are driven by market benchmarking data and the NEO's individual performance rating. In the case of NEOs other than the CEO, the performance rating is determined by the CEO based on the achievement of performance-based incentive compensation objectives, knowledge, skills, and competencies related to day-to-day performance, as well as demonstration of desired corporate behaviours, subject to the Human Resources and Environment Committee's review and approval. In the case of the CEO, in accordance with the retirement arrangement the Human Resources and Environment Committee has set the annual adjustment at 3% annually until his retirement. See "12.3(b)(vii) Termination Payments".

(ii) *Performance-Based Incentive Compensation*

All NEOs receive a portion of their annual compensation in the form of performance-based cash payments. The performance-based incentive compensation is designed to retain, motivate and reward NEOs for reaching corporate, divisional and individual performance objectives established at the beginning of each calendar year.

The annual performance-based incentive compensation is calculated as a percentage of the NEO's base salary for the year and, if earned, paid in one lump sum in the next fiscal year.

In order for an NEO to earn and receive the performance-based incentive compensation, the Corporation and the NEO must each achieve certain pre-determined performance objectives. Each NEO's performance-based incentive compensation is based on a weighting of corporate, divisional and individual performance objectives. Weightings and objectives are determined at the start of each year and vary by role to reflect the performance focus of the role. The weighting and objectives are reviewed and set each year in order to reflect the Corporation's overall strategy and objectives.

Each year the Board reviews and approves the Corporation's objectives. Each performance objective is weighted to reflect its relative importance and includes threshold, target and stretch expectations of performance. Specific performance targets are approved by the Board considering the Corporation's business plans and priorities for the upcoming year, the prior year's performance and a review of forecasted results based on a historical analysis of performance. Similarly, divisional objectives are approved by the CEO and reviewed by the Human Resources and Environment Committee to recognize unique divisional priorities and ensure alignment with the Corporation's overall objectives.

The CEO's individual objectives are reviewed and approved by the Board. The individual objectives of the other NEOs are reviewed and approved by the CEO. Each NEO's individual objectives are based on areas of strategic and operational emphasis related to their respective responsibilities and portfolios.

The NEO's individual objectives are intended to be reasonably difficult to attain and to encourage success in the NEO's performance. Individual objectives are often but not always achieved by an NEO in any given year. NEOs review their objectives and measurements throughout the year, with one formal mid-year review with the Human Resources and Environment Committee (in the case of the CEO), and with the CEO (in the case of the other NEOs), to track achievement to-date and revise performance goals as may be necessary to reflect any change in corporate strategy or priorities.

In the case of each NEO other than the CEO, an annual performance evaluation in respect of the individual objectives for each individual is conducted by the CEO, who proposes the amount of performance-based incentive compensation to be paid to each other NEO. The Human Resources and Environment Committee reviews and approves the amounts of performance-based incentive compensation to be paid to each of the other NEOs. In the case of the CEO, annual performance-based incentive compensation is determined in accordance with his retirement arrangement. See “12.3(b)(vii) Termination Payments”. Mr. Haines’ performance will be reviewed with the Board of Directors annually.

(iii) *Personal Benefits and Perquisites*

Toronto Hydro provides NEOs with other personal benefits and perquisites that Toronto Hydro believes are reasonable and consistent with its overall compensation program to better enable Toronto Hydro to attract and retain superior employees for key positions. Benefits include group health, dental, group life insurance, short-term and long-term disability, accidental death & dismemberment, a gym subsidy, and educational reimbursements, all of which are generally available to all salaried employees.

(iv) *Pension Plan*

All full-time employees of Toronto Hydro, including the NEOs, are required to participate in the OMERS pension plan. The OMERS pension plan is generally available to all other salaried employees. See section 4.6(a) under the heading “Employees” for more information on the OMERS pension plan.

Pursuant to the terms of the OMERS pension plan, NEOs are required to make equal plan contributions based on their eligible pensionable earnings. In 2022, Toronto Hydro and each NEO was required to contribute 9% equally of the first $64,900 of pensionable earnings and thereafter 14.6% equally on all earnings over $64,900 and up to $180,944. From $180,944 and up to a maximum of $454,300, contributions continue equally at 14.6% towards a Retirement Compensation Arrangement (RCA), which is governed separately under the Canadian Income Tax Act. See section 12.3(b)(iv) under the heading “Pension Plan” and 12.3(b)(vi) under the heading “Retirement Allowance” for more information related to the pension plan for NEOs**.**

(v) *Post-employment Benefits*

NEOs are eligible to receive post-employment health, dental and life insurance benefits. The post-employment benefits provided to eligible NEOs are the same as are generally available to all other salaried employees. Post-employment benefits aid in attracting and retaining key executives to ensure the long-term success of Toronto Hydro.

(vi) *Retirement Allowances*

From time to time, in certain circumstances, Toronto Hydro enters into retirement allowance agreements with its NEOs. The retirement allowance agreements are designed to recognize service, and to promote retention, stability and continuity, of the NEOs. These agreements are made on a case-by-case basis based on an NEO's years of service and position. Any retirement allowance provided to the CEO is approved by the Board after review of the recommendation of the Human Resources and Environment Committee. In the case of each of the other NEOs, any retirement allowance agreement is proposed by the CEO and reviewed and amended or approved by the Human Resources and Environment Committee.

12.3 Compensation of Named Executive Officers

(a) Summary Compensation Table

The following table provides a summary of the compensation earned during the years ended December 31, 2022, 2021 and 2020, by the NEOs:

Summary Compensation Table [1]

NEO Name and Principal Position	Year	Salary [2] ($)	Non-Equity Incentive Plan Compensation [3] ($)	All Other Compensation [4] ($)	Total Compensation ($)
Anthony Haines [5]	2022	$706,949	$680,846	$18,045	$1,405,840
President and Chief Executive Officer,	2021	$686,433	$661,015	$30,630	$1,378,078
Toronto Hydro Corporation	2020	$666,464	$641,763	$23,208	$1,331,435
Aida Cipolla [6]	2022	$112,439	$—	$2,921	$115,360
Former Executive Vice-President and	2021	$327,862	$194,709	$18,216	$540,787
Chief Financial Officer,	2020	$298,391	$176,949	$9,223	$484,563
Toronto Hydro Corporation					
Federico Zeni [7]	2022	$196,189	$74,582	$1,374	$272,145
Former Interim, Chief Financial Officer,					
Toronto Hydro Corporation					
Celine Arsenault [8]	2022	$166,923	$97,629	$1,687	$266,239
Executive Vice-President and Chief Financial Officer, Toronto Hydro Corporation					
Amanda Klein	2022	$358,177	$208,914	$10,909	$578,000
Executive Vice-President, Public and	2021	$338,029	$203,184	$10,452	$551,665
Regulatory Affairs and Chief Legal	2020	$320,459	$192,592	$3,283	$516,334
Officer, Toronto Hydro-Electric System Limited					
Sheikh Nahyaan [9]	2022	$271,553	$158,428	$16,040	$446,021
Executive Vice-President, Customer	2021	$255,000	$153,000	$3,428	$411,428
Care and Chief Information Officer,	2020	$214,380	$84,897	$500	$299,777
Toronto Hydro-Electric System Limited					
Elias Lyberogiannis [9]	2022	$268,489	$151,523	$11,029	$431,041
Executive Vice-President, Planning and	2021	$255,000	$146,772	$6,526	$408,298
Chief Engineering and Modernization	2020	$214,380	$84,897	$5,610	$304,887
Officer, Toronto Hydro-Electric System Limited					

Notes:

(1) Amounts shown in this table are in Canadian dollars and have been rounded to the nearest dollar.
(2) Amounts shown reflect actual amounts paid during the year.
(3) Each NEO's annual performance-based incentive compensation for a fiscal year is determined and paid in the next fiscal year. Accordingly, amounts reflected in respect of a particular year (e.g. 2020) represent the annual performance-based incentive compensation earned by the NEO for the achievement of performance objectives in respect of that fiscal year (e.g. 2020) but which amounts are paid in the following fiscal year (e.g. 2021).
(4) Amounts shown in this column reflect all other compensation earned by the NEO during the year. The amounts shown include the aggregate value of perquisites and other personal benefits provided to the NEO, where such perquisites and personal benefits are not generally available to all employees and have been calculated by using the actual cost. In 2022, 2021 and 2020, perquisites were not worth $50,000 or more for any NEO, nor were they worth 10% or more of any NEO's total salary for the year.
(5) Mr. Haines was awarded a top-up benefit as a result of the changes to the OMERS pension plan. As a result of this award, a current service cost of $246,600 was recognized in 2022. [see sections 12.3(b)(iv) and 12.3(b)(vi) of "Compensation of NEOs in 2022 – Narrative Discussion" below.]
(6) Effective March 5, 2022, Ms. Cipolla resigned from the Executive Vice-President and Chief Financial Officer role.
(7) Effective March 5, 2022, Mr. Zeni began acting in the capacity of Interim, Chief Financial Officer of the Corporation until June 6, 2022 when he resumed his role of Controller. During the period in which Mr. Zeni was acting in the capacity of Interim, Chief Financial Officer, his annual base salary was increased to $215,000, and his target performance-based incentive was 30% of salary.
(8) Effective June 6, 2022 Ms. Arsenault is the Executive Vice-President and Chief Financial Officer, Toronto Hydro Corporation, and her annual base salary was $310,000.
(9) Mr. Nahyaan and Mr. Lyberogiannis were promoted into executive roles effective December 1, 2020. Their 2020 compensation figures are reflective of their non-executive vice president positions.

(b) Compensation of NEOs in 2022 – Narrative Discussion

(i) *Base Salaries*

The NEOs' annual base salaries for 2022 were: $707,740 in the case of Mr. Haines, $344,523 in the case of Ms. Cipolla, $310,000 in the case of Ms. Arsenault, $358,958 in the case of Ms. Klein, $272,213 in the case of Mr Nahyaan, and $269,025 in the case of Mr. Lyberogiannis. While serving as Interim, Chief Financial Officer Mr. Zeni's annualized base salary was $215,000.

(ii) *Performance-Based Incentive Compensation*

The targets and component weightings for the 2022 performance-based incentive compensation were as follows:

Position	Target Performance-Based Incentive (% of salary)	Individual Performance (% weighting)	Divisional Performance (% weighting)	Corporate Performance (% weighting)
CEO	65%	20%	—	80%
CFO	40%	20%	20%	60%
Other NEOs	40%	20%	20%	60%

The performance-based incentive compensation amount payable to each NEO may exceed the respective target percentage of base salary indicated above when results exceed corporate, divisional and individual objectives and may be below the respective target percentage of base salary indicated above when the corporate, divisional and individual objectives are not achieved. The component weightings outlined above have been unchanged since 2011.

The performance objectives of the Corporation for 2022 were as follows:

Corporate Key Performance Indicators	Definition	Target	Weight (%)
Consolidated Net Income ($M) (1)	Net income after net movements in regulatory balances per the Corporation's financial statements adjusted for COVID-19.	$156.0	25%
In-Service Assets ($M) (2)	Total value of the fully allocated costs to construct assets available for use in a given year (as per IFRS and OEB-approved definitions), net of capital contributions and pre-approved program exclusions	$434.1	10%
Outage Frequency - Defective Equipment Only	Average number of interruptions per customer in a given year caused by defective equipment	0.50	10%
Outage Duration – Defective Equipment Only	Average duration of interruptions (in minutes) per customer in a given year caused by defective equipment	26.47	10%
Total Recordable Injury Frequency Rate	Recordable Injury Frequency Rate as per Canadian Electricity Association (CEA) Standard	1.10	10%
New Services Connected on Time	Percentage of connections for new low-voltage (<750 volts) service requests completed within five business days from the day on which all applicable service conditions are satisfied, or at such later date as agreed to by the customer	98%	5%
Estimated Time of Restoration (ETOR)	Composite percentage of outage events with an accurate ETOR populated within 1 hour of event creation	85%	5%
First Contact Resolution	Percentage of telephone and email enquiries resolved in one contact, within a 21-day time period	86%	5%
Employee Engagement	Average number of engagement sessions attended per employee per year	7.5	5%
Cash Flow Management ($M)(3)	The amount of short and long-term indebtedness under existing or new facilities, as measured at December 31, 2022.	$532.0	5%
Building Emissions Reduction (tons of Carbon Dioxide equivalent)	Measures the reduction of emissions from Toronto Hydro occupied work centres.	2,213.6	5%
Fleet Electrification	Percentage of fleet (driving vehicles) that is either electric vehicle or hybrid.	5%	5%

Notes:

(1) This is a non-GAAP measure based on Net Income after net movements in regulatory balances as per the Financial Statements, modified based on Board approved adjustments to remove the impact of COVID-19. These adjustments include: a) the addition of $85.4 million, being the amount by which budgeted EBITDA exceeded actual EBITDA; b) the addition of $6.1 million for the change to taxes as a result of a); c) the reduction of $104.4 million, being the decrease in net movements in regulatory balances as a result of a) and b); and d) the addition of $18.0 million pre-tax ($13.2 million post-tax) in respect of increased operating expenses.

(2) This is a non-GAAP measure based on in-service assets as at year end as calculated under GAAP of $554.5 million, net of reported capital contributions and net of $104.0 million in pre-approved program exclusions related to initiatives significantly impacted by external factors or subject to OEB-approved variance accounts.

(3) This is a non-GAAP measure that aggregates reported amounts for Commercial Paper and Debentures as at year end.

Corporate key performance indicators ("KPIs") are cascaded down in the organization to create appropriate divisional performance objectives with strong line of sight.

Weightings for these KPIs ranged from 5% to 20% of divisional performance. All divisional KPIs support achievement in the Corporation's five areas of focus: Customer, People, Operations, Environment and Financial. These measures are aimed at increasing customer satisfaction, improving reliability, accomplishing LDC's work program safely and meeting regulatory requirements. Prioritization of these KPIs is determined based on divisional accountabilities. Some examples of Divisional measures are Customer Connection Index, Safety Inspections per Leader, Emergency & Outage Response and Operating Expenses.

Performance-based incentives also include individual performance objectives which are set annually and are tied to business priorities and each individual's particular accountabilities. The number and weighting of individual objectives vary by individual and from year to year. Examples of the 2022 individual performance objectives for the NEOs include, but are not limited to, continuous improvement of operational processes to enhance performance.

In 2022, the Corporation exceeded the majority of its KPI targets at the Corporate and Divisional levels, with the NEOs exceeding the majority of their individual performance targets. Each of the corporate, divisional and individual performance targets were reasonably difficult to attain and served to encourage success in the NEOs performance and in the Corporation's overall results.

Toronto Hydro has a Climate Action Plan as part of its commitment to environmental sustainability, and is committed to achieving net zero greenhouse gas emissions in its operations by 2040. Toronto Hydro's net zero commitment focuses on reducing emissions from two of its largest sources of greenhouse gas emissions, by targeting (i) its building operations and (ii) its vehicle fleet operations. To help track its progress towards net zero, and incent progress in these areas starting in 2022, Toronto Hydro introduced two KPIs; Building Emissions Reduction and Fleet Electrification. Toronto Hydro was able to exceed its target on both measures in 2022.

(iii) *Personal Benefits and Perquisites*

In 2022, the NEOs received personal benefits and perquisites as described in section 12.2(d)(iii) under the heading "Personal Benefits and Perquisites". Personal benefits other than group health, dental, group life insurance, short-term, and long-term disability, accidental death & dismemberment are quantified in the Summary Compensation Table in section 12.3(a) above. Perquisites did not exceed the threshold for any NEO of $50,000 or 10% or more of any NEO's total salary for the year.

(iv) *Pension Plan*

In 2022, each of the NEOs participated in the OMERS pension plan. The OMERS pension plan is a group pension plan that is generally available to all salaried employees. See section 4.6(a) under the heading "Employees" and section12.2(d)(iv) under the heading "Pension Plan" for further information on the OMERS pension plan.

In 2016, OMERS pension plan introduced a cap on pensionable earnings resulting in a significant reduction in the benefit and accordingly, at retirement Mr. Haines will receive top-up benefit payment from the Corporation through a retirement compensation arrangement of $286,900. The retirement compensation arrangement is secured by a letter of credit with a face amount equal to the applicable actuarial value of the obligation plus 30%, and the face value is remeasured and adjusted annually in light of changes in actuarial assumptions and payments made [see section 9.3 Credit Facilities].

(v) *Post-employment Benefits*

Mr. Haines, Ms. Arsenault, Mr. Zeni, Ms. Klein, Mr. Nahyaan, and Mr. Lyberogiannis are eligible for post-employment medical, dental and life insurance benefits if they retire from Toronto Hydro and begin collecting under the OMERS pension plan upon retirement.

(vi) *Retirement Allowance*

Mr. Haines is the only NEO entitled to a retirement allowance. Under the terms of Mr. Haines' retirement allowance if Mr. Haines had terminated (without cause) or retired from the Corporation on December 31, 2022, he would have received a $1,250,000 retirement allowance. The amount of the existing allowance payable to Mr. Haines will thereafter be increased by an additional $125,000 per year (from 2022 to 2024) for each full calendar year of service completed. The maximum existing allowance payable to Mr. Haines is $1,500,000, which Mr. Haines will earn if he remains in active service for the Corporation until December 31, 2024 and payable at his election in one or two lump sum instalments following termination of his employment. Mr. Haines will receive a top-up benefit payment as outlined in 12.3(b)(iv) as a result of the significant changes to pension arrangements introduced by OMERS in 2016.

(vii) *Termination Payments*

The table below summarizes the treatment of compensation for the NEOs under various termination scenarios. Each of the NEOs is eligible for retirement under the OMERS pension plan. No changes are contemplated in the event of a change of control of the Corporation.

Compensation element	**Resignation**	**Termination w/o cause** (1)	**Termination with cause**
Salary	Salary ends	Salary ends	Salary ends
Performance Pay	Current year award forfeited	Current year award	Current year award forfeited
Benefits	Benefits end	Benefits continue	Benefits end
Pension	Entitled to OMERS pension	Entitled to OMERS pension	Entitled to OMERS pension
Top-up benefit payment (2)	Entitled to top-up	Entitled to top-up	Entitled to top-up
Retirement Allowance (2)	Entitled to lump sum	Entitled to lump sum	Entitled to lump sum
Severance (3)	Not applicable	Base salary and performance pay for (i) 24 months of salary continuation for Mr. Haines and (ii) up to 18 months of salary continuation for Ms. Arsenault	Not applicable

Notes:

(1) Mr. Haines' performance pay is determined in accordance with his retirement arrangement. His performance will continue to be reviewed annually. For Ms. Arsenault, performance pay is based on target.
(2) Only applies to Mr. Haines.
(3) For Mr. Haines, base salary during the severance period will be determined in accordance with his retirement arrangement.

Under the terms of their employment agreements, if their employment had terminated without cause on December 31, 2022, Mr. Haines would have received severance of $2,744,378 and Ms. Arsenault would have received severance of $226,003. Ms. Cipolla resigned and did not receive any severance payment. The severance amount that would have been payable had the employment of Mr. Zeni, Ms. Klein, Mr. Nahyaan and Mr. Lyberogiannis been terminated without cause on December 31, 2022 would have been determined at common law.

Mr. Haines has entered into a retirement arrangement pursuant to which his active service will cease on December 31, 2024 and he will receive compensation consistent with a termination without cause plus vacation pay calculated based on pre-determined base salary and performance pay, and prior to such date, and during the severance period shall receive base pay increases of 3% each year and performance pay set at 148% of target.

12.4 Compensation of Directors

(a) Director Compensation Table

Director Name	**Total** [(1)] **($)**
David McFadden	$75,000
Michael Anthony Eubanks	$30,000
Heather Zordel	$30,000
Howard Wetston	$28,500
James Hinds [(2)]	$Nil
Juliana Lam	$8,125
Mary Ellen Richardson	$30,000
Michael Nobrega	$28,500
Tamara Kronis	$8,125
Annie Ropar [(3)]	$13,514
Deputy Mayor Denzil Minnan-Wong	$Nil
Councillor Paul Ainslie	$Nil
Deputy Mayor Stephen Holyday	$Nil
Councillor Jaye Robinson	$Nil
Councillor Jennifer McKelvie	$Nil

Notes:

(1) There was no compensation paid to directors during 2022 other than in respect of director retainer fees and meeting attendance fees.
(2) James Hinds elected to receive no compensation in 2022.
(3) Annie Ropar's compensation reflects the meeting attendance fees and pro-rated retainer fees due until Ms. Ropar's last day as a director on September 15, 2022.

(b) Compensation of Directors – Narrative Discussion

Directors of the Corporation, other than Councillors of the City, are compensated for their services as directors through a combination of retainer fees and meeting attendance fees. These fees are set by the sole shareholder of the Corporation, the City. The annual retainer fees are as follows: Chair of the Board – $75,000 and each of the other directors up to a maximum of – $12,500 (based on quarterly retainer fee of $3,125). The meeting attendance fees are as follows: each meeting of the Board and the subsidiaries attended – $1,000 and each meeting of the Audit Committee, Corporate Governance and Nominating Committee, Human Resources and Environment Committee, or other Board committee attended – $1,000, subject to annual maximum fees per committee member of $5,000 for the Audit Committee, Corporate Governance Committee, Human Resources and Environment Committee or any other committee of the Board. The Board does, from time to time and in the normal course, strike ad hoc committees to streamline and expedite certain matters as they come before the Board. Any compensation Directors have earned from their attendance at these committees has been included in the table above. The Chair receives no meeting attendance fees. Councillors receive no remuneration for their services as directors of the Corporation. The other directors, other than the Chair, are subject to a maximum annual total retainer and attendance fees of $30,000.

PART 13 - LEGAL PROCEEDINGS

In the ordinary course of business, Toronto Hydro is 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 Toronto Hydro. 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, Toronto Hydro assesses the likelihood of any adverse judgments or outcomes as well as potential ranges of probable costs and losses. A determination of the provision required, if any, for these contingencies is made after an analysis of each individual issue. The provision may change in the future due to new developments in each matter or changes in approach, such as a change in settlement strategy. If damages were awarded under these actions, Toronto Hydro 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.

PART 14 - MATERIAL CONTRACTS

The following are material contracts [other than contracts entered into in the ordinary course of business] that the Corporation has entered into in the most recently completed financial year, or before the most recently completed financial year if such material contract is still in effect:

(a) trust indenture dated as of May 7, 2003 between Toronto Hydro Corporation and CIBC Mellon Trust Company [now BNY Trust Company of Canada] [the “Trust Indenture”];

(b) a sixth supplemental trust indenture dated as of May 20, 2010 relating to the issuance of Series 6 senior unsecured debentures in the aggregate principal amount of $200,000,000;

(c) a seventh supplemental trust indenture made as of September 20, 2011 amending the definition of “GAAP” under the Trust Indenture;

(d) a ninth supplemental trust indenture dated as of April 9, 2013 relating to the issuance of Series 8 senior unsecured debentures in the aggregate principal amount of $250,000,000;

(e) a tenth supplemental trust indenture dated as of April 9, 2013, as amended and restated as of September 2, 2015, relating to the issuance of Series 9 senior unsecured debentures in the aggregate principal amount of $245,000,000;

(f) an eleventh supplemental trust indenture dated as of September 16, 2014 relating to the issuance of Series 10 senior unsecured debentures in the aggregate principal amount of $200,000,000;

(g) a twelfth supplemental trust indenture dated as of March 16, 2015 relating to the issuance of Series 11 senior unsecured debentures in the aggregate principal amount of $200,000,000;

(h) a thirteenth supplemental trust indenture dated as of June 14, 2016 relating to the issuance of Series 12 senior unsecured debentures in the aggregate principal amount of $200,000,000;

(i) a fourteenth supplemental trust indenture dated as of November 14, 2017 relating to the issuance of Series 13 senior unsecured debentures in the aggregate principal amount of $200,000,000;

(j) a fifteenth supplemental trust indenture dated as of November 12, 2019 relating to the issuance of Series 14 senior unsecured debentures in the aggregate principal amount of $200,000,000;

(k) a sixteenth supplemental trust indenture dated as of November 12, 2019 relating to the issuance of Series 15 senior unsecured debentures in the aggregate principal amount of $200,000,000;

(l) a seventeenth supplemental trust indenture dated as of October 15, 2020 relating to the issuance of Series 16 senior unsecured debentures in the aggregate principal amount of $200,000,000;

(m) an eighteenth supplemental trust indenture dated as of October 18, 2021 relating to the issuance of Series 17 senior unsecured debentures in the aggregate principal amount of $150,000,000;

(n) a nineteenth supplemental trust indenture dated as of October 18, 2021 relating to the issuance of Series 18 senior unsecured debentures in the aggregate principal amount of $200,000,000; and

(o) a twentieth supplemental trust indenture dated as of October 13, 2022 relating to the issuance of Series 19 senior unsecured debentures in the aggregate principal amount of $300,000,000.

Each of these supplemental trust indentures supplement the terms of the Trust Indenture, which contains customary covenants and representations by the Corporation for the public issuance of debt securities in the Canadian capital market.

Copies of these material contracts are available on the SEDAR website at www.sedar.com.

PART 15 - NAMED AND INTERESTS OF EXPERTS

The external auditor of the Corporation is KPMG LLP. KPMG LLP is independent within the meaning of the Chartered Professional Accountants of Ontario Code of Professional Conduct.

PART 16 - TRANSFER AGENTS AND REGISTRARS

The trustee and registrar for the outstanding Debentures of the Corporation is BNY Trust Company of Canada, located in Toronto, Ontario.

PART 17 - ADDITIONAL INFORMATION

Additional information relating to the Corporation, including additional financial information provided in the Consolidated Financial Statements and Management's Discussion and Analysis, is available on the SEDAR website at www.sedar.com.

ANNEX A- CHARTER – AUDIT COMMITTEE

1. General

(1) The board of directors (Board) of Toronto Hydro Corporation (Corporation) has established the Audit Committee (Committee) to assist the Board and the boards of directors of the Corporation's subsidiary entities in fulfilling their respective corporate governance and oversight responsibilities with respect to financial reporting, internal financial control structure, financial risk management systems, internal audit and external audit functions.

(2) The composition, responsibilities and authority of the Committee are set out in this Charter.

(3) This Charter and the by-laws of the Corporation and such other procedures, not inconsistent therewith, as the Committee may adopt from time to time shall govern the meetings and procedures of the Committee.

2. Composition

(1) The Committee shall be composed of at least three persons who are directors of the Corporation (Members):

(a) all Members must be independent, (as determined by the Board in accordance with the meaning of "independence", as the context requires, given to it in the Canadian Securities Administrators' National Instrument 52-110 Audit Committees, as the same may be amended and/or replaced from time to time); and

(b) at least one of whom, including the chair of the Committee (Chair) is financially literate (ie, have the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the accounting issues that can reasonably be expected to be raised by the financial statements of the Corporation).

(2) Members shall be appointed by the Board on the recommendation of the Chair of the Board, and shall serve until they resign, cease to be a director of the respective board, as applicable, or are removed or replaced by the Board.

(3) The Board shall designate one of the Members as Chair. The Committee shall periodically review the position description of the Chair and make recommendations to the Board.

(4) The Executive Vice-President and Chief Financial Officer (Designated Representative) shall be appointed from time to time to act as the principal interface between the Committee and other senior management of the Corporation and its subsidiary entities.

(5) The Secretary of the Corporation shall be secretary of the Committee (Secretary).

(6) The Chair of the Corporation's Board of Directors shall be an ex-officio Member of the Committee with all of the responsibilities and privileges thereof, but shall only count towards meeting quorum if he or she is present at the meeting.

3. Responsibilities

The Committee shall assist the Board and the boards of directors of the Corporation's subsidiary entities in fulfilling their corporate governance and oversight responsibilities with respect to financial reporting, internal financial control structure, financial risk management systems, internal audit functions, external audit functions, and the payment of dividends by the Corporation and its subsidiary entities.

The Committee has specifically recognized its responsibilities for overseeing the identification of the principal financial and audit risks of the Corporation and its subsidiary entities and overseeing the implementation of appropriate systems to manage these risks. In particular, the Committee shall have the responsibilities set out below.

(1) ***Managing the Relationship between the Corporation and its Subsidiaries and their External Auditors***

The Committee shall be responsible for managing the relationship between the Corporation and its subsidiary entities and their external auditors, including:

(a) appointing and replacing the external auditors, subject to the Boards of Directors and shareholder approval;

(b) setting the compensation of the external auditors subject to the approval of the board of directors or shareholder, as applicable;

(c) overseeing the work of the external auditors, including resolving disagreements between management and the external auditors with respect to financial reporting;

(d) pre-approving all audit services and permitted non-audit services to be provided to the Corporation and its subsidiary entities by the external auditors in accordance with the "Policy on the Provision of Services by the External Auditors";

(e) having the external auditors report to the Committee in a timely manner with respect to all required matters, including those set out in paragraph 3(2);

(f) ensuring the rotation of the audit partner having primary responsibility for the external audits of the Corporation and its subsidiary entities, the audit partner responsible for reviewing the external audit and the external auditors at such intervals as may be required; and

(g) reviewing and assessing the performance, independence and objectivity of the external auditors.

(2) ***Overseeing the External Audits***

The Committee shall be responsible for overseeing the external audits of the Corporation and its subsidiary entities, including:

(a) reviewing and approving the engagement letters and the audit plans, including financial risk areas identified by the external auditors and management;

(b) reviewing and assessing the accounting and reporting practices and principles used by the Corporation and its subsidiary entities in preparing their financial statements, including:

(1) all significant accounting policies and practices used, including changes from preceding years and any proposed changes for future years;

(2) all significant financial reporting issues, estimates and judgments made;

(3) all alternative treatments of financial information discussed by the external auditors and management, the results of such discussions and the treatments preferred by the external auditors;

(4) any major issues identified by the external auditors with respect to the adequacy of internal control systems and procedures and any special audit steps adopted in light of material deficiencies and weaknesses;

(5) the effect of regulatory and accounting initiatives and off-balance sheet transactions or structures on the financial statements;

(6) any errors or omissions in, and any required restatement of, the financial statements for preceding years;

(7) all significant tax issues;

(8) the reporting of all material contingent liabilities; and

(9) any material written communications between the external auditors and management;

(c) reviewing and assessing the results of the external audit and the external auditors' opinion on the financial statements;

(d) reviewing and discussing with the external auditors and management any management or internal control letters issued or proposed to be issued by the external auditors;

(e) reviewing and discussing with the external auditors any problems or difficulties encountered by them in the course of their audit work and management's response (including any restrictions on the scope of activities or access to requested information and any significant disagreements with management); and

(f) reviewing and discussing with legal counsel any legal matters that may have a material impact on the financial statements, operations, assets or compliance policies of the Corporation and its subsidiary entities and any material reports or enquiries received by the Corporation and its subsidiary entities from regulators or government agencies.

(3) ***Overseeing the Internal Audits***

The Committee shall be responsible for overseeing the internal audits of the Corporation and its subsidiary entities, including:

(a) periodically reviewing the Internal Audit Charter and making recommendations to the Board;

(b) reviewing and approving the audit plans, including significant risk exposures identified by the internal auditor and management;

(c) reviewing and discussing with the internal auditor and management the results of any internal audits;

(d) reviewing and discussing with the internal auditors any problems or difficulties encountered by them in the course of their audit work and management's response (including any restrictions on the scope of activities or access to requested information and any significant disagreements with management);

(e) appointing and replacing the internal auditor;

(f) reviewing and assessing the performance of the internal auditor;

(g) ensuring the Committee is kept informed of emerging trends and successful practices in internal auditing; and

(h) confirming there is effective and efficient coordination of activities between internal and external auditors.

(4) ***Reviewing and Recommending to the Respective Boards for Approval the Financial Statements, MD&A and Interim Reports of the Corporation and its Subsidiaries***

The Committee shall review and recommend to each respective board of directors, as applicable, for approval, the financial statements, management's discussion and analysis of financial condition and results of operations (MD&A) and interim financial reports of the Corporation and its subsidiaries, annual information form (AIF) (other than executive compensation) of the Corporation and other public disclosure of financial information extracted from the financial statements of the Corporation and its subsidiaries with particular focus on:

(a) the quality and appropriateness of accounting and reporting practices and principles and any changes thereto;

(b) major estimates or judgments, including alternative treatments of financial information discussed by management and the external auditors, the results of such discussions and the treatment preferred by the external auditors;

(c) material financial risks;

(d) material transactions;

(e) material adjustments;

(f) compliance with loan agreements;

(g) material off-balance sheet transactions and structures;

(h) compliance with accounting standards;

(i) compliance with legal and regulatory requirements;

(j) controls; and

(k) disagreements with management.

(5) ***Overseeing Internal Financial Control Structure and Financial Risk Management Systems***

The Committee shall be responsible for overseeing the internal financial control structure and financial risk management systems of the Corporation and its subsidiary entities, including:

(a) reviewing and discussing with management and the external auditors the quality and adequacy of internal control over financial reporting structures of the Corporation and its subsidiary entities, including any major deficiencies or weakness and the steps taken by management to rectify these deficiencies or weaknesses;

(b) reviewing and discussing with management, the internal auditor and the external auditors the risk assessment and risk management policies of the Corporation and its subsidiary entities, the major financial risk exposures of the Corporation and its subsidiary entities, and the steps taken by management to monitor and control these exposures;

(c) reviewing and discussing with the Chief Executive Officer and the Chief Financial Officer of the Corporation the procedures undertaken by them in connection with the certifications required to be given by them in connection with annual and other filings required to be made by the Corporation under applicable securities laws; and

(d) periodically reviewing the Treasury Policy Register and making recommendations to the Board in respect of such policy and reviewing performance under this policy with Management.

(6) ***Establish and Review Certain Procedures and Policies***

The Committee shall establish adequate policies and procedures, or require that adequate policies and procedures are established, with respect to the following, and shall annually, or on such other schedule as stated herein, assess the adequacy of these procedures:

(a) the review of the public disclosure of financial information extracted from the financial statements of the Corporation;

(b) the receipt, retention and treatment of complaints received by the Corporation with respect to accounting, internal controls or auditing matters;

(c) the confidential, anonymous submission by employees of the Corporation of concerns regarding questionable accounting or auditing matters;

(d) the approval by the Committee of the hiring policies for any present or former partner or employee of the current and former external auditor into a position of senior management with the Corporation or its subsidiaries; and

(e) the periodic review of the Policy on the Provision of Services by the External Auditors and Expense Reimbursement Policy, and provision of recommendations to the Board in respect of the same.

(7) ***Review of Policy Reporting***

(a) The Committee shall be responsible, on a quarterly basis, for reviewing and reporting to the Board in respect of the report of Internal Audit with respect to incidents regarding questionable accounting or auditing matters investigated under the Code of Business Conduct and Whistleblower Procedure during the previous quarter.

(b) The Committee shall be responsible for reviewing, on an annual basis, the report of Internal Audit concerning executive and Board expense reimbursements made in accordance with the Corporation's Expense Reimbursement Policy.

(8) ***Review and Recommendations for Dividend Payment***

(a) The Committee shall be responsible for reviewing and making recommendations to each respective board of directors, as applicable, with respect to the declaration of dividends or distribution of capital by the Corporation or its subsidiary entities.

4. Authority

(1) The Committee is authorized to carry out its responsibilities as set out in this Charter and to make recommendations to the Board and the boards of directors of the Corporation's subsidiaries arising therefrom.

(2) The Committee may delegate by written policy to the Chair and the Executive Vice-President and Chief Financial Officer of the Corporation (CFO) the authority, within specified limits, to authorize in advance all engagements of the external auditors to provide pre-approved services to the Corporation and its subsidiary

entities. The Chair and the CFO shall report all engagements authorized by them to the Committee at its next meeting.

(3) The Committee shall have direct and unrestricted access to the external and internal auditors, officers and employees and information and records of the Corporation and its subsidiary entities.

(4) The Committee is authorized to retain, and to set and pay the compensation of, independent legal counsel and other advisors if it considers this appropriate.

(5) The Committee is authorized to invite officers and employees of the Corporation and its subsidiaries and outsiders with relevant experience and expertise to attend or participate in its meetings and proceedings if it considers this appropriate.

(6) The external auditors shall have direct and unrestricted access to the Committee and shall report directly to the Committee.

(7) The Corporation shall pay directly or reimburse the Committee for the expenses incurred by the Committee in carrying out its responsibilities, in accordance with the Corporation's Expense Reimbursement Policy.

5. Meetings and Proceedings

(1) The Committee shall meet as frequently as required but not less frequently than four times each year.

(2) Any Member or the Secretary may call a meeting of the Committee. The external auditors or the CFO may ask a Member to call a meeting of the Committee. The Chair, along with the Designated Representative, is responsible for the agenda of each meeting of the Committee, including input from the officers and employees of the Corporation and its subsidiary entities, external auditors, other Members, and other directors of the Corporation as appropriate. Meetings will include presentations by management and others when appropriate and allow sufficient time to permit a full and open discussion of agenda items.

(3) Unless waived by all Members, a notice of each meeting of the Committee confirming the date, time, place and agenda of the meeting, together with any supporting materials, shall be forwarded, electronically or otherwise, to each Member at least three days before the date of the meeting.

(4) The quorum for each meeting of the Committee is at least 50% of the Members. In the absence of the Chair, the other Members may appoint one of their number as chair of a meeting. The Chair of a meeting shall not have a second or casting vote.

(5) The Chair or a delegate of the Chair shall report to the Board following each meeting of the Committee.

(6) The Secretary or a delegate of the Secretary shall keep minutes of all meetings of the Committee, including all resolutions passed by the Committee. Minutes of all meetings shall be distributed to the Members. The minutes shall be available for review by the other directors of the Corporation after approval thereof by the Committee.

(7) An individual who is not a Member may be invited to attend a meeting of the Committee for all or part of the meeting. A standing invitation to all meetings shall be given to the President and Chief Executive Officer of the Corporation and the CFO, except where the meeting, or part of the meeting, is for Members only or a private session with the internal auditor or the external auditors. A standing invitation should be given to the internal auditor and the engagement partners of the external auditors for all meetings where financial information is reviewed and approved.

(8) The Committee shall meet regularly alone and in private sessions with the internal auditor, the external auditors and management of the Corporation to facilitate full communication.

6. Review

(1) This Charter shall be reviewed by the Corporate Governance and Nominating Committee of the Corporation every three (3) years and any recommended changes shall be referred first to the Audit Committee for review and comment and second, after consideration of the input from the Audit Committee, to the Board of the Corporation for consideration and disposition.

(2) In addition to the triennial review, the Audit Committee may at any time review the Charter and make recommendations to the Corporate Governance and Nominating Committee for their review and recommendations to the Board with respect thereto.

ANNEX B - MANDATE – BOARD OF DIRECTORS

1. General

(1) The board of directors (Board) of Toronto Hydro Corporation (Corporation) is responsible for supervising the management of the business and affairs of the Corporation and its subsidiary entities (Group).

(2) The composition, responsibilities, and authority of the Board are set out in this Mandate.

(3) This Mandate, the Shareholder Direction issued by the City of Toronto (Shareholder) and the by-laws of the Corporation and such other procedures, not inconsistent therewith, as the Board may adopt from time to time shall govern the meetings and procedures of the Board.

(4) The addendum attached hereto is hereby incorporated into this Mandate and made a part hereof.

2. Composition

(1) The directors of the Corporation (Directors) should have a mix of competencies and skills necessary to enable the Board and Board committees to properly discharge their responsibilities.

(2) All of the Directors shall be residents of Canada.

(3) The Shareholder shall appoint Directors every two years.

(4) In appointing Directors the Shareholder shall give due regard to the qualifications of the candidates including:

- (a) experience on a public utility commission or board of a major corporation or other commercial enterprise and/or the completion of formal training in directorship / governance;
- (b) experience in regulated electricity utility sector at a senior management level;
- (c) experience at an executive level in resource and performance management / compensation, including ability to appoint and evaluate the performance of the CEO and senior executives; oversee strategic human resource management, including workforce planning, compensation models, and labour relations; and oversee large scale organizational change;
- (d) educational background, including university degrees and professional designations;
- (e) experience or knowledge with respect to:
    - i) strategic planning, including ability to identify and critically assess strategic opportunities and threats to the organization;
    - ii) risk management, including ability to assess key risks to the organization on an enterprise basis and monitor the risk management framework systems;
    - iii) corporate finance / accounting / audit / securities, including ability to analyze financial statements, assess financial viability, contribute to financial planning, oversee budgets, and oversee funding arrangements;
    - iv) corporate governance;
    - v) market development, innovation and development of new strategic business lines;

vi) large system operation and management;

vii) urban energy industries;

viii) public policy issues and laws relating to the Corporation and its subsidiary entities and the electricity industry;

ix) environmental matters, including experience in environmental management;

x) labour relations;

xi) occupational health and safety issues;

xii) information technology governance, including privacy, data management and security;

xiii) legal and regulatory compliance, including ability to monitor compliance of legal and regulatory requirements;

xiv) stakeholder engagement / advocacy / communications, including ability to effectively engage and communicate to industry stakeholders and advocate on behalf of the organization;

(f) the following interpersonal skills and attributes:

i) leadership, including ability to make, and take responsibility for, decisions and take necessary actions in the best interest of the organization, set appropriate Board and organizational culture and represent the organization favourably;

ii) personal integrity / ethics, including understanding and fulfilling the duties and responsibilities of a director, being transparent and declaring any activities or conduct that might be a potential conflict, and maintaining Board confidentiality;

iii) communications skills, including ability to listen constructively and appropriately debate others' viewpoints, develop and deliver cogent arguments, and communicate effectively with a broad range of stakeholders;

iv) constructive questioning, including preparedness to ask questions and challenge management and peer directors in a constructive and appropriate manner;

v) critical and innovative thinking / decision making, including ability to critically analyze complex and detailed information, readily distill key issues, and develop innovative approaches and solutions to problems;

vi) influencing and negotiating, including ability to negotiate outcomes and influence others to agree with those outcomes and gain stakeholder support for the Board's decisions;

vii) crisis management, including ability to constructively manage crises, provide leadership around solutions and contribute to communications strategy with stakeholders;

viii) individual and team contribution, including ability to work as part of a team, and demonstrate the passion and time to make a genuine and active contribution to the Board and the organization;

ix) commercial sensitivity and acumen; and

x) independence of judgement

(g) at least three directors with financial management expertise.

(5) To support the review of candidates for director roles and the assessment of the existing Board, the Corporation has also developed a Board skills/competencies matrix, which may be modified from time to time by the Board, and which provides a mechanism for determining the key skills required of directors and the Board as a whole and ensuring these skills are accounted for among current and prospective directors. The Board makes this document available to the Shareholder as guidance and a tool to be employed in the selection of director candidates.

(6) The Board shall appoint a Chair of the Board upon the nomination of the Shareholder from time to time.

(7) The Secretary of the Corporation shall be secretary of the Board (Secretary).

3. Responsibilities

(1) The Board is responsible for supervising the management of the business and affairs of the Group, including the following specific matters:

(a) establishing sound financial principles and performance objectives;

(b) approving any dividend payment or distribution of capital;

(c) appointing the officers of the Corporation;

(d) approving the overall business strategy and related business plan;

(e) approving the financing strategy, including the selection of financial institutions and related banking authorities;

(f) directing labour and employee relations matters; and

(g) approving the financial statements in accordance with the requirements of the Business Corporations Act (Ontario).

(2) In discharging their responsibilities, the Directors owe the following duties to the Corporation:

a fiduciary duty: they must act honestly and in good faith with a view to the best interests of the Corporation; and

a duty of care: they must exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

In discharging their responsibilities, the Directors are entitled to rely on the honesty and integrity of the senior officers of the Corporation and the auditors and other professional advisors of the Corporation.

In discharging their responsibilities, the Directors are also entitled to directors and officers liability insurance purchased by the Corporation and indemnification from the Corporation to the fullest extent permitted by law and the constating documents of the Corporation.

(3) The Board has specifically recognized its responsibilities for:

(a) to the extent feasible, satisfying itself as to the integrity of the President and Chief Executive Officer (CEO) and other senior officers of the Group and that the CEO and other senior officers of the Group create a culture of integrity throughout the Group;

(b) adopting a strategic planning process and approving annually (or more frequently if appropriate) a strategic plan which takes into account, among other things, the opportunities and risks of the business of the Group;

(c) considering and overseeing the strategic development of new business opportunities and innovation;

(d) overseeing the identification of the principal risks of the business of the Group and overseeing the implementation of appropriate systems to manage these risks;

(e) interaction of the Board with the Shareholder in accordance with the Shareholder Direction subject to the duties of the Directors at law;

(f) overseeing the integrity of the internal control and management information systems of the Group;

(g) succession planning (including appointing, training and monitoring the senior officers of the Corporation);

(h) recruiting and assessing the performance of the CEO, the compensation of the CEO and other officers of the Group, executive compensation disclosure and oversight of the compensation structure and benefit plans and programs of the Group;

(i) assessing the effectiveness of the Board;

(j) adopting a disclosure policy for the Group;

(k) developing and overseeing the orientation of new Directors, and the continuing education of existing Directors, of the Group; and

(l) developing the approach of the Corporation to corporate governance including a periodic review of the Code of Business Conduct and Whistleblower Procedure of the Group.

(4) In addition to those matters which must by law be approved by the Board, the Board oversees the development of, and reviews and approves, significant corporate plans and initiatives, including the annual business plan and budget, major acquisitions and dispositions and other significant matters of corporate strategy or policy, including the Environmental Policy, Occupational Health and Safety Policy, Code of Business Conduct and Whistleblower Procedure, Disclosure Policy, Signing Policy and Treasury Policy.

(5) In undertaking its responsibilities and overseeing and authorizing the activities of the Corporation, the Board shall consider the interests of its customers, as well as considering and balancing the interests of such other stakeholders as appropriate in the circumstances.

(6) The Board shall periodically review the Shareholder Direction and make recommendations to the Shareholder to facilitate and clarify interaction and communication between the Shareholder and the Board.

(7) The Board shall periodically review the performance of the Board and the Corporation’s subsidiary entities against the Shareholder Direction.

(8) The Board shall periodically review the structure and mandate of each Board committee, the effectiveness of each committee, and the appointment and removal of committee members.

(9) The Board shall periodically review performance under the Environmental Policy with management.

(10) To assist the Directors in discharging their responsibilities, the Board expects management of the Corporation to:

(a) review and update annually (or more frequently if appropriate) the strategic plan and report regularly to the Board on the implementation of the strategic plan in light of evolving conditions;

(b) prepare and present to the Board annually (or more frequently if appropriate) a business plan and budget and report regularly to the Board on the Group's performance against the business plan and budget; and

(c) report regularly to the Board on the Corporation's business and affairs and on any matters of material consequence for the Corporation and its Shareholder.

Additional expectations are developed and communicated during the annual strategic planning and budgeting process and during regular Board and Board committee meetings.

(11) The Board considers that generally management should speak for the Corporation in its communications with securities holders and the public. The Board reviews the Corporation's continuous and timely material disclosure with securities holders and the public. All disclosures on behalf of the Corporation are to be made in compliance with the Corporation's disclosure policy.

(12) Directors are expected to attend Board meetings and meetings of Board committees of which they are members. Directors are also expected to spend the time needed, and to meet as frequently as necessary, to discharge their responsibilities.

(13) Directors are expected to undertake such activities as are required from them to remain current in their knowledge of issues relating to the business of the Group and matters relating to any Board committee of which they are members.

(14) Directors are expected to comply with the Code of Business Conduct and Whistleblower Procedure of the Group.

4. Authority

(1) The Board is authorized to carry out its responsibilities as set out in this Mandate.

(2) The Board is authorized to retain, and to set and pay the compensation of, independent legal counsel and other advisors if it considers this appropriate.

(3) The Board is authorized to invite officers and employees of the Group and others to attend or participate in its meetings and proceedings if it considers this appropriate.

(4) The Directors have unrestricted access to the officers of the Corporation. The Directors will use their judgment to ensure that any such contact is not disruptive to the operations of the Corporation and, except for the chair of any committee established by the Board, will advise the Chair and the CEO of the Corporation of any direct communications between them and the officers of the Corporation.

(5) The Board and the Directors have unrestricted access to the advice and services of the Secretary.

(6) The Board may delegate certain of its functions to Board committees, each of which will have its own charter.

5. Meetings and Proceedings

(1) The Board shall meet as frequently as is determined to be necessary but not less than four times each year.

(2) Any Director or the Secretary may call a meeting of the Board.

(3) The Chair is responsible for the agenda of each meeting of the Board, including input from other Directors and the officers and employees of the Group as appropriate. Meetings will include presentations by management and others when appropriate and allow sufficient time to permit a full and open discussion of agenda items.

(4) Unless waived by all Directors, a notice of each meeting of the Board confirming the date, time, place and agenda of the meeting, together with any supporting materials, shall be forwarded to each Director at least 48 hours before the date of the meeting.

(5) The quorum for each meeting of the Board is a majority of the number of Directors. In the absence of the Chair, the other Directors shall appoint one of their number as chair of a meeting. The chair of a meeting shall not have a second or casting vote.

(6) The Secretary or his delegate shall keep minutes of all meetings of the Board, including all resolutions passed by the Board. Minutes of meetings shall be distributed to the Directors.

(7) An individual who is not a Director may be invited to attend a meeting of the Board for all or part of the meeting.

(8) The Directors shall meet alone regularly to facilitate full communication.

6. Review

(1) This Mandate shall be reviewed by the Corporate Governance Committee every 3 years and any recommended changes shall be brought to the Board of the Corporation for consideration and disposition.

TORONTO HYDRO CORPORATION

Addendum to Board of Directors Mandate

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1. General

(1) The composition, responsibilities, and authority of the board of directors ***(Board***) of Toronto Hydro Corporation (***Corporation***) are set out in the Board of Directors Mandate (***Mandate***), as amended from time to time.

(2) This addendum (***Addendum***), the Corporation's Code of Business Conduct and Whistle Blower Procedure (***Code***) and such other procedures, not inconsistent therewith, as the Board may adopt from time to time, is intended to:

(a) guide directors as how to identify and bring forward potential conflicts of interest in respect of: (i) other governance-level appointments as directors, officers, board members, adjudicators, commissioners or similar governing roles (***Governance-Level Roles***), and (ii) employee engagements, consulting arrangements, volunteer engagements and relationships where the director is likely to have access to confidential or strategic information or otherwise be in a position where the interests of Toronto Hydro may intersect or conflict from time to time with the interests of the organizations involved (***Material Engagements***), and

(b) outline the Board process for reviewing and constructively dealing with such situations in a manner that maximizes the participation of all directors in Board discussions and decisions.

(3) This addendum forms part of, and does not replace the Mandate.

2. Meaning of Conflict of Interest

(1) In accordance with the Code, a ***conflict of interest*** occurs when a director's direct or indirect personal interests, activities, or relationships could compromise, or could reasonably appear to compromise his or her ability to perform his or her responsibilities objectively and in the best interest of the Corporation and its subsidiaries (collectively, ***Toronto Hydro***). Conflicts include any activity (even when it is unpaid), interest, or association that might compromise, or appear to compromise the independent exercise of a director's judgment in the best interests of Toronto Hydro.

(2) As examples for purposes of this Addendum, situations that might give rise conflicts of interest or the appearance of a conflict of interest with respect to outside interests include situations where a director:

(a) Holds a Governance-Level Role or Material Engagement for any competitor or any actual or current, active potential business partner (including as a supplier or vendor to Toronto Hydro or its shareholder, or a key account customer);

(b) Is hired for, nominated for, or accepts an appointment to a board or as executive of any business or enterprise that might benefit from, or be in conflict with, the activities of Toronto Hydro or the Board;

(c) Holds a Governance-Level Roles or Material Engagement with regulators of material significance to Toronto Hydro (***Material Regulators***). For greater certainty, Material Regulators include, without limitation, the Ontario Ministry of Energy, the Ontario Energy Board, the Independent Electricity System Operator and the Ontario Securities Commission; or

(d) Any other situation of conflict of interest or potential conflict of interest relating to Governance-Level Roles or Material Engagements set out in the Code.

3. Reporting conflict of interest

(1) Where a director finds himself or herself in a conflict of interest, or identifies a potential situation where he or she may find himself or herself in a conflict of interest, that director should contact the Chair of the Corporate Governance and Nominating Committee (CGNC). If the Chair of the CGNC finds himself or herself in such a situation, the Chair of the CGNC should contact the Chair of the Board, who will then conduct the activities of the Chair of the CGNC described below in place of the Chair of the CGNC.

(2) For greater certainty, where a director receives an offer for nomination to a Governance-Level Role or a Material Engagement, they should contact the Chair of the CGNC once any obligations of confidentiality with respect to that offer permit them to do so.

4. Board process for reviewing conflicts of interest

(1) Upon being notified by a director of an existing or potential conflict of interest, the Chair of the Corporate Governance and Nominating Committee will meet with that director to consider and discuss whether:

- (a) the conflict of interest exists;
- (b) if the conflict of interest exists, whether it might compromise or appear to compromise the independent exercise of judgment by the director and his or her ability to act in the best interests of Toronto Hydro; and
- (c) if such a compromise exists, whether there are administrative processes (***Administrative Processes***), including without limitation, processes for the director to recuse him or herself from related discussions that can be put in place to limit or eliminate the conflict while maximizing the participation of all directors in Board discussions and decisions; or whether the compromise is so pervasive as to lead the director to voluntarily resign from the Board.

(2) In the course of considering whether a conflict of interest exists, and what actions, if any, are to be taken, the Chair of the CGNC may consult with the Chair of the Board, other members of the CGNC and the Board, relevant members of management of Toronto Hydro including the Chief Executive Officer and Chief Legal Officer, and shareholder, outside legal counsel and other advisors, all in confidence as the Chair of the CGNC feels is necessary to resolve the issue.

(3) If the director and the Chair of the CGNC are able to agree on a course of action, the Chair of the CGNC will record the arrangement and provide a copy of it to the Chair of the Board who may disseminate it as necessary. In addition, Administrative Processes will be made known to the balance of the Board as it relates to future Board discussions and decisions.

(4) If the director and the Chair of the CGNC are unable to agree on a course of action, the matter will be escalated to the Steering Committee of the Board for further discussion and consideration which may include a recommendation to the Shareholder that the director be removed from the Board.

(5) For greater certainty, nothing in this policy detracts from or absolves a director of his or her responsibility to review their own potential conflicts and make declarations as to the same as they arise, including at each Board or Committee meeting which he or she attends.

PUBLIC DEBT OFFERING

In accordance with s. 2.1.8 of the Ontario Energy Board's ("OEB") Filing Requirements,[1] this schedule provides Toronto Hydro Corporation's public debt offering information, as follows:

- Appendix A: Base Shelf Prospectus, July 2023
- Appendix B: 15th Supplemental Trust Indenture, November 2019
- Appendix C: 16th Supplemental Trust Indenture, November 2019
- Appendix D: 17th Supplemental Trust Indenture, October 2020
- Appendix E: 18th Supplemental Trust Indenture, October 2021
- Appendix F: 19th Supplemental Trust Indenture, October 2021
- Appendix G: 20th Supplemental Trust Indenture, October 2022
- Appendix H: 21st Supplemental Trust Indenture, June 2023

[1] Ontario Energy Board, Filing Requirements for Electricity Distributor Rate Applications, Chapter 2 (December 15, 2022).

No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise.

This short form prospectus is a base shelf prospectus which has been filed under legislation in each of the provinces of Canada that permits certain information about these securities to be determined after this prospectus has become final and that permits the omission from this prospectus of that information. The legislation requires the delivery to purchasers of a prospectus supplement containing the omitted information within a specified period of time after agreeing to purchase any of these securities. All shelf information omitted from this shelf prospectus will be contained in one or more prospectus supplements that will be delivered to purchasers together with the base shelf prospectus. This short form base shelf prospectus has been filed in reliance on an exemption from the preliminary base shelf prospectus requirement for a well-known seasoned issuer.

This short form prospectus constitutes a public offering of these securities only in those jurisdictions where they may be lawfully offered for sale and therein only by persons permitted to sell such securities. These securities have not been and will not be registered under the United States Securities Act of 1933, as amended (the "U.S. Securities Act") or any state securities laws, and, subject to certain exceptions, may not be offered or sold within the United States or to, or for the account or benefit of, U.S. Persons (as such term is defined in Regulation S under the U.S. Securities Act). See "Plan of Distribution".

Information has been incorporated by reference in this short form prospectus from documents filed with securities commissions or similar authorities in Canada. *Copies of the documents incorporated herein by reference may be obtained* on request without charge from the Corporate Secretary of Toronto Hydro Corporation at 14 Carlton Street, Toronto, Ontario, M5B 1K5, (416) 542-3100 *and are also available electronically at www.sedar.com.*

SHORT FORM BASE SHELF PROSPECTUS

New Issue July 27, 2023

TORONTO HYDRO CORPORATION

$1,500,000,000 DEBENTURES

(unsecured)

Toronto Hydro Corporation (the "Corporation") may offer and issue from time to time unsecured debentures (the "Debentures") in one or more series in an aggregate principal amount of up to $1,500,000,000 (or the equivalent thereof in foreign currencies or currency units based on the applicable exchange rate at the time of offering) during the twenty-five months from the date of issuance of the receipt for this prospectus.

As of the date hereof, the Corporation has determined that it qualifies as a “well-known seasoned issuer”, as such term is defined under the WKSI Blanket Orders (as defined below). See "Reliance on Exemptions for Well-Known Seasoned Issuers".

The Debentures will be issued under a trust indenture dated May 7, 2003 (as amended from time to time and as supplemented from time to time by supplemental indentures), will be direct unsecured obligations of the Corporation and will rank *pari passu* (except as to sinking funds and to the extent prescribed by law) with all other unsecured and unsubordinated indebtedness of the Corporation. The Debentures will have a term to maturity of not less than one year and will be issuable in denominations of $1,000 and multiples thereof. The Debentures may be issued in Canadian dollars or any foreign currency or currency unit determined at the time of issue.

The specific terms of an offering of Debentures (including the aggregate principal amount of the Debentures being offered, the currency or currencies, the issue and delivery date, the form, the maturity date, the interest rate, the issue price, the interest payment date(s), any redemption or repayment provisions, any provisions entitling the Corporation to extend the maturity date of the Debentures, the name(s) of the dealer(s) offering the Debentures, the commission payable to such dealer(s), the method of distribution and the net proceeds to the Corporation) will be set forth in a pricing supplement which will be delivered to purchasers together with this

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prospectus. The Corporation reserves the right to set forth in a pricing supplement specific terms of Debentures which are not within the parameters set forth in this prospectus.

The sole shareholder of the Corporation is the City of Toronto. The Debentures will not be obligations of, and will not be guaranteed in any manner by, the City of Toronto.

Investing in the Debentures involves risks. See "Risk Factors" in this prospectus and in the comparable sections of the documents incorporated or deemed to be incorporated by reference in this prospectus, which may be amended or supplemented in any prospectus supplement or pricing supplement.

There is no market through which the Debentures may be sold and purchasers may not be able to resell Debentures purchased under this prospectus. This may affect the pricing of the Debentures in the secondary market, the transparency and availability of trading prices, the liquidity of the Debentures and the extent of issuer regulation. See "Risk Factors". Unless otherwise indicated in a pricing supplement, the Debentures will not be listed on any securities exchange.

RATES ON APPLICATION

Pursuant to the dealer agreement referred to under the heading "Plan of Distribution", the Debentures may be offered for sale severally and on a continuous basis by one or more of BMO Nesbitt Burns Inc., CIBC World Markets Inc., National Bank Financial Inc., RBC Dominion Securities Inc., Scotia Capital Inc. and TD Securities Inc. and such other dealers as may be selected from time to time by the Corporation (collectively, the "Dealers" and each a "Dealer"), in each case, acting as agent of the Corporation or as principal. Where the Debentures are offered by the Dealer(s) as agent(s), the commissions payable by the Corporation in connection with sales of such Debentures shall be agreed from time to time between the Corporation and any such Dealer(s). Where the Debentures are purchased by the Dealer(s) as principal, the Debentures shall be purchased at such prices and with such commissions as may be agreed from time to time between the Corporation and any such Dealer(s) for resale to the public at prices to be negotiated with each purchaser. Such resale prices may vary during the distribution period and as between purchasers. Each Dealer's compensation will increase or decrease by the amount by which the aggregate price paid for Debentures by purchasers exceeds or is less than the price paid by such Dealer, when purchasing as principal, to the Corporation. The commissions payable in connection with sales of Debentures will be set forth in a pricing supplement which will be delivered to purchasers together with this prospectus. In connection with any offering of Debentures, the Dealers may over-allot or effect transactions which stabilize or maintain the market price of the Debentures offered at a level above that which might otherwise prevail in the open market. Such transactions, if commenced, may be discontinued at any time. See "Plan of Distribution". The Corporation may also offer the Debentures directly to potential purchasers pursuant to applicable statutory exemptions at prices and upon terms negotiated between the purchaser and the Corporation, in which case no commissions will be paid to the Dealers. The Corporation and, if applicable, the Dealers, may reject any offer to purchase the Debentures in whole or in part. The Corporation also reserves the right to withdraw, cancel or modify the offering of the Debentures under this prospectus without notice.

The Corporation may be considered to be a connected issuer of BMO Nesbitt Burns Inc., CIBC World Markets Inc., National Bank Financial Inc., RBC Dominion Securities Inc., Scotia Capital Inc. and TD Securities Inc. within the meaning of Canadian securities legislation. BMO Nesbitt Burns Inc., CIBC World Markets Inc., National Bank Financial Inc., RBC Dominion Securities Inc., Scotia Capital Inc. and TD Securities Inc. are wholly-owned subsidiaries of banks which are currently lenders to the Corporation. See "Relationship between the Corporation and the Dealers".

The offering of the Debentures is subject to the approval of certain legal matters on behalf of the Corporation by Norton Rose Fulbright Canada LLP and on behalf of the Dealers by Blake, Cassels & Graydon LLP.

The registered and head office of the Corporation is located at 14 Carlton Street, Toronto, Ontario, M5B 1K5.

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Unless otherwise specified, all dollar amounts in this prospectus are expressed in Canadian dollars and references to "$" are to Canadian dollars.

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DOCUMENTS INCORPORATED BY REFERENCE

The following documents of the Corporation filed with the provincial securities regulatory authorities in Canada are incorporated by reference in this prospectus for the purposes of the offering of Debentures hereunder:

(a) the annual information form (the "AIF") of the Corporation for the year ended December 31, 2022 dated March 28, 2023;

(b) the comparative audited consolidated financial statements of the Corporation together with the auditor’s report thereon and the notes thereto as at and for the years ended December 31, 2022 and December 31, 2021;

(c) management's discussion and analysis of financial condition and results of operations ("MD&A") for the year ended December 31, 2022;

(d) the comparative unaudited condensed interim consolidated financial statements of the Corporation together with the notes thereto as at and for the three-month periods ended March 31, 2023 and March 31, 2022; and

(e) MD&A for the three-month period ended March 31, 2023.

Updated earnings coverage ratios will be filed quarterly with the provincial securities regulatory authorities in Canada, either as prospectus supplements or as exhibits to the Corporation's unaudited interim and audited consolidated financial statements, and will be deemed to be incorporated by reference in this prospectus for the purposes of the offering of Debentures hereunder.

Any documents of the type required by National Instrument 44-101 – *Short Form Prospectus Distributions* to be incorporated by reference in a short form prospectus, including the documents of the type referred to above, interim financial statements and related MD&A, material change reports (except confidential material change reports) and business acquisition reports filed by the Corporation with the provincial securities regulatory authorities in Canada after the date of this prospectus and prior to termination of any offering hereunder will be deemed to be incorporated by reference in this prospectus.

Upon a new AIF and new annual financial statements and related MD&A being filed by the Corporation with, and where required, accepted by, the applicable securities regulatory authorities during the currency of this prospectus, the previous AIF, the previous annual financial statements and related MD&A, all previous interim financial statements and related MD&A, previous material change reports filed prior to the commencement of the then current financial year and previous business acquisition reports for acquisitions completed since the beginning of the financial year in respect of which the Corporation's new AIF is filed will be deemed no longer to be incorporated by reference into this prospectus for purposes of future offers and sales of Debentures hereunder. Upon unaudited interim financial statements and the accompanying interim management's discussion and analysis being filed by the Corporation with the applicable securities regulatory authorities during the currency of this prospectus, all unaudited interim financial statements and the accompanying interim management's discussion and analysis filed prior to the new unaudited interim financial reports shall be deemed no longer to be incorporated by reference into this prospectus for purposes of future offers and sales of Debentures hereunder.

A pricing supplement containing the specific variable terms for an offering of Debentures will be delivered to purchasers of such Debentures together with this prospectus and will be deemed to be incorporated by reference in this prospectus as of the date of the pricing supplement, solely for the purposes of the Debentures offered under that pricing supplement.

Certain marketing materials (as that term is defined in applicable securities legislation) may be used in connection with a distribution of Debentures under this prospectus and any applicable pricing supplement. Any template version (as that term is defined in applicable securities legislation) of marketing materials pertaining to a distribution of Debentures, and filed by the Corporation after the date of the applicable pricing supplement for the offering and before termination of the distribution of such Debentures, will be deemed to be incorporated by reference in such pricing supplement for the purposes of the distribution of Debentures to which the pricing supplement pertains.

Any statement contained in this prospectus or in a document incorporated or deemed to be incorporated by reference herein will be deemed to be modified or superseded, for purposes of this prospectus, to the extent that a statement contained herein or in a document incorporated or deemed to be incorporated by reference herein modifies or supersedes such prior statement. The modifying or superseding statement need not state that it has modified or superseded a prior statement or include any other information set forth in the document that it modifies or supersedes. The making of a modifying or superseding statement will not be deemed an admission for any purposes that the modified or superseded statement, when made, constituted a misrepresentation, an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made. Any statement so modified or superseded will not constitute a part of this prospectus, except as so modified or superseded.

FORWARD-LOOKING INFORMATION

Certain information included or incorporated by reference in this prospectus 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 included or incorporated by reference in the prospectus, which address activities, events or developments that the Corporation expects or anticipates may or will occur in the future, are forward-looking information. The words "anticipates", "believes", "budgets", "committed", "can", "could", "estimates", "expects", "focus", "forecasts", "intends", "may", "might", "plans", "propose", "projects", "schedule", "should", "will", "would", "objective", "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 this prospectus includes statements under the headings "Use of Proceeds" and "Plan of Distribution". Additional forward-looking information is identified in the various documents incorporated by reference in this prospectus, including, without limitation, the section entitled "Forward-Looking Information" in the Corporation's AIF and the section entitled "Forward-Looking Information" in the Corporation's MD&A.

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 completion of issuances of Debentures under this prospectus, the amount of indebtedness of the Corporation at such time, changes in funding requirements, no unforeseen changes in the demand for energy consumption, 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 in weather compared to historical seasonal trends, no unforeseen changes in the legislative and operating framework for electricity distribution in Ontario, no unforeseen changes in public policy relating to electricity distribution in Ontario, the receipt of applicable regulatory approvals and requested rate orders, no unexpected delays in obtaining required approvals, the ability of the Corporation to obtain and retain qualified staff, materials, equipment and services in a timely and cost efficient manner, continued contractor performance, compliance with covenants, the receipt of favourable judgments, no unforeseen changes in electricity distribution rate orders or rate setting methodologies, no unfavourable changes in environmental regulation, the ratings issued by credit rating agencies, the level of interest rates and the Corporation's ability to borrow, and assumptions regarding general business and economic conditions.

The forward-looking information is subject to risks, uncertainties and other factors that could cause actual results to differ materially from historical results or results anticipated by the forward-looking information, which are discussed in more detail under "Risk Factors" in this prospectus and in any pricing supplement and in the comparable sections of the documents incorporated or deemed to be incorporated by reference in this prospectus (including the sections entitled "Forward-Looking Information" and "Risk Factors" in the Corporation's AIF and the sections entitled "Forward-Looking Information" and "Risk Management and Risk Factors" in the Corporation's MD&A). All of the forward-looking information included or incorporated by reference in this prospectus is qualified by the cautionary statements in this "Forward-Looking Information" section and the "Risk Factors" section of this prospectus and in the comparable sections of the documents incorporated or deemed to be incorporated by reference in this prospectus (including the sections entitled "Forward-Looking Information" and "Risk Factors" in the Corporation's AIF and the sections entitled "Forward-Looking Information" and "Risk Management and Risk Factors" in the Corporation's 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 or in the documents incorporated by reference. Furthermore, the forward-looking information contained or incorporated by reference herein is dated as of the date of this prospectus or as of the date specified in the documents incorporated by reference into this prospectus, 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.

Capitalized terms used in this section without definition, have the meanings given to them elsewhere in this prospectus.

TORONTO HYDRO

Toronto Hydro Corporation (the "Corporation" and, together with its subsidiaries, "Toronto Hydro") is a holding company which wholly-owns two subsidiaries:

- *Toronto Hydro-Electric System Limited* ("LDC") – distributes electricity; and
- *Toronto Hydro Energy Services Inc.* – provides street lighting and expressway lighting services in the City of Toronto.

The principal business of Toronto Hydro is the distribution of electricity by LDC, which owns and operates the electricity distribution system for Canada's largest city. LDC owns and operates an electricity distribution system, delivering electricity to approximately 791,000 customers located in the City of Toronto. LDC serves the largest city in Canada and distributes approximately 17% of the electricity consumed in Ontario.

The sole shareholder of the Corporation is the City of Toronto.

RECENT DEVELOPMENTS

On June 14, 2023, the Corporation closed an offering of $250 million aggregate principal amount of 4.61% Senior Unsecured Debentures due 2033 (Series 20). The Corporation used the proceeds from the offering to repay certain indebtedness under the Corporation’s commercial paper program which the Corporation incurred to repay its $250 million Series 8 Debentures on April 10, 2023, to finance the Corporation’s capital expenditure program and for general corporate purposes. The Senior Unsecured Debentures were offered pursuant to the short form base shelf prospectus of the Corporation dated July 29, 2021.

USE OF PROCEEDS

The Debentures will be issued from time to time at the discretion of the Corporation in an aggregate principal amount not to exceed $1,500,000,000 (or the equivalent thereof in foreign currencies or currency units based on the applicable exchange rate at the time of offering). Unless otherwise specified in a pricing supplement, the net proceeds from the sale of Debentures will be used by the Corporation to reduce certain indebtedness of the Corporation, including, but not limited to, indebtedness that the Corporation may have with the bank affiliates of one or more of the Dealers, to refinance the Corporation's outstanding Debentures upon maturity, to finance the Corporation's capital expenditure program and for general corporate purposes. The net proceeds from the sale of Debentures cannot be estimated at the date hereof since the amount thereof will depend on the terms and conditions of the Debentures and the extent to which the Debentures are issued under this prospectus. Any commissions payable to the Dealers relating to a particular offering of Debentures will be netted out of the proceeds thereof and all other expenses relating thereto will be paid out of the Corporation's general funds or netted out of the proceeds of such offering.

PLAN OF DISTRIBUTION

Pursuant to the terms of a dealer agreement dated July 27, 2023 (the "Dealer Agreement"), the Debentures may be offered for sale severally and on a continuous basis by one or more of the Dealers, in each case, acting as agent of the Corporation or as principal. Where the Debentures are offered by the Dealer(s) as agent(s), the commissions payable by the Corporation in connection with sales of such Debentures shall be agreed from time to time between the Corporation and any such Dealer(s). Where the Debentures are purchased by the Dealer(s) as principal, the Debentures shall be purchased at such prices and with such commissions as may be agreed from time to time between the Corporation and any such Dealer(s) for resale to the public at prices to be negotiated with each purchaser. Such resale prices may vary during the distribution period and as between purchasers. Each Dealer's compensation will increase or decrease by the amount by which the aggregate price paid for Debentures by purchasers exceeds or is less than the price paid by the Dealer, when purchasing as principal, to the Corporation. The commissions payable in connection with sales of Debentures will be set forth in a pricing supplement which will be delivered to purchasers together with this prospectus. The Corporation may also offer the Debentures directly to potential purchasers pursuant to applicable statutory exemptions at prices and upon terms negotiated between the purchaser and the Corporation, in which case no commissions will be paid to the Dealers.

The obligations of a Dealer under the Dealer Agreement to purchase any particular issue of Debentures as principal may be terminated at its discretion upon the occurrence of certain stated events. Such events are set out in detail in the Dealer Agreement and include, but are not limited to: (i) an event which prevents or restricts the trading in the Debentures or any other securities of the Corporation or the distribution of the Debentures; (ii) the occurrence of any material change in the business, affairs, operations, assets, liabilities (contingent or otherwise), capital or ownership of Toronto Hydro taken as a whole; (iii) a public announcement by DBRS Limited ("DBRS") or Standard & Poor's ("S&P") that it has placed under surveillance or review, with possible negative or uncertain implications, its rating of any debt securities of the Corporation; and (iv) certain downgrades of the ratings assigned by S&P and DBRS to the long-term debt securities of the Corporation. In addition, the Corporation has agreed under the terms of the Dealer Agreement to reimburse the Dealers for certain expenses and to indemnify the Dealers against certain liabilities.

The Corporation and, if applicable, the Dealers, may reject any offer to purchase the Debentures in whole or in part. The Corporation also reserves the right to withdraw, cancel or modify the offering of the Debentures under this prospectus without notice.

In connection with any offering of Debentures, the Dealers may over-allot or effect transactions which stabilize or maintain the market price of the Debentures offered at a level above that which might otherwise prevail in the open market. Such transactions, if commenced, may be discontinued at any time. In addition, the Dealers may from time to time purchase and sell the Debentures in the secondary market but are not obliged to do so. Unless otherwise indicated in a prospectus supplement or pricing supplement, there is no market through which Debentures may be resold and purchasers may not be able to resell Debentures purchased under the prospectus. There can be no assurance that there will be a secondary market for the Debentures. The offering price and other terms for such sales in the secondary market may, from time to time, be varied by the Dealers.

The Debentures have not and will not be registered under the U.S. Securities Act, or any state securities laws, and may not be offered or sold within the United States or to U.S. Persons (as such term is defined in Regulation S under the U.S. Securities Act) unless registered under the U.S. Securities Act and applicable state securities laws or an exemption therefrom is available. Each of the Dealers will agree not to buy or offer to buy, to sell or offer to sell, or solicit any offer to buy any Debentures in the United States of America and its territories or possessions, or to, or for the account or benefit of, U.S. Persons, except to "qualified institutional buyers" in accordance with Rule 144A under the U.S. Securities Act. Debentures issued to qualified institutional buyers pursuant to Rule 144A under the U.S. Securities Act will be represented by definitive certificates and will be subject to certain restrictions on transfer set forth therein and in the supplemental indenture and will bear a legend regarding such restrictions as set forth in the supplemental indenture. This prospectus does not constitute an offer to sell or a solicitation of an offer to buy any of the Debentures in the United States. In addition, until 40 days after the commencement of the offering of an issue of Debentures, an offer or sale of that issue within the United States by any Dealer (whether or not participating in the offering) may violate the registration requirements of the U.S. Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A under the U.S. Securities Act or pursuant to an applicable exemption from the registration requirements of the U.S. Securities Act.

RELATIONSHIP BETWEEN THE CORPORATION AND THE DEALERS

The Dealers are wholly-owned subsidiaries of banks which are currently lenders to the Corporation under certain credit facilities, including: (i) a $1.0 billion revolving credit facility (the "THC Revolving Credit Facility"), of which up to $210 million is available in the form of letters of credit; (ii) a $100 million demand facility for the purpose of issuing letters of credit mainly to support LDC's prudential obligations with the IESO (the "Prudential Facility"); and (iii) a $20 million demand facility for the purpose of working capital management (the "Working Capital Facility"). As at March 31, 2023, no borrowings were outstanding under the THC Revolving Credit Facility, $1.7 million had been drawn under the Working Capital Facility and $57.6 million of letters of credit had been issued against the Prudential Facility. The Corporation also reserves capacity under the THC Revolving Credit Facility for amounts of commercial paper outstanding under its commercial paper program; hence, available borrowing under the THC Revolving Credit Facility is reduced by the amount of commercial paper outstanding at any point in time. As at March 31, 2023, the Corporation had $460 million of commercial paper outstanding. The THC Revolving Credit Facility, the Prudential Facility and the Working Capital Facility are unsecured debt obligations and the Corporation is, and has been since the establishment of such facilities, in compliance with the terms of the respective agreements governing such facilities. As of the date hereof, the Corporation has not been required to obtain a waiver in respect of any breach under such facilities and the Corporation's financial position has not adversely changed in a material manner since such facilities were put in place. Proceeds from the sale of the Debentures may be used to repay indebtedness to the bank affiliates of BMO Nesbitt Burns Inc., CIBC World Markets Inc., National Bank Financial Inc., RBC Dominion Securities Inc., Scotia Capital Inc. and TD Securities Inc. under the THC Revolving Credit Facility, the Prudential Facility or the Working Capital Facility or other bank facilities, as applicable. Accordingly, the Corporation may be considered to be a connected issuer of BMO Nesbitt Burns Inc., CIBC World Markets Inc., National Bank Financial Inc., RBC Dominion Securities Inc., Scotia Capital Inc. and TD Securities Inc. within the meaning of Canadian securities legislation. The decision to distribute the Debentures will be made by the Corporation and the terms and conditions of distribution will be determined through negotiations between the Corporation and the Dealers. The lenders will not have any involvement in such decision or determination. Other than payment of their portion of the commissions, if applicable, none of the proceeds of offerings of the Debentures will be applied, directly or indirectly, for the benefit of BMO Nesbitt Burns Inc., CIBC World Markets Inc., National Bank Financial Inc., RBC Dominion Securities Inc., Scotia Capital Inc. and TD Securities Inc.

RATINGS

The outstanding senior unsecured debentures of the Corporation have been assigned a rating of "A" with a stable trend by DBRS and "A" by S&P.

DBRS rates long-term debt instruments by rating categories ranging from a high of "AAA" to a low of "D". All rating categories other than AAA and D also contain the subcategories "(high)" and "(low)" to indicate relative standing within the major rating categories. The absence of either a "(high)" or "(low)" designation indicates the rating is in the middle of the category. An "A" rating is the third highest of the ten rating categories. Long-term debt instruments which are rated in the "A" category by DBRS are considered to be of good credit quality, with substantial capacity for the payment of financial obligations. Entities in the "A" category, however, may be vulnerable to future events, but qualifying negative factors are considered manageable.

S&P rates long-term debt instruments by rating categories ranging from a high of "AAA" to a low of "D". Ratings from "AA" to "CCC" may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within the major rating categories. An "A" rating is the third highest of the ten rating categories. Long-term debt instruments which are rated in the "A" category by S&P are considered somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher-rated categories; however, the obligor's capacity to meet its financial commitment on the obligation is still strong.

Credit ratings are intended to provide investors with an independent measure of the credit quality of an issue of securities. A rating is not a recommendation to buy, sell or hold securities including the Debentures and do not comment as to market price or suitability for a particular investor. There can be no assurance that the ratings will remain in effect for any given period of time or that the ratings will not be revised or withdrawn entirely by the rating agency at any time in the future if in their judgment circumstances so warrant.

The Corporation has made, and anticipates making, payments to each of DBRS and S&P pursuant to the ratings agency services agreements entered into with such credit rating organizations with respect to, among other things, the ratings assigned to the long-term debt of the Corporation, the Corporation's commercial paper rating, the Corporation's rating and ratings assigned to the Debentures of a particular series. There have been no other services provided by any of such credit rating organizations to the Corporation within the last two years.

EARNINGS COVERAGE RATIOS

The consolidated earnings of the Corporation before interest on the consolidated long-term debt of the Corporation and before income taxes was (i) $253.5 million for the twelve-month period ended December 31, 2022, and (ii) $252.6 million for the twelve-month period ended March 31, 2023. Interest expense on the consolidated long-term debt of the Corporation, without giving effect to the issue of any Debentures that may be distributed under this prospectus, was (i) $83.5 million for the twelve-month period ended December 31, 2022, and (ii) $87.2 million for the twelve-month period ended March 31, 2023.

The earnings coverage ratio for the Corporation for the twelve-month period ended December 31, 2022, based on audited information, without giving effect to the issue of any Debentures that may be distributed under this prospectus, was 3.04. In addition to long-term debt, the Corporation incurred short-term debt which has been disclosed in the consolidated financial statements of the Corporation for the years ended December 31, 2022 and 2021. If this short-term debt were classified as long-term debt the Corporation's earnings coverage ratio for the above period would have been 2.88. The earnings coverage ratio for the Corporation for the twelve-month period ended on March 31, 2023, based on unaudited information, without giving effect to the issue of any Debentures that may be distributed under this prospectus, was 2.90. In addition to long-term debt, the Corporation incurred short-term debt which has been disclosed in the unaudited condensed interim consolidated financial statements of the Corporation for March 31, 2023 and 2022. If this short-term debt were classified as long-term debt the Corporation's earnings coverage ratio for the above period would have been 2.66.

Information in respect of earnings coverage ratios will also be included in the applicable pricing supplement with respect to a specific issuance of Debentures.

CONSOLIDATED CAPITALIZATION

Except as described below, there have been no material changes in the Corporation's share or loan capital on a consolidated basis since March 31, 2023, being the date on which the Corporation's most recently completed quarterly financial period ended, which have not been disclosed in this prospectus or in the documents incorporated by reference herein.

Since March 31, 2023, the Corporation has issued $250 million of debt in the form of Senior Unsecured Debentures. See "Recent Developments".

DESCRIPTION OF THE DEBENTURES

The Debentures will be issued in one or more series under a trust indenture dated May 7, 2003 between the Corporation and BNY Trust Company of Canada (the "Trustee" which term shall include, unless the context requires otherwise, its successors), as amended from time to time and as supplemented from time to time by supplemental indentures (together, the "Indenture"). The Indenture permits the issuance of an unlimited principal amount of debentures of the Corporation in one or more series. The terms of each series of debentures issued pursuant to the Indenture will be specified in a supplemental indenture to the Indenture. A copy of the Indenture is available electronically under the Corporation's profile at www.sedar.com.

The specific terms of an offering of Debentures (including the aggregate principal amount of the Debentures being offered, the currency or currencies, the issue and delivery date, the form, the maturity date, the interest rate, the issue price, the interest payment date(s), any redemption or repayment provisions, any provisions entitling the Corporation to extend the maturity date of the Debentures, the name(s) of the Dealer(s) offering the Debentures, the commission payable to such Dealer(s), the method of distribution and the net proceeds to the Corporation) will be set forth in a pricing supplement which will be delivered to purchasers together with this prospectus. Unless otherwise indicated in a pricing supplement, the Debentures will not be listed on any securities exchange. The Corporation reserves the right to set forth in a pricing supplement specific terms of Debentures which are not within the parameters set forth in this prospectus.

The following is a summary of the material attributes of the Debentures. This summary does not purport to be complete. For a complete description of the Debentures, reference should be made to the Indenture. Certain capitalized terms used in this summary are defined below under "Definitions".

Term, Denomination and Currency

The Debentures will have a term to maturity of not less than one year and will be issuable in denominations of $1,000 and multiples thereof. The Debentures may be issued in Canadian dollars or any foreign currency or currency unit determined at the time of issue.

Interest

The Debentures will bear interest at fixed or floating rates as set out in the applicable pricing supplement to this prospectus.

Rank

The Debentures will be direct unsecured obligations of the Corporation and will rank *pari passu* with all other Debentures from time to time outstanding under the Indenture and, except as to sinking funds and to the extent prescribed by law, with all other unsecured and unsubordinated indebtedness of the Corporation from time to time outstanding, including, but not limited to, indebtedness of the Corporation under the THC Revolving Credit Facility, the Prudential Facility, the Working Capital Facility, its commercial paper program and debentures of every other series from time to time outstanding issued pursuant to the Indenture.

The Debentures will not be obligations of, and will not be guaranteed in any manner by, the City of Toronto.

Redemption

If so specified in the applicable pricing supplement, a series of Debentures may be redeemed, at the Corporation's option, in whole at any time or in part from time to time, prior to maturity, on not more than 60 and not less than 15 business days prior notice, or such other prior notice period as specified in the applicable pricing supplement and permitted by the Indenture, at the redemption price or at par, together in each case with accrued and unpaid interest to, but not including, the date fixed for redemption. The applicable pricing supplement will specify the redemption price (or the manner of calculating the redemption price), if any, for the series of Debentures.

If less than all Debentures of any series of Debentures are to be redeemed, the Debentures to be redeemed will be selected by the Trustee on a *pro rata* basis or by lot or such other means as the Trustee may deem equitable and expedient.

Purchase for Cancellation

The Corporation may, at any time, purchase Debentures for cancellation, in the open market, by tender or by private contract, at any price.

Covenants

Negative Pledge

The Corporation will not, and will not permit any Designated Subsidiary to, create, assume or suffer to exist any Security Interest, other than Permitted Encumbrances, on or over any of its assets (present or future) to secure any Obligation, unless at the same time it shall secure equally and rateably therewith all the debentures issued pursuant to the Indenture then outstanding.

Limitation on Funded Indebtedness

The Corporation will not, and will not permit any Designated Subsidiary to, directly or indirectly, issue, incur, assume or otherwise become liable for or in respect of any Funded Indebtedness unless, after giving effect thereto, Consolidated Funded Indebtedness would not exceed 75% of Total Consolidated Capitalization. This covenant will not operate to prevent the Corporation or a Designated Subsidiary from issuing, incurring, assuming or otherwise becoming liable for or in respect of any Inter-Company Indebtedness and Non-Speculative Financial Instrument Obligations. This covenant will operate to prevent the Corporation or a Designated Subsidiary from assigning any Inter-Company Indebtedness to a person other than the Corporation or a Designated Subsidiary.

Limitation on Designated Subsidiary Indebtedness

The Corporation will not permit a Designated Subsidiary to, directly or indirectly, issue, incur, assume or otherwise become liable for or in respect of any Indebtedness except:

(a) Inter-Company Indebtedness of the Designated Subsidiary;

(b) Non-Recourse Debt of the Designated Subsidiary;

(c) Non-Speculative Financial Instrument Obligations of the Designated Subsidiary;

(d) Permitted Capital Lease Obligations of the Designated Subsidiary;

(e) Prudential and Bilateral Credit Support Obligations of the Designated Subsidiary;

(f) Purchase Money Obligations of the Designated Subsidiary; and

(g) any other Indebtedness of the Designated Subsidiary (in addition to the Indebtedness referred to in paragraphs (a) to (f)) if, after giving effect to the Indebtedness, the aggregate amount of all Indebtedness of all Designated Subsidiaries permitted by this paragraph (g) only would not exceed 5% of Consolidated Net Worth.

For the purposes of this covenant, the assignment by the Corporation to a third party of Inter-Company Indebtedness owing by a Designated Subsidiary will be considered to be an incurrence of Indebtedness by such Designated Subsidiary.

Designation of Subsidiaries as Designated Subsidiaries

LDC is a Designated Subsidiary. The board of directors of the Corporation may designate a subsidiary of the Corporation in addition to LDC as a Designated Subsidiary if:

(a) at the time of and after giving effect to the designation, no Event of Default or event that, with the passing of time or the giving of notice or both, would constitute an Event of Default has occurred and is continuing;

(b) after giving effect to the designation, the Corporation would be entitled under the Indenture to issue Funded Indebtedness in the amount of at least $1.00; and

(c) none of the shares of the subsidiary is owned by another subsidiary of the Corporation that is not a Designated Subsidiary.

The board of directors of the Corporation may terminate the designation of a subsidiary of the Corporation other than LDC as a Designated Subsidiary if:

(a) at the time of and after giving effect to the termination, no Event of Default or event that, with the passing of time or the giving of notice or both, would constitute an Event of Default has occurred and is continuing;

(b) after giving effect to the termination, the Corporation would be entitled under the Indenture to issue Funded Indebtedness in the amount of at least $1.00; and

(c) the subsidiary does not own any Funded Indebtedness of the Corporation or any shares or Funded Indebtedness of any other Designated Subsidiary.

Restriction on Mergers and Dispositions

The Corporation will not, directly or indirectly through a Designated Subsidiary, enter into a transaction or series of transactions in which all or substantially all of the undertaking, property and assets of the Corporation and its Designated Subsidiaries determined on a consolidated basis would become the property of any other person, whether by way of reorganization, consolidation, amalgamation, arrangement, merger, transfer, sale, lease or otherwise, unless:

(a) the person is a corporation organized and existing under the laws of Canada or a province or territory thereof and expressly assumes, by a supplemental indenture satisfactory in form to the Trustee and its counsel and executed and delivered to the Trustee, all of the covenants and obligations of the Corporation under the Indenture and all debentures issued pursuant to the Indenture; and

(b) at the time of and after giving effect to the reorganization, consolidation, amalgamation, arrangement, merger, transfer, sale, lease or other transaction, no Event of Default or event that, with the passing of time or the giving of notice or both, would constitute an Event of Default has occurred and is continuing.

Events of Default

The following are Events of Default applicable to all series of debentures, including each series of Debentures, issued pursuant to the Indenture:

(a) failure to pay principal or premium (if any) on the debentures when due;

(b) failure to pay interest on the debentures when due if such failure continues for a period of 30 days;

(c) the sale, transfer, lease or other disposition of all or substantially all of the property and assets of the Corporation and its Designated Subsidiaries determined on a consolidated basis other than in accordance with the covenants described above under "Description of the Debentures – Covenants – Restriction on Mergers and Dispositions";

(d) failure to observe or perform any other covenant or condition contained in the Indenture if such failure continues for a period of 60 days after written notice thereof has been given to the Corporation by the Trustee or the holders of at least 25% in principal amount of the debentures of any affected series then outstanding;

(e) failure by the Corporation or any Material Subsidiary to pay principal, premium (if any) or interest due on any Indebtedness, the principal amount of which is more than $50 million in the aggregate, beyond the applicable grace period;

(f) failure by the Corporation or any Material Subsidiary to observe or perform any provision of any agreement under which Indebtedness is created if such failure has the effect of causing more than $50 million of such Indebtedness in the aggregate to become due and payable or to be required to be redeemed or repurchased before its stated maturity;

(g) the rendering by a court of competent jurisdiction of one or more judgments against the Corporation or any Material Subsidiary in an aggregate amount of more than $50 million if the judgments remain undischarged or unstayed for more than 30 days; and

(h) specified events of bankruptcy, insolvency or reorganization affecting the Corporation or any Material Subsidiary.

Default

If an Event of Default described in paragraphs (a) to (g) above occurs and is continuing, the Trustee or the holders of not less than 25% of the principal amount of debentures of a series of debentures issued pursuant to the Indenture then outstanding may declare the principal amount of, and the premium (if any) and accrued and unpaid interest on all debentures of that series then outstanding to be due and payable immediately.

If an Event of Default described in paragraph (h) above occurs and is continuing, the principal amount of and the premium (if any) and accrued and unpaid interest on all debentures issued pursuant to the Indenture then outstanding shall be due and payable immediately without any declaration or other action by the Trustee or the holders of the debentures.

Protection of Trustee

Subject to the provisions of the Indenture relating to the duties of the Trustee, if an event of default applicable to a series of debentures issued pursuant to the Indenture occurs and is continuing, the Trustee will be under no obligation to exercise any of its rights or powers under the Indenture at the request or direction of any holders of such debentures unless the Trustee is sufficiently indemnified in accordance with the provisions of the Indenture. Subject to the provisions of the Indenture providing for the indemnification of the Trustee, the holders of the requisite principal amount of such debentures will have the right to direct the time, method and place of conducting any proceedings for any remedy available to the Trustee or exercising any rights or powers of the Trustee in respect of such debentures.

Modification

The Indenture provides that certain rights, privileges, restrictions and conditions of debentures issued and outstanding under the Indenture may be modified if such modifications are authorized by extraordinary resolution.

The term "extraordinary resolution" is defined in the Indenture to mean:

(a) in the case of modifications which affect a particular series of debentures issued pursuant to the Indenture, a resolution passed by the affirmative votes of the holders of not less than 66⅔% in principal amount of debentures of that series then outstanding represented and voting at a meeting or an instrument in writing signed by the holders of not less than 66⅔% in principal amount of debentures of that series then outstanding; and

(b) in the case of modifications which affect all debentures issued pursuant to the Indenture, a resolution passed by the affirmative votes of the holders of not less than 66⅔% in principal amount of all debentures then outstanding represented and voting at a meeting or an instrument in writing signed by the holders of not less than 66⅔% in principal amount of all debentures then outstanding, treated in each case as a single class.

Defeasance

The Indenture requires the Trustee to release the Corporation from its obligations in respect of a series of debentures issued pursuant to the Indenture if specified conditions are met, including the deposit by the Corporation of cash or certain cash-equivalent securities for the payment of all principal and interest and any other amounts on the debentures of such series and the payment of the expenses of the Trustee.

Form, Transfer and Payment Mechanics

Except as described under "Plan of Distribution" or as set out in a pricing supplement, the Debentures will be represented by one or more global Debentures (collectively, the "Global Debenture") registered in the name of CDS Clearing and Depository Services Inc. or a successor thereof (the "Depository") or its nominee and held by or on behalf of the Depository as custodian for institutions (including the Dealers) which participate directly or indirectly in the Depository's book-entry only registration system ("BEO Participants"). Interests in the Debentures represented by the Global Debenture will be evidenced by credits to book-entry accounts of BEO Participants maintained with the Depository. Interests of the owners of Debentures represented by the Global Debenture will be evidenced by credits to accounts maintained with such BEO Participants on behalf of such owners.

Except as described under "Plan of Distribution" and as described below or as set out in a pricing supplement, purchasers of Debentures represented by the Global Debenture will not be entitled to certificates or other instruments from the Corporation or the Depository evidencing their ownership of Debentures. Beneficial owners of Debentures represented by the Global Debenture will not be shown on the registers maintained by the Trustee or the records maintained by the Depository but will be shown through book-entry accounts of BEO Participants. The rights of beneficial owners of Debentures represented by the Global Debenture may be exercised only through the BEO Participants with which such book-entry accounts are maintained. Purchasers of Debentures represented by the Global Debenture will receive a customer confirmation of purchase from the selling Dealer.

Purchasers of Debentures represented by the Global Debenture will receive definitive Debentures registered in their name only:

(a) if the Corporation determines that the Depository is no longer willing, able or qualified to discharge properly its responsibilities as holder of the Global Debenture in connection with the Debentures and the Corporation is unable to locate a qualified successor;

(b) if the Corporation elects to terminate the book-entry only registration of Debentures through the Depository; or

(c) in certain other specified circumstances.

Transfers of interests in Debentures represented by the Global Debenture will be effected through records maintained by the Depository or its nominee (with respect to interests of BEO Participants) and on the records of BEO Participants (with respect to interests of persons other than BEO Participants). Beneficial owners of Debentures represented by the Global Debenture who are not BEO Participants but who desire to transfer any interest in Debentures may do so only through BEO Participants.

Payments of interest and principal on the Global Debenture will be made to the Depository or its nominee as registered holder of the Global Debenture. As long as the Depository or its nominee is the registered owner of the Global Debenture, the Depository or its nominee will be considered the sole owner of the Global Debenture for the purposes of receiving payment on the Global Debenture and for all other purposes under the Indenture and the Global Debenture.

The Corporation expects that the Depository or its nominee, upon receipt of any payment of principal or interest in respect of the Global Debenture, will credit the accounts of BEO Participants, on the date principal or interest is payable, with payments in amounts proportionate to their respective interests in the principal amount of the Global Debenture as shown on the records of the Depository or its nominee. The Corporation also expects that payments of principal and interest by BEO Participants to the owners of interests in the Debentures represented by the Global Debenture held through accounts maintained with BEO Participants will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of BEO Participants. The responsibility and liability of the Corporation and the Trustee in respect of Debentures represented by the Global Debenture is limited to making payment of any principal and interest due on the Global Debenture to the Depository or its nominee.

Governing Law

The Indenture is and the Debentures will be governed by and construed in accordance with the laws of the Province of Ontario and the laws of Canada applicable therein.

Definitions

The following defined terms used in this section of the prospectus are defined in the Indenture substantially as set out below.

"**Capital Lease**" means, with respect to a person, a lease or other arrangement in respect of real or personal property that is required to be classified and accounted for as a capital lease on a balance sheet of the person in accordance with GAAP.

"**Capital Lease Obligation**" means, with respect to a person, the obligation of the person to pay rent or other amounts under a Capital Lease.

"**Consolidated Funded Indebtedness**" means the aggregate amount of all Funded Indebtedness of the Corporation and its Designated Subsidiaries determined on a consolidated basis in accordance with GAAP.

"**Consolidated Net Worth**" means the shareholder's equity of the Corporation and its Designated Subsidiaries determined on a consolidated basis in accordance with GAAP. For greater certainty, the shareholder's equity of a subsidiary of the Corporation that is not a Designated Subsidiary will not be included in making such determination.

"**Contingent Liability**" means, with respect to a person, any agreement, undertaking or arrangement by which the person guarantees, endorses or otherwise becomes or is contingently liable upon (by direct or indirect agreement, contingent or otherwise, to provide funds for payment, to supply funds to, or otherwise to invest in, a debtor, or otherwise to assure a creditor against loss) the obligation, debt or other liability of any other person (other than by endorsements of instruments in the course of collection), or guarantees the payment of dividends or other distributions upon the shares of any other person. The amount of any Contingent Liability will, subject to any limitation contained therein, be deemed to be the outstanding principal amount (or maximum principal amount, if larger) of the obligation, debt or other liability to which the Contingent Liability relates.

"**Deferred Purchase Price Obligation**" means, with respect to a person, an obligation issued, incurred or assumed by the person in connection with the acquisition by the person of an asset in respect of the deferred purchase price of the asset.

"**Designated Subsidiary**" means Toronto Hydro-Electric System Limited and, until such designation is terminated in accordance with the covenants described above under "Description of the Debentures – Covenants – Designation of Subsidiaries as Designated Subsidiaries", any other subsidiary of the Corporation designated as a Designated Subsidiary by the board of directors of the Corporation in accordance with the covenants described above under "Description of the Debentures – Covenants – Designation of Subsidiaries as Designated Subsidiaries".

"**Event of Default**" means an event of default under the Indenture.

"**Financial Instrument Obligations**" means, with respect to any person, obligations arising under:

(a) interest rate swap agreements, forward rate agreements, floor, cap or collar agreements, futures or options, insurance or other similar agreements or arrangements, or any combination thereof, entered into or guaranteed by the person where the subject matter thereof is interest rates or the price, value or amount payable thereunder is dependent or based upon interest rates or fluctuations in interest rates in effect from time to time (but excluding conventional floating rate indebtedness);

(b) currency swap agreements, cross-currency agreements, forward agreements, floor, cap or collar agreements, futures or options, insurance or other similar agreements or arrangements, or any combination thereof, entered into or guaranteed by the person where the subject matter thereof is currency exchange rates or the price, value or amount payable thereunder is dependent or based upon currency exchange rates or fluctuations in currency exchange rates in effect from time to time; and

(c) any agreement for the making or taking of any commodity (including coal, natural gas, oil and electricity), swap agreement, floor, cap or collar agreement or commodity future or option or other similar agreement or arrangement, or any combination thereof, entered into or guaranteed by the person where the subject matter thereof is any commodity or the price, value or amount payable thereunder is dependent or based upon the price or fluctuations in the price of any commodity;

or any other similar transaction, including any option to enter into any of the foregoing, or any combination of the foregoing, in each case to the extent of the net amount due or accruing due by the person under the obligations determined by marking the obligations to market in accordance with their terms.

"**Funded Indebtedness**" means Indebtedness (other than Subordinated Indebtedness) that, on the date of issue or assumption of liability, has a term to maturity (including any right of extension or renewal) greater than 18 months.

"**GAAP**" means, as at any date of determination:

(a) accounting principles which are generally recognized as being generally accepted in Canada, if the Corporation is then preparing its financial statements in accordance with such principles; or

(b) accounting principles which are generally recognized as being generally accepted in the United States, if the Corporation is then preparing its financial statements in accordance with such principles.

"**Indebtedness**" means, with respect to a person, without duplication:

(a) all obligations of the person for borrowed money, including obligations with respect to bankers' acceptances and contingent reimbursement obligations relating to letters of credit and other financial instruments;

(b) all Financial Instrument Obligations of the person;

(c) all Deferred Purchase Price Obligations of the person;

(d) all Capital Lease Obligations and Purchase Money Obligations of the person;

(e) all Prudential and Bilateral Credit Support Obligations of the person; and

(f) all Contingent Liabilities of the person with respect to obligations of another person if such obligations are of the type referred to in paragraphs (a) to (e).

"**Inter-Company Indebtedness**" means, with respect to the Corporation, indebtedness of the Corporation to a Designated Subsidiary and, with respect to a Designated Subsidiary, indebtedness of the Designated Subsidiary to the Corporation or to another Designated Subsidiary.

"**Material Subsidiary**" means a Designated Subsidiary and any other subsidiary of the Corporation:

(a) the total assets of which represent more than 10% of the total assets of the Corporation and its Designated Subsidiaries determined on a consolidated basis in accordance with GAAP; or

(b) the total revenues of which represent more than 10% of the total revenues of the Corporation and its Designated Subsidiaries determined on a consolidated basis in accordance with GAAP.

For greater certainty, the assets and revenues of a subsidiary of the Corporation that is not a Designated Subsidiary will not be included in making such determinations.

"**Non-Recourse Debt**" means, with respect to a person, any indebtedness incurred to finance the creation, development, construction or acquisition of an asset of the person (and any extensions, renewals or refunding of any such indebtedness) provided that the recourse of the obligee thereof against the person is limited in all circumstances (other than in respect of false or misleading representations or warranties) to the asset (including all rights and benefits related to or arising out of the asset).

"**Non-Speculative Financial Instrument Obligations**" means, with respect to a person, Financial Instrument Obligations of the person entered into by the person in the ordinary course of business for risk management purposes and not for speculative or capital raising purposes.

"**Obligations**" means, with respect to a person, without duplication, all items which, in accordance with GAAP, would be included as liabilities on the liability side of the balance sheet of the person and all Contingent Liabilities of the person.

"**Permitted Capital Lease Obligations**" means, with respect to a Designated Subsidiary, the obligation of the Designated Subsidiary to pay rent or other amounts under a Capital Lease, other than a Capital Lease entered into as part of a Sale and Leaseback Transaction unless:

(a) the property which is the subject matter of the Sale and Leaseback Transaction is recorded as an asset of the Designated Subsidiary on its non-consolidated financial statements in accordance with GAAP;

(b) the proceeds of sale of such property have been determined by the board of directors of the Designated Subsidiary to be at least equal to its fair value; and

(c) either of the following is applicable:

(1) at the time of the Sale and Leaseback Transaction, the cost of acquiring such property could have been financed pursuant to a Purchase Money Obligation; or

(2) within 120 days after completion of the Sale and Leaseback Transaction, the Designated Subsidiary reduces its Indebtedness, other than Indebtedness permitted pursuant to paragraphs (a) to (e) above under "Description of the Debentures – Covenants – Limitation on Designated Subsidiary Indebtedness", by an amount at least equal to the net proceeds from the Sale and Leaseback Transaction.

"**Permitted Encumbrances**" means:

(a) any Security Interest securing Obligations of a Designated Subsidiary that:

(1) exists before and at the time that the Designated Subsidiary becomes a Designated Subsidiary;

(2) was not created or assumed in contemplation or as a result of the Designated Subsidiary becoming a Designated Subsidiary; and

(3) immediately before and after the Designated Subsidiary becomes a Designated Subsidiary, does not attach to the assets or secure Obligations of the Corporation or any other Designated Subsidiary;

(b) any Purchase Money Mortgage or Capital Lease of the Corporation or a Designated Subsidiary;

(c) any Security Interest in an asset created or assumed by the Corporation or a Designated Subsidiary to secure Non-Recourse Debt of the Corporation or the Designated Subsidiary in respect of such asset;

(d) any Security Interest in cash, marketable debt securities or accounts receivable created or assumed by the Corporation or a Designated Subsidiary to or in favour of a bank or other lending institution to secure indebtedness of the Corporation or the Designated Subsidiary that is payable on demand or that, on the date of issue or assumption of liability, has a term to maturity (including any right of extension or renewal) of 18 months or less and that is incurred by the Corporation or the Designated Subsidiary in the ordinary course of business and for the purpose of carrying on the same;

(e) any Security Interest in cash or marketable debt securities created or assumed by the Corporation to secure Non-Speculative Financial Instrument Obligations of the Corporation if the aggregate value of such cash and marketable debt securities is not more than 105% of the aggregate amount of the Non-Speculative Financial Instrument Obligations;

(f) any Security Interest created or assumed by a Designated Subsidiary in favour of the Corporation or any Wholly-Owned Designated Subsidiary;

(g) any Security Interest in an asset acquired by the Corporation or a Designated Subsidiary that secures Obligations of any other person, whether or not such Obligations are assumed by the Corporation or the Designated Subsidiary provided that the Security Interest:

(1) exists before and at the time that the asset is acquired by the Corporation or the Designated Subsidiary;

(2) was not created or assumed in contemplation or as a result of the asset being acquired by the Corporation or the Designated Subsidiary; and

(3) immediately before and after the asset is acquired by the Corporation or the Designated Subsidiary, does not attach to the assets or secure Obligations of the Corporation or any other Designated Subsidiary;

(h) any Security Interest in cash or marketable debt securities in a sinking fund account established by the Corporation in support of a series of debentures issued pursuant to the Indenture;

(i) any Security Interest or deposit under workers' compensation, social security or similar legislation or in connection with bids, tenders, leases, contracts or expropriation proceedings or to secure public or statutory obligations, surety and appeal bonds or costs of litigation where required by law;

(j) any Security Interest or privilege imposed by law, such as builders', mechanics, material men's, carriers', warehousemen's and landlords' liens and privileges; or any Security Interest or privilege arising out of judgments or awards with respect to which the Corporation or a Designated Subsidiary at the time is prosecuting an appeal or proceedings for review and with respect to which it has secured a stay of execution pending such appeal or proceedings for review; or any Security Interest for taxes, assessments or governmental charges or levies not at the time due and delinquent or the validity of which is being contested at the time by the Corporation or a Designated Subsidiary in good faith; or any undetermined or inchoate Security Interest or privilege incidental to current operations that has not been filed pursuant to law against the Corporation or a Designated Subsidiary or that relates to obligations not due or delinquent; or the deposit of cash or securities in connection with any Security Interest or privilege referred to in this paragraph (j);

(k) any right reserved to or vested in any municipality or governmental or other public authority by the terms of any lease, licence, franchise, grant or permit held or acquired by the Corporation or a Designated Subsidiary, or by any statutory provision, to terminate the lease, licence, franchise, grant or permit or to purchase assets used in connection therewith or to require annual or other periodic payments as a condition of the continuance thereof;

(l) any Security Interest or right of distress reserved in or exercisable under any lease for rent to which the Corporation or a Designated Subsidiary is a party and for compliance with the terms of the lease;

(m) any Security Interest created or assumed by the Corporation or a Designated Subsidiary in favour of a public utility or any municipality or governmental or other public authority when required by the utility, municipality or other authority in connection with the operations of the Corporation or a Designated Subsidiary;

(n) any reservations, limitations, provisos and conditions expressed in original grants from the Crown;

(o) any minor encumbrances, such as easements, rights-of-way, servitudes or other similar rights in land granted to or reserved by other persons, rights-of-way for sewers, electric lines, telegraph and telephone lines, oil and natural gas pipelines and other similar purposes, or zoning or other restrictions applicable to the Corporation's or a Designated Subsidiary's use of real property, that do not in the aggregate materially detract from the value of the property or materially impair its use in the operation of the business of the Corporation or the Designated Subsidiary;

(p) any extension, renewal, alteration, substitution or replacement, in whole or in part, of a Security Interest referred to in paragraphs (a) to (o) provided that the Security Interest is limited to all or part of the same assets, the principal amount of the secured Obligations is not increased by that action, the term of the secured Obligations is not shortened and the terms and conditions of the Security Interest are no more restrictive in any material respect than the Security Interest so extended; and

(q) any other Security Interest created or assumed by the Corporation or a Designated Subsidiary (in addition to the Security Interests referred to in paragraphs (a) to (p)) if, after giving effect to the Security Interest, the aggregate amount of all Indebtedness secured by Security Interests permitted by this paragraph only does not at that time exceed 5% of Consolidated Net Worth.

"**Prudential and Bilateral Credit Support Obligations**" means, without duplication, the following obligations:

(a) all contingent reimbursement obligations of the Corporation relating to letters of credit and other financial instruments and all Contingent Liabilities of the Corporation in respect of Obligations of a subsidiary of the Corporation for the purchase or sale of electricity or natural gas; and

(b) all obligations of a Designated Subsidiary for borrowed money, including contingent reimbursement obligations relating to letters of credit and other financial instruments under credit facilities established for participants in the wholesale market for electricity administered by the Independent Electricity System Operator ("IESO"), in respect of the Obligations of the Designated Subsidiary for the purchase or sale of electricity or natural gas;

if such obligations were incurred or assumed to satisfy:

(x) prescribed prudential requirements in the wholesale market for electricity administered by the IESO;

(y) credit support arrangements required by electricity distribution companies under the terms of the Retail Settlement Code established by the Ontario Energy Board; or

(z) credit support requirements of counterparties under bilateral contracts or customers under purchase contracts.

"**Purchase Money Mortgage**" means, with respect to a person, any Security Interest created or assumed by the person to secure a Purchase Money Obligation provided that such Security Interest is limited to the asset financed by such Purchase Money Obligation and is created or assumed not later than three months after such Purchase Money Obligation is issued, incurred or assumed.

"**Purchase Money Obligation**" means, with respect to a person, indebtedness of the person issued, incurred or assumed to finance all or part of the cost of acquiring any asset for the person, other than shares, bonds and other securities, or constructing, installing or improving any real property or fixtures of the person, provided that the indebtedness is issued, incurred or assumed within twelve months after such acquisition, construction, installation or improvement, and includes any extension, renewal or refunding of such indebtedness so long as the principal amount thereof outstanding on the date of such extension, renewal or refunding is not increased.

"**Sale and Leaseback Transaction**" means, with respect to a person, a transaction or series of transactions pursuant to which the person sells or transfers real or personal property owned by the person to a third party and subsequently leases such real or personal property.

"**Security Interest**" means any security interest, assignment by way of security, mortgage, charge (whether fixed or floating), hypothec, pledge, lien or other encumbrance on or interest in property or assets that secures the payment of Obligations.

"**Subordinated Indebtedness**" means all indebtedness of the Corporation in respect of which, upon any distribution of assets of the Corporation upon any dissolution, winding-up, liquidation or reorganization of the Corporation (whether in bankruptcy, insolvency or receivership proceedings or upon an assignment for the benefit of creditors, or any other marshalling of the assets and liabilities of the Corporation or otherwise), the payment of all indebtedness and liabilities of the Corporation in connection with all debentures issued pursuant to the Indenture including principal, interest, fees and expenses, must be satisfied in full prior to any amount being applied to such indebtedness.

"**Total Consolidated Capitalization**" means, without duplication, the sum of:

(a) the principal amount of all Consolidated Funded Indebtedness;

(b) the principal amount of all Subordinated Indebtedness; and

(c) the Consolidated Net Worth;

in each case, as determined by the Corporation and its Designated Subsidiaries.

"**Wholly-Owned Designated Subsidiary**" means a Designated Subsidiary all of the outstanding shares in the capital of which are owned by the Corporation or one or more Wholly-Owned Designated Subsidiaries.

RISK FACTORS

An investment in the Debentures is subject to a variety of risks. Before deciding whether to invest in any Debentures, prospective purchasers of Debentures should consider carefully various risks, including the risk factors described below and contained in the documents incorporated or deemed to be incorporated by reference in this prospectus (including the sections entitled "Forward-Looking Information" and "Risk Factors" in the Corporation's AIF and the sections entitled "Forward-Looking Information" and "Risk Management and Risk Factors" in the Corporation's MD&A). This prospectus, including the documents incorporated or deemed to be incorporated by reference in this prospectus, does not describe all of the risks of an investment in the Debentures. Prospective purchasers should consult their own financial and legal advisors about the risks entailed by an investment in the Debentures and the suitability of such investment in light of their particular circumstances. Debentures will not be an appropriate investment for a prospective purchaser if the purchaser does not understand the terms of the Debentures or financial matters in general. A prospective purchaser should not purchase Debentures unless the prospective purchaser understands, and can bear, all of the investment risks related to the Debentures.

Rank of Debentures and Holding Company Structure

The Debentures will be direct unsecured obligations of the Corporation and will rank *pari passu* with all other unsecured and unsubordinated indebtedness of the Corporation from time to time outstanding, including, but not limited to, indebtedness of the Corporation under the THC Revolving Credit Facility, the Prudential Facility, the Working Capital Facility, its commercial paper program and debentures of every other series issued pursuant to the Indenture. A default by the Corporation under the Indenture will constitute an event of default under the THC Revolving Credit Facility and an event of default or repayment event under the Working Capital Facility and the Prudential Facility. There can be no assurance that sufficient funds would be available to the Corporation at the time of any such default to make any required payment under the Debentures.

The Corporation is a holding company and substantially all of its business activities are carried on by its subsidiaries. Therefore, the Corporation's ability to meet its financial obligations is dependent primarily upon the receipt of interest and principal, management fees, cash dividends and other payments from its subsidiaries, together with proceeds raised by the Corporation through the issuance of debt. The Corporation is wholly-owned by the City of Toronto and does not currently raise funds through the issuance of share capital to the public. The payment of dividends and the making of loans, advances and other payments to the Corporation by its subsidiaries may be subject to statutory or contractual restrictions, will depend on the earnings of the subsidiaries and will be subject to various business and other considerations.

The Corporation's subsidiaries are separate legal entities and have no legal obligation, contingent or otherwise, to pay any amount due under the Debentures or to make any amounts available to the Corporation, whether by dividends, interest, loans or other payments. In addition, these subsidiaries have not guaranteed the Debentures. Therefore, the Debentures will be effectively subordinated to the current and future liabilities, including trade payables and other indebtedness, of the Corporation's subsidiaries. The creditors of those subsidiaries will have the right to be paid before payment on the Debentures from any cash received or held by those subsidiaries. In the event of any bankruptcy, dissolution, liquidation or reorganization of one of those subsidiaries, following payment by the subsidiary of its liabilities, the subsidiary may not have sufficient assets to make payments to the Corporation in its capacity as an equityholder of such subsidiary.

Absence of Public Market for the Debentures

The Debentures will be newly issued securities for which, unless otherwise indicated in a prospectus supplement or pricing supplement, there is no existing trading market. The Corporation does not intend to list the Debentures on any Canadian, U.S. or other securities exchange. This may affect the pricing of the Debentures in the secondary market, the transparency and availability of trading prices, the liquidity of the Debentures and the extent of issuer regulation. There can be no assurance that a secondary market will develop for the Debentures or that any secondary market that does develop will continue. Accordingly, purchasers may not be able to sell the Debentures. In addition, if a trading market develops for the Debentures, the Debentures could trade at prices that may be higher or lower than their initial offering prices, depending on many factors, including prevailing interest rates, general economic conditions, the Corporation's results of operations and financial position, the ratings assigned to the Debentures and the Corporation's other debt securities and the markets for similar debt securities. If a holder of Debentures sells any Debentures before their maturity, such holder may have to do so at a substantial discount from the issue price, and as a result such holder may suffer substantial losses.

Ratings

The Corporation's perceived creditworthiness and changes in ratings of the Debentures may affect the market price or value and the liquidity of the Debentures. There is no assurance that any rating assigned to the Debentures issued hereunder will remain in effect for any given period of time or that any rating will not be lowered or withdrawn entirely by the relevant rating agency. A lowering or withdrawal of such rating may have an adverse effect on the market value of the Debentures.

Ratings may not reflect all risks associated with an investment in the Debentures. The ratings applied to the Debentures are an assessment of the Corporation's ability to pay its obligations. The ratings, however, may not reflect the potential impact of risks related to structure, market or other factors discussed in this prospectus or documents incorporated or deemed to be incorporated by reference in this prospectus on the value of the Debentures.

Additional Debt Financing

The Corporation expects to borrow to repay the Debentures when required to do so under the terms of the Debentures and to fund capital expenditures, including the renewal of LDC's electricity distribution assets. The Corporation's ability to arrange sufficient and cost-effective debt financing could be adversely affected by a number of factors, including financial market conditions and activity in the global capital markets, the regulatory and public policy environment in Ontario, the Corporation's business, operations, financial condition or prospects, compliance with covenants, the ratings assigned to the Corporation and its debt securities by credit rating agencies, the availability of the commercial paper market, the current timing of debt maturities and general economic conditions.

Interest Rate Risks

Prevailing interest rates will affect the market price or value of the Debentures. Generally, the market price or value of the Debentures will decline as prevailing interest rates for comparable debt instruments rise and increase as prevailing interest rates for comparable debt instruments decline. Fluctuations in interest rates may also impact borrowing costs of the Corporation which may adversely affect its creditworthiness.

Risks Associated with Floating Rate Debentures

The Debentures will bear interest at fixed or floating rates as set out in the applicable pricing supplement to this prospectus. Investments in floating rate Debentures entail risks not associated with investments in fixed rate Debentures. The resetting of the applicable rate on a floating rate Debenture may result in a lower interest rate as compared to a fixed rate Debenture issued at the same time. The applicable rate on a floating rate Debenture will fluctuate in accordance with fluctuations in the instrument or obligation or other measure on which the applicable rate is based, which in turn may fluctuate and be affected by a number of interrelated factors, including economic, financial and political events over which the Corporation has no control.

Foreign Currency Risks

An investment in Debentures that are denominated or payable in a currency other than Canadian dollars entails significant risks that are not associated with a similar investment in a security denominated in Canadian dollars. Such risks include, without limitation, the possibility of significant changes in rates of exchange between the Canadian dollar and the applicable foreign currency unit, the possibility of the imposition or modification of foreign exchange controls by either the Canadian or foreign governments and potential illiquidity in the secondary market. These risks generally depend on circumstances over which the Corporation has no control, including political events, government policy and macroeconomic conditions. These risks will vary depending upon the currency or currencies involved and, where appropriate, will be more fully described in a pricing supplement.

This prospectus does not describe all the risks of an investment in the Debentures denominated or payable other than in Canadian dollars and prospective investors should consult their own financial and legal advisor as to the risk entailed with respect thereto. Debentures denominated in other than Canadian dollars are not appropriate investments for investors who are unfamiliar with foreign currency transactions.

The Debentures will be governed by and construed in accordance with the laws of the Province of Ontario and the laws of Canada applicable therein. A judgment by a Canadian court relating to any Debenture may be awarded only in Canadian currency and such judgment may be based on a rate of exchange in existence on a day other than the day of payment.

Early Redemption of the Debentures

Depending on the terms of the Debentures, the Corporation may have the right to redeem them, or the Debentures may be automatically redeemable under some circumstances. If the Debentures are redeemed, depending on the market conditions at the time of redemption, a holder of Debentures may not be able to reinvest the redemption proceeds in a security with a comparable return.

Shareholder Direction

Council of the City of Toronto has adopted a shareholder direction (the "Shareholder Direction") which sets out certain corporate governance principles with respect to Toronto Hydro. The Shareholder Direction is summarized in the AIF under "Relationship with the City". The Shareholder Direction is not for the benefit of, or enforceable by, the holders of the Debentures.

ELIGIBILITY FOR INVESTMENT

In the opinion of Norton Rose Fulbright Canada LLP, counsel to the Corporation, and Blake, Cassels & Graydon LLP, counsel to the Dealers, unless otherwise specified in the applicable pricing supplement, the Debentures, if issued on the date hereof, would be, as at that date, qualified investments under the *Income Tax Act* (Canada) and the *Income Tax Regulations* (collectively, the "Tax Act") for a trust governed by a registered retirement savings plan ("RRSP"), registered retirement income fund ("RRIF"), registered education savings plan ("RESP"), registered disability savings plan ("RDSP"), deferred profit sharing plan (other than a trust governed by a deferred profit sharing plan to which the Corporation, or an employer with which the Corporation does not deal at arm's length within the meaning of the Tax Act, has made a contribution), first home savings account ("FHSA"), or a tax-free savings account ("TFSA").

Notwithstanding that the Debentures may be a qualified investment for a trust governed by an RRSP, RRIF, RESP, RDSP, TFSA, or FHSA, the annuitant under an RRSP or RRIF, the subscriber of an RESP or the holder of an RDSP, TFSA, or FHSA, as the case may be, will be subject to a penalty tax if such Debentures are a "prohibited investment" for the RRSP, RRIF, RESP, RDSP, FHSA, or TFSA within the meaning of the Tax Act. The Debentures will not be a prohibited investment for a trust governed by an RRSP, RRIF, RESP, RDSP, FHSA, or TFSA provided that the annuitant of the RRSP or RRIF, the subscriber of the RESP or the holder of the RDSP, FHSA, or TFSA, as the case may be, deals at "arm's length" (within the meaning of the Tax Act) with the Corporation and does not have a "significant interest" (within the meaning of the Tax Act) in the Corporation. Prospective purchasers are advised to consult their own advisors in this regard.

LEGAL MATTERS

Certain legal matters in connection with any offering hereunder will be passed on for the Corporation by Norton Rose Fulbright Canada LLP and for the Dealers by Blake, Cassels & Graydon LLP. As of the date hereof, the partners and associates of Norton Rose Fulbright Canada LLP and Blake, Cassels & Graydon LLP, respectively, beneficially own, directly or indirectly, less than one per cent of the securities of the Corporation or any associate or affiliate of the Corporation.

CERTAIN CANADIAN FEDERAL INCOME TAX CONSIDERATIONS

The applicable pricing supplement will describe certain principal Canadian federal income tax considerations generally applicable to an investor who is a resident of Canada of the acquisition, ownership and disposition of the Debentures offered thereunder.

AUDITORS, REGISTRAR AND TRANSFER AGENT

The auditor of the Corporation is KPMG LLP, Chartered Professional Accountants ("KPMG LLP"), at their office at Bay Adelaide Centre, 333 Bay Street, Suite 4600, Toronto, Ontario, M5H 2S5. KPMG LLP have been the auditors of the Corporation since April 12, 2011. KPMG LLP has advised that it is independent with respect to the Corporation within the meaning of the relevant rules and related interpretations prescribed by the relevant professional bodies in Canada and applicable legislation or regulation.

Registers for the registration and transfer of the Debentures issued in registered form are kept at the principal offices of the Trustee in the City of Toronto, located at BNY Trust Company of Canada, 1 York Street, 6th Floor, Toronto, Ontario M5J 0B6.

RELIANCE ON EXEMPTIONS FOR WELL-KNOWN SEASONED ISSUERS

The securities regulatory authorities in each of the provinces of Canada each independently adopted a series of substantively harmonized blanket orders, including Ontario Instrument 44-501 – *Exemption from Certain Prospectus Requirements for Well-known Seasoned Issuers (Interim Class Order)*, as extended pursuant to OSC Rule 44-502 - *Extension to Ontario Instrument 44-501 - Certain Prospectus Requirements for Well-Known Seasoned Issuers* (together with the equivalent local blanket orders in each of the other provinces of Canada, collectively, the "WKSI Blanket Orders"). This prospectus has been filed by the Corporation in reliance upon the WKSI Blanket Orders, which permit "well-known seasoned issuers", or "WKSIs", to file a final short form base shelf prospectus as the first public step in an offering, and exempt qualifying issuers from certain disclosure requirements relating to such final short form base shelf prospectus. As of the date hereof, the Corporation has determined that it qualifies as a "well-known seasoned issuer" under the WKSI Blanket Orders.

PURCHASERS' STATUTORY RIGHTS

Securities legislation in certain of the provinces of Canada provides purchasers with the right to withdraw from an agreement to purchase securities. This right may be exercised within two business days after receipt or deemed receipt of a prospectus and any amendment. In several of the provinces, the securities legislation further provides a purchaser with remedies for rescission or, in some jurisdictions, revision of the price or damages if the prospectus and any amendment contains a misrepresentation or is not delivered to the purchaser, provided that the remedies for rescission, revision of the price or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province for the particulars of these rights or consult with a legal advisor.

CERTIFICATE OF THE CORPORATION

Dated: July 27, 2023

This short form prospectus, together with the documents incorporated in this prospectus by reference, will, as of the date of the last supplement to this prospectus relating to the securities offered by this prospectus and the supplement(s), constitute full, true and plain disclosure of all material facts relating to the securities offered by this prospectus and the supplement(s) as required by the securities legislation of all the provinces of Canada.

(Signed) *Anthony Haines*
President and
Chief Executive Officer

(Signed) *Céline Arsenault*
Executive Vice-President and
Chief Financial Officer

On behalf of the Board of Directors

(Signed) *David McFadden*
Director and
Chair of the Board of Directors

(Signed) *Michael Nobrega*
Director

CERTIFICATE OF THE DEALERS

Dated: July 27, 2023

To the best of our knowledge, information and belief, this short form prospectus, together with the documents incorporated in this prospectus by reference will, as of the date of the last supplement to this prospectus relating to the securities offered by this prospectus and the supplement(s), constitute full, true and plain disclosure of all material facts relating to the securities offered by this prospectus and the supplement(s) as required by the securities legislation of all the provinces of Canada.

BMO NESBITT BURNS INC.

By: (Signed) *Andrew Macpherson*
Director

CIBC WORLD MARKETS INC.

By: (Signed) *Brian Pong*
Executive Director

NATIONAL BANK FINANCIAL INC.

By: (Signed) *John Carrique*
Managing Director

RBC DOMINION SECURITIES INC.

By: (Signed) *Robert Brown*
Managing Director

SCOTIA CAPITAL INC.

By: (Signed) *Kristi Pahapill*
Director

TD SECURITIES INC.

By: (Signed) *Mark Laing*
Managing Director

FIFTEENTH SUPPLEMENTAL TRUST INDENTURE

Made as of November 12, 2019

Between

TORONTO HYDRO CORPORATION
as issuer

and

BNY TRUST COMPANY OF CANADA
as trustee

Supplementing the Trust Indenture

made as of May 7, 2003

and

providing for the issue of

2.43% Senior Unsecured Debentures
due 2029 (Series 14)

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FIFTEENTH SUPPLEMENTAL TRUST INDENTURE

THIS FIFTEENTH SUPPLEMENTAL TRUST INDENTURE made as of November 12, 2019,

BETWEEN:

TORONTO HYDRO CORPORATION
a corporation incorporated under the laws of Ontario (the "**Corporation**")

and

BNY TRUST COMPANY OF CANADA
a trust company existing under the laws of Canada (the "**Trustee**")

RECITALS

(A) BNY Trust Company of Canada is the successor trustee of CIBC Mellon Trust Company;

(B) The Corporation has entered into a trust indenture with the Trustee made as of May 7, 2003, as amended, supplemented or restated from time to time (the "**Trust Indenture**") which provides for the issuance of one or more series of unsecured Debentures of the Corporation by way of Supplemental Indentures;

(C) The Corporation entered into a first supplemental trust indenture made as of May 7, 2003 for the purpose of providing for the issue of $225,000,000 aggregate principal amount of Series 1 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 1 Debentures;

(D) The Corporation entered into a second supplemental trust indenture made as of November 14, 2007 for the purpose of providing for the issue of $250,000,000 aggregate principal amount of Series 2 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 2 Debentures;

(E) The Corporation entered into a third supplemental trust indenture made as of November 12, 2009 for the purpose of providing for the issue of $250,000,000 aggregate principal amount of Series 3 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 3 Debentures;

(F) The City Note has been converted, in accordance with its terms, into the Series 4 Debentures and the Series 5 Debentures;

(G) The Corporation entered into a fourth supplemental trust indenture made as of April 1, 2010 for the purpose of providing for the issue of $245,057,000 aggregate principal amount of Series 4 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 4 Debentures;

(H) The Corporation entered into a fifth supplemental trust indenture made as of April 1, 2010 for the purpose of providing for the issue of $245,057,000 aggregate principal amount of Series 5 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 5 Debentures;

(I) The Corporation entered into a sixth supplemental trust indenture made as of May 20, 2010 for the purpose of providing for the issue of $200,000,000 aggregate principal amount of Series 6 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 6 Debentures;

(J) The Corporation entered into a seventh supplemental trust indenture made as of September 20, 2011 for the purpose of amending the definition of "GAAP" under the Trust Indenture;

(K) The Corporation entered into an eighth supplemental trust indenture made as of November 18, 2011 for the purpose of providing for the issue of $300,000,000 aggregate principal amount of Series 7 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 7 Debentures;

(L) The Corporation entered into a ninth supplemental trust indenture made as of April 9, 2013 for the purpose of providing for the issue of $250,000,000 aggregate principal amount of Series 8 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 8 Debentures;

(M) The Corporation entered into a tenth supplemental trust indenture made as of April 9, 2013 for the purpose of providing for the issue of $200,000,000 aggregate principal amount of Series 9 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 9 Debentures;

(N) The Corporation entered into an eleventh supplemental trust indenture made as of September 16, 2014 for the purpose of providing for the issue of $200,000,000 aggregate principal amount of Series 10 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 10 Debentures;

(O) The Corporation entered into a twelfth supplemental trust indenture made as of March 16, 2015 for the purpose of providing for the issue of $200,000,000 aggregate principal amount of Series 11 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 11 Debentures;

(P) The Corporation entered into an amended and restated tenth supplemental trust indenture made as of September 2, 2015 for the purpose of making changes and corrections which were required for curing and correcting certain ambiguities and omissions in connection with an issue of $45,000,000 additional aggregate principal amount of the Series 9 Debentures;

(Q) The Corporation entered into a thirteenth supplemental trust indenture made as of June 14, 2016 for the purpose of providing for the issue of $200,000,000 aggregate principal amount of Series 12 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 12 Debentures;

(R) The Corporation entered into a fourteenth supplemental trust indenture made as of November 14, 2017 for the purpose of providing for the issue of $200,000,000 aggregate principal amount of Series 13 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 13 Debentures; and

(S) This Fifteenth Supplemental Trust Indenture is entered into for the purpose of providing for the issue of $200,000,000 aggregate principal amount of Series 14 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 14 Debentures.

NOW THEREFORE THIS FIFTEENTH SUPPLEMENTAL TRUST INDENTURE WITNESSES and it is hereby covenanted, agreed and declared as follows:

Section 1 INTERPRETATION

1.1 To Be Read With Trust Indenture

This Fifteenth Supplemental Trust Indenture is a Supplemental Indenture as that term is used in the Trust Indenture. The Trust Indenture and this Fifteenth Supplemental Trust Indenture shall be read together and shall have effect as though all the provisions of both indentures were contained in one instrument.

1.2 Headings etc.

The division of this Fifteenth Supplemental Trust Indenture into Sections and clauses, the provision of a table of contents and the insertion of headings are for convenience of reference only and shall not affect the interpretation thereof. Unless the context otherwise requires, the expression "Section" and "Schedule" followed by a number, letter or combination of numbers and letters refer to the specified Section of or Schedule to this Fifteenth Supplemental Trust Indenture.

1.3 Definitions

All terms which are defined in the Trust Indenture and used but not defined in this Fifteenth Supplemental Trust Indenture shall have the meanings ascribed to them in the Trust Indenture, as such meanings may be amended or supplemented with respect to Series 14 Debentures by this Fifteenth Supplemental Trust Indenture. In the event of any inconsistency between the meaning given to a term in the Trust Indenture and the meaning given to the same term in this Fifteenth Supplemental Trust Indenture, the meaning given to the term in this Fifteenth Supplemental Trust Indenture shall prevail to the extent of the inconsistency. Subject to the foregoing, in this Fifteenth Supplemental Trust Indenture and in the Series 14 Debentures, the following terms have the following meanings:

(a) ***Canada Yield*** on any date means the yield to maturity on that date, compounded semi-annually, that a non-callable Government of Canada bond would carry if issued, in Canadian dollars in Canada, at 100% of its principal amount on that date with a term to maturity approximately equal to the remaining term to September 11, 2029 of the Series 14 Debentures, such yield to maturity being the average of the yields provided by two major Canadian investment dealers specified by the Corporation.

(b) ***Canada Yield Price*** means the amount equal to the net present value of all scheduled payments of interest (other than accrued and unpaid interest) and principal on the Series 14 Debentures that would have been payable September 11, 2029 if redemption had not been made, using a discount rate equal to the sum of the Canada Yield and 24 basis points, calculated at 10:00 a.m. (Toronto, Ontario time) three Business Days prior to the Redemption Date of the Series 14 Debentures.

(c) ***Series 14 Debentures*** means the 2.43% Senior Unsecured Debentures due 2029 (Series 14) referred to in Section 2.1.

(d) ***Series 14 Debentures Debt Account*** means the deposit account established in respect of the Series 14 Debentures pursuant to Section 8.2 of the Trust Indenture that is designated in writing by the Corporation to the Trustee as the "Series 14 Debentures Debt Account".

(e) ***Series 14 Debentures Interest Payment Date*** means June 11 and December 11 in each year that the Series 14 Debentures are outstanding, beginning June 11, 2020.

(f) ***Series 14 Debentures Interest Period*** means the period commencing on and including the later of the date of issue of the Series 14 Debentures and the immediately preceding Series 14 Debentures Interest Payment Date and ending on and including the day immediately preceding the next Series 14 Debentures Interest Payment Date to occur in respect of which interest is payable.

(g) ***Trust Indenture*** means the trust indenture made as of May 7, 2003 between the Corporation and the Trustee, as amended, supplemented or restated from time to time.

Section 2 SERIES 14 DEBENTURES

2.1 Creation and Designation

The Corporation is authorized in accordance with the Trust Indenture to issue under this Fifteenth Supplemental Trust Indenture, and hereby creates and issues, a series of debentures designated "2.43% Senior Unsecured Debentures due 2029 (Series 14)", having the terms set out in this Fifteenth Supplemental Trust Indenture.

2.2 No Limitation on Issue

The aggregate principal amount of Series 14 Debentures which may be issued under this Fifteenth Supplemental Trust Indenture including any supplement hereto is unlimited.

2.3 Date of Issue and Maturity

The Series 14 Debentures shall be dated November 12, 2019 (being the applicable date of issue) and will become due and payable, together with all accrued interest and unpaid interest thereon, on December 11, 2029 (being the applicable Stated Maturity).

2.4 Concerning Interest

(a) The Series 14 Debentures shall be issued in $1,000 principal amount denominations or integral multiples thereof and shall bear interest on the unpaid principal amount thereof at a rate of 2.43% per annum from and including their date of issue, payable semi-annually in arrears, in equal instalments (except in respect of the initial interest payment), on each Series 14 Debentures Interest Payment Date.

(b) Interest shall be payable in respect of each Series 14 Debentures Interest Period (after as well as before maturity, default and judgment, with interest on overdue interest at the same rate) on each Series 14 Debentures Interest Payment Date in accordance with Section 2.8 of the Trust Indenture, commencing on June 11, 2020 with an initial interest payment on June 11, 2020 of $14.08068495 per $1,000 principal amount of Series 14 Debentures.

2.5 Interest Payments

The Corporation shall make payments of interest on the Series 14 Debentures in accordance with the provisions of Section 2.8 of the Trust Indenture.

2.6 Payment of Amounts Due on Maturity

In accordance with Section 8.2 of the Trust Indenture, the Corporation will deposit to the Series 14 Debentures Debt Account all amounts required to be paid to the order of Holders of Series 14 Debentures on maturity, prior to 9:00 a.m. (Toronto, Ontario time), on the Stated Maturity of the Series 14 Debentures. The deposit of such funds will satisfy and discharge the liability of the Corporation for principal of, and any accrued and unpaid interest on, the Series 14 Debentures to the extent of the sum represented thereby (plus the amount of any taxes deducted or withheld).

2.7 Redemption and Purchase of Series 14 Debentures

(a) The Series 14 Debentures may be redeemed, at the Corporation's option when not in default under the Trust Indenture, in whole at any time or in part from time to time, prior to September 11, 2029, on not more than 60 Business Days and not less than 15 Business Days prior notice, at a price equal to the greater of the Canada Yield Price and par, together in each case with accrued and unpaid interest to (but excluding) the Redemption

Date and in each case otherwise in accordance with Sections 5.1, 5.2, 5.3 and 5.4 of the Trust Indenture.

(b) The Series 14 Debentures may be redeemed, at the Corporation's option when not in default under the Trust Indenture, in whole at any time or in part from time to time, on or after September 11, 2029, on not more than 60 Business Days and not less than 15 Business Days prior notice, at a price equal to 100% of the principal amount of the Series 14 Debentures outstanding, together with accrued and unpaid interest to (but excluding) the Redemption Date and otherwise in accordance with Sections 5.1, 5.2, 5.3 and 5.4 of the Trust Indenture.

(c) The Corporation will be entitled at any time when not in default under the Trust Indenture to purchase for cancellation all or any of the Series 14 Debentures in accordance with Section 5.5 of the Trust Indenture.

(d) The Series 14 Debentures will not be subject to repurchase pursuant to any sinking fund provisions.

2.8 Form of Series 14 Debentures

(a) Except as set out in 2.8(b) below, the Series 14 Debentures and the registration panel and the certificate of the Trustee endorsed thereon shall be issuable initially as one Global Debenture to be held by, or on behalf of, CDS as depository for its participants and registered in the name of CDS or its nominee. The Global Debenture shall be substantially in the form set out in Schedule 1 hereto with such appropriate additions, deletions, substitutions and variations as the Directors shall by resolution determine prior to the time of issue thereof and as the Trustee may approve and with such distinguishing letters and numbers as the Trustee may approve, with such approval in each case to be conclusively evidenced by the Trustee's certification of such Global Debenture.

(b) The Trustee understands and acknowledges that the Series 14 Debentures have not been and will not be registered under the United States Securities Act of 1933, as amended (the "U.S. Securities Act"). Each Series 14 Debenture originally issued in the United States or to a U.S. Person will be represented by a definitive certificate in the form set out in Schedule 2 hereto which definitive certificate, and each Series 14 Debenture certificate issued in exchange therefor or in substitution thereof, shall bear the following legend:

"THE SECURITIES REPRESENTED HEREBY HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE **"U.S. SECURITIES ACT**") OR UNDER ANY STATE SECURITIES LAWS. THE HOLDER HEREOF, BY PURCHASING SUCH SECURITIES, AGREES FOR THE BENEFIT OF THE CORPORATION THAT SUCH SECURITIES MAY BE OFFERED, SOLD OR OTHERWISE TRANSFERRED ONLY (A) TO THE CORPORATION, (B) OUTSIDE THE UNITED STATES IN ACCORDANCE WITH RULE 904 OF REGULATION S UNDER THE U.S. SECURITIES ACT, OR (C) INSIDE THE UNITED STATES IN ACCORDANCE WITH (1) RULE 144A UNDER THE U.S. SECURITIES ACT OR (2) RULE 144 UNDER THE U.S. SECURITIES ACT, IF AVAILABLE, OR (3) IN COMPLIANCE WITH CERTAIN OTHER PROCEDURES SATISFACTORY TO THE CORPORATION. A NEW CERTIFICATE, BEARING NO LEGEND, DELIVERY OF WHICH WILL CONSTITUTE "GOOD DELIVERY", MAY BE OBTAINED FROM BNY TRUST COMPANY OF CANADA UPON DELIVERY OF THIS CERTIFICATE AND A DULY EXECUTED DECLARATION, IN A FORM SATISFACTORY TO BNY TRUST COMPANY OF CANADA AND THE CORPORATION, TO THE EFFECT THAT THE SALE OF THE SECURITIES REPRESENTED HEREBY IS BEING MADE IN COMPLIANCE WITH RULE 904 OF REGULATION S UNDER THE U.S. SECURITIES ACT."

If any Series 14 Debentures are being sold or transferred outside the United States in compliance with the requirements of Rule 904 of Regulation S under the U.S Securities Act, the legend may be removed by providing a declaration to the Trustee to the following effect (or as the Corporation may prescribe from time to time),

> "The undersigned (A) acknowledges that the sale of the ________________ Debentures, represented by certificate numbers _______________ to which this declaration relates is being made in reliance on Rule 904 of Regulation S under the United States Securities Act of 1933, as amended (the "**U.S. Securities Act**") and (B) certifies that (1) it is not an "affiliate" (as defined in Rule 405 under the U.S. Securities Act) of Toronto Hydro Corporation, (2) the offer of such Debentures was not made to a person in the United States and at the time the buy order was originated, the buyer was outside the United States, or the seller and any person acting on its behalf reasonably believe that the buyer was outside the United States and (3) neither the seller, nor any affiliate of the seller, nor any person acting on its or their behalf engaged in any directed selling efforts in connection with the offer and sale of such Debentures. Terms used herein have the meanings given to them by Regulation S under the U.S. Securities Act."

If any Series 14 Debentures are being sold or transferred pursuant to Rule 144 of the U.S. Securities Act, the legend may be removed by delivery to the Trustee of a written opinion of Trustee Counsel (or counsel to the transferor satisfactory to the Trustee) to the effect that such legend is no longer required under applicable requirements of the U.S. Securities Act or state securities laws.

Prior to the issuance of Series 14 Debentures, the Corporation shall notify the Trustee, in writing, concerning which Series 14 Debentures are to be certificated and are to bear the legend described above. The Trustee will thereafter maintain a list of all registered holders from time to time of legended Series 14 Debentures.

2.9 Signatures on Series 14 Debentures

The Series 14 Debentures shall be signed in accordance with the provisions of Section 2.6 of the Trust Indenture.

2.10 Certification

(a) No Series 14 Debenture issued shall be obligatory or shall entitle the Holder of such Series 14 Debenture to the benefits of this Fifteenth Supplemental Trust Indenture until it has been certified by manual signature by or on behalf of the Trustee by execution of the certificate of the Trustee appended thereto substantially in the form set out in Schedule 1 hereto, or in some other form approved by the Trustee, whose approval shall be conclusively evidenced by the Trustee's execution of the certificate. Such certificate on any Series 14 Debenture shall be conclusive evidence that such Series 14 Debenture is duly issued and is a valid and binding obligation of the Corporation and that the Holder of such Series 14 Debenture is entitled to the benefits of the Trust Indenture, as supplemented by this Fifteenth Supplemental Trust Indenture, and such Series 14 Debenture.

(b) The certificate of the Trustee on any Series 14 Debenture shall not be construed as a representation or warranty by the Trustee as to the validity of this Fifteenth Supplemental Trust Indenture or of the Series 14 Debentures (except the due certification thereof and any other warranties implied by law) and the Trustee shall in no respect be liable or answerable for the use made of the Series 14 Debentures or any of them or the proceeds thereof.

2.11 Location of Register

With respect to the Series 14 Debentures, initially the Register referred to in Section 3.1 of the Trust Indenture shall be kept by the Trustee at the Corporate Trust Office and may thereafter be kept by the Trustee in such other place as the Corporation, with the approval of the Trustee, may designate.

2.12 Additional Amounts

The Corporation will not be required to pay an additional amount on the Series 14 Debentures in respect of any tax, assessment or government charge that is required by law to be withheld or deducted by it.

2.13 Trustees, etc.

The Trustee will be the Paying Agent and the Registrar for the Series 14 Debentures.

Section 3 MISCELLANEOUS

3.1 Acceptance of Trust

The Trustee accepts the trusts in this Fifteenth Supplemental Trust Indenture and agrees to carry out and discharge the same upon the terms and conditions set out in this Fifteenth Supplemental Trust Indenture and in accordance with the Trust Indenture.

3.2 Confirmation of Trust Indenture

The Trust Indenture as amended and supplemented by this Fifteenth Supplemental Trust Indenture is in all respects confirmed.

3.3 Counterparts

This Fifteenth Supplemental Trust Indenture may be executed in counterparts, each of which so executed shall be deemed to be original and such counterparts together shall constitute one and the same instrument.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF the parties hereto have executed this Fifteenth Supplemental Trust Indenture under the hands of their proper signatories in that behalf:

TORONTO HYDRO CORPORATION

By: ______________________

Name: Anthony Haines

Title: President and Chief Executive Officer

By: ______________________

Name: Aida Cipolla

Title: Executive Vice-President and Chief Financial Officer

[Trustee Signature Page Follows]

IN WITNESS WHEREOF the parties hereto have executed this Fifteenth Supplemental Trust Indenture under the hands of their proper signatories in that behalf:

BNY TRUST COMPANY OF CANADA

By: Wanda Camacho

Name: Wanda Camacho

Title: Authorized Signatory

Schedule 1 – FORM OF GLOBAL DEBENTURE-SERIES 14

This Debenture is a Global Debenture within the meaning of the Trust Indenture hereinafter referred to and is registered in the name of a Depository or a nominee thereof. Unless this Certificate is presented by an authorized representative of CDS Clearing and Depository Services Inc. ("CDS") to Toronto Hydro Corporation or its agent for registration of transfer, exchange or payment, and any certificate issued in respect thereof is registered in the name of CDS & CO., or in such other name as is requested by an authorized representative of CDS (and any payment is made to CDS & CO., or to such other entity as is requested by an authorized representative of CDS), ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL since the registered holder hereof, CDS & CO., has a property interest in the securities represented by this certificate herein and it is a violation of its rights for another person to hold, transfer or deal with this certificate.

[No. 14-000]

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TORONTO HYDRO CORPORATION
(Incorporated under the laws of Ontario)
2.43% SENIOR UNSECURED DEBENTURES DUE 2029 (SERIES 14)

ISIN CA89119ZAL72
CUSIP 89119ZAL7

Issue Date	November 12, 2019
Stated Maturity	December 11, 2029
Interest Rate Per Annum	2.43%
Interest Payment Dates	June 11 and December 11 in each year
Initial Interest Payment Date	June 11, 2020
Principal Amount	$●

TORONTO HYDRO CORPORATION (the "**Corporation**") for value received hereby promises to pay to the registered holder hereof on the Stated Maturity, or on such earlier date as the Principal Amount (or a portion thereof) may become due in accordance with the provisions of the Trust Indenture (as defined below), on presentation and surrender of this 2.43% Senior Unsecured Debenture due December 11, 2029 (Series 14) (the "**Series 14 Debenture**"), the Principal Amount in lawful money of Canada at the office of the Trustee (as defined below) at One York Street, 6th Floor, Toronto, Ontario M5J 0B6, and to pay interest on the Principal Amount at the Interest Rate Per Annum from and including the later of the Issue Date and the last Interest Payment Date on which interest has at that time most recently been paid on this Series 14 Debenture, at the address of the registered holder hereof appearing on the register of Series 14 Debentures maintained by or at the direction of the Trustee (the "**Register**"), in like money semi-annually in arrears, in equal instalments (except in respect of the initial interest payment) on the Interest Payment Dates in each year, and if the Corporation at any time defaults in the payment of any principal or interest, to pay interest on the amount in default at the same rate, in like money, on demand, at the address of the registered holder hereof appearing

on the Register. The Corporation will (i) on the day that is each Interest Payment Date, make payment by a wire transfer, or (ii) on the day that is two Business Days before each Interest Payment Date, forward or cause to be forwarded a cheque by same day delivery, to the address of the registered holder hereof appearing on the Register for interest due and payable to such holder on such Interest Payment Date, less any taxes required by law to be deducted or withheld, made payable to the order of such holder; provided, however that in case of payment of interest at maturity or redemption or as otherwise provided in the Trust Indenture, the time for payment of interest, less any such taxes, may at the option of the Corporation be determined based on the time that the certificate representing this Series 14 Debenture is presented and surrendered to the Trustee. The payment by such wire transfer or forwarding of such cheque (provided such cheque is paid on presentation) will satisfy and discharge the liability for interest upon such Series 14 Debenture to the extent of the sum represented thereby (plus the amount of any taxes deducted or withheld as aforesaid).

This Series 14 Debenture is one of an authorized issue of debentures designated as 2.43% Senior Unsecured Debentures due December 11, 2029 (Series 14) and forming the series of debentures created and issued under a fifteenth supplemental trust indenture made as of November 12, 2019 (the "**Fifteenth Supplemental Trust Indenture**") to a trust indenture (the "**Indenture**") made as of May 7, 2003, between the Corporation and BNY Trust Company of Canada (successor trustee of CIBC Mellon Trust Company) (the "**Trustee**"), as Trustee (the first supplemental trust indenture to the Indenture made as of May 7, 2003 between the Corporation and the Trustee, the second supplemental trust indenture to the Indenture made as of November 14, 2007 between the Corporation and the Trustee, the third supplemental trust indenture to the Indenture made as of November 12, 2009 between the Corporation and the Trustee, the fourth supplemental trust indenture to the Indenture made as of April 1, 2010 between the Corporation and the Trustee, the fifth supplemental trust indenture to the Indenture made as of April 1, 2010 between the Corporation and the Trustee, the sixth supplemental trust indenture to the Indenture made as of May 20, 2010 between the Corporation and the Trustee, the seventh supplemental trust indenture to the Indenture made as of September 20, 2011 between the Corporation and the Trustee, the eighth supplemental trust indenture to the Indenture made as of November 18, 2011 between the Corporation and the Trustee, the ninth supplemental trust indenture to the Indenture made as of April 9, 2013 between the Corporation and the Trustee, the tenth supplemental trust indenture to the Indenture made as of April 9, 2013 between the Corporation and the Trustee, the amended and restated tenth supplemental trust indenture to the Indenture made as of September 2, 2015 between the Corporation and the Trustee, the eleventh supplemental trust indenture to the Indenture made as of September 16, 2014 between the Corporation and the Trustee, the twelfth supplemental trust indenture to the Indenture made as of March 16, 2015 between the Corporation and the Trustee, the thirteenth supplemental trust indenture to the Indenture made as of June 14, 2016 between the Corporation and the Trustee, the fourteenth supplemental trust indenture to the Indenture made as of November 14, 2017 between the Corporation and the Trustee, and the Fifteenth Supplemental Trust Indenture to the Indenture (as amended, supplemented or restated from time to time) are collectively referred to herein as the "**Trust Indenture**"). The Trust Indenture specifies the terms and conditions upon which the Series 14 Debentures are created and issued or may be created, issued and held and the rights of the registered holders of the Series 14 Debentures, the Corporation and the Trustee, all of which terms and conditions are incorporated by reference in this Series 14 Debenture and to each of which the registered holder of this Series 14 Debenture, by acceptance hereof, agrees.

The aggregate principal amount of Series 14 Debentures that may be created and issued under the Trust Indenture is unlimited. Series 14 Debentures are issuable as fully registered debentures in denominations of $1,000 and integral multiples thereof and, subject to the terms and conditions set forth in the Trust Indenture, are issued as book entry only debentures.

The Series 14 Debentures are direct unsecured obligations of the Corporation and will rank equally with each other and with all other debentures of every other series from time to time issued and outstanding pursuant to the Trust Indenture and, except to the extent prescribed by law, with all other unsecured and unsubordinated Indebtedness of the Corporation.

This Series 14 Debenture is redeemable, at the option of the Corporation when not in default under the Trust Indenture, in whole at any time or in part from time to time, prior to September 11, 2029, subject to the terms and conditions set forth in the Trust Indenture, at a price equal to the greater of the Canada Yield Price (as defined in the Trust Indenture) and par, together with accrued and unpaid interest to (but excluding) the date fixed for redemption.

This Series 14 Debenture is redeemable, at the option of the Corporation when not in default under the Trust Indenture, in whole at any time or in part from time to time, on or after September 11, 2029, subject to the terms and conditions set forth in the Trust Indenture, at a price equal to 100% of the Principal Amount of the Series 14 Debentures outstanding, together with accrued and unpaid interest to (but excluding) the date fixed for redemption.

At any time when the Corporation is not in default under the Trust Indenture, the Corporation may, subject to the terms and conditions set forth in the Trust Indenture, purchase Series 14 Debentures in the open market, by tender or by private contract, at any price. Series 14 Debentures purchased by the Corporation shall be cancelled and not reissued.

The Principal Amount may become or be declared due before the Stated Maturity on the conditions, in the manner, with the effect and at the times set forth in the Trust Indenture.

The Trust Indenture contains provisions for the holding of meetings of registered holders of debentures issued by the Corporation pursuant to the Trust Indenture and the making of resolutions at such meetings and the creation of instruments in writing signed by the registered holders of a specified majority of debentures issued and outstanding pursuant to the Trust Indenture. Such resolutions and instruments will be binding on and may affect the rights and entitlements of all holders of debentures issued by the Corporation pursuant to the Trust Indenture, subject to the provisions of the Trust Indenture.

This Series 14 Debenture may be transferred only upon compliance with the conditions prescribed in the Trust Indenture relating to the transfer of a Global Debenture (as defined in the Trust Indenture), and upon compliance with such reasonable requirements as the Trustee or other registrar may prescribe, and such transfer shall be duly noted hereon by the Trustee or other registrar.

This Series 14 Debenture shall not become obligatory for any purpose until it shall have been certified by the manual signature of the Trustee in accordance with the Trust Indenture.

IN WITNESS WHEREOF TORONTO HYDRO CORPORATION has caused this Series 14 Debenture to be signed by its ● and its ●.

TORONTO HYDRO CORPORATION

By: ______________________________

Name: ●

Title: ●

By: ______________________________

Name: ●

Title: ●

(FORM OF TRUSTEE'S CERTIFICATE)

This Debenture is one of the Series 14 Debentures referred to in the Trust Indenture referred to above.

BNY TRUST COMPANY OF CANADA
Trustee

By: ______________________________
Authorized Signatory

(FORM OF REGISTRATION PANEL)

(NO WRITING HEREON EXCEPT BY THE TRUSTEE OR OTHER REGISTRAR)

TORONTO HYDRO CORPORATION
(Incorporated under the laws of Ontario)
2.43% SENIOR UNSECURED DEBENTURES DUE 2029 (SERIES 14)

ISIN CA89119ZAL72
CUSIP 89119ZAL7

DATE OF REGISTRATION	IN WHOSE NAME REGISTERED	AMOUNT OF DECREASE	AMOUNT OF INCREASE	AMOUNT OF SERIES 14 DEBENTURES OUTSTANDING FOLLOWING CHANGE	SIGNATURE OF TRUSTEE OR OTHER REGISTRAR

Schedule 2 – U.S. FORM OF DEFINITIVE DEBENTURE-SERIES 14

*THE SECURITIES REPRESENTED HEREBY HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "**U.S. SECURITIES ACT**") OR UNDER ANY STATE SECURITIES LAWS. THE HOLDER HEREOF, BY PURCHASING SUCH SECURITIES, AGREES FOR THE BENEFIT OF THE CORPORATION THAT SUCH SECURITIES MAY BE OFFERED, SOLD OR OTHERWISE TRANSFERRED ONLY (A) TO THE CORPORATION, (B) OUTSIDE THE UNITED STATES IN ACCORDANCE WITH RULE 904 OF REGULATION S UNDER THE U.S. SECURITIES ACT, OR (C) INSIDE THE UNITED STATES IN ACCORDANCE WITH (1) RULE 144A UNDER THE U.S. SECURITIES ACT OR (2) RULE 144 UNDER THE U.S. SECURITIES ACT, IF AVAILABLE, OR (3) IN COMPLIANCE WITH CERTAIN OTHER PROCEDURES SATISFACTORY TO THE CORPORATION. A NEW CERTIFICATE, BEARING NO LEGEND, DELIVERY OF WHICH WILL CONSTITUTE "GOOD DELIVERY", MAY BE OBTAINED FROM BNY TRUST COMPANY OF CANADA UPON DELIVERY OF THIS CERTIFICATE AND A DULY EXECUTED DECLARATION, IN A FORM SATISFACTORY TO BNY TRUST COMPANY OF CANADA AND THE CORPORATION, TO THE EFFECT THAT THE SALE OF THE SECURITIES REPRESENTED HEREBY IS BEING MADE IN COMPLIANCE WITH RULE 904 OF REGULATION S UNDER THE U.S. SECURITIES ACT.*

[No. 14-000]

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TORONTO HYDRO CORPORATION
(Incorporated under the laws of Ontario)
2.43% SENIOR UNSECURED DEBENTURES DUE 2029 (SERIES 14)

Issue Date	November 12, 2019
Stated Maturity	December 11, 2029
Interest Rate Per Annum	2.43%
Interest Payment Dates	June 11 and December 11 in each year
Initial Interest Payment Date	June 11, 2020
Principal Amount	$●

TORONTO HYDRO CORPORATION (the "**Corporation**") for value received hereby promises to pay to the registered holder hereof on the Stated Maturity, or on such earlier date as the Principal Amount (or a portion thereof) may become due in accordance with the provisions of the Trust Indenture (as defined below), on presentation and surrender of this 2.43% Senior Unsecured Debenture due December 11, 2029 (Series 14) (the "**Series 14 Debenture**"), the Principal Amount in lawful money of Canada at the office of the Trustee (as defined below) at One York Street, 6th Floor, Toronto, Ontario M5J 0B6, and to pay interest on the Principal Amount at the Interest Rate Per Annum from and including the later of the Issue Date and the last Interest Payment Date on which interest has at that time most recently been paid on this Series 14 Debenture, at the address of the registered holder hereof appearing on the register of Series 14 Debentures maintained by or at the direction of the Trustee (the "**Register**"), in like money semi-annually in arrears, in equal instalments (except in respect of the initial interest payment) on the Interest Payment Dates in each year, and if the Corporation at any time defaults in the payment of any principal or interest, to pay interest on the amount in default at the same rate, in like money, on demand, at the address of the registered holder hereof appearing

on the Register. The Corporation, on the day that is two Business Days before each Interest Payment Date, will forward or cause to be forwarded by same day delivery to the address of the registered holder hereof appearing on the Register a cheque for interest due and payable to such holder on such Interest Payment Date, less any taxes required by law to be deducted or withheld, made payable to the order of such holder; provided, however that in case of payment of interest at maturity or redemption or as otherwise provided in the Trust Indenture, the time for payment of interest, less any such taxes, may at the option of the Corporation be determined based on the time that the certificate representing this Series 14 Debenture is presented and surrendered to the Trustee. The forwarding of such cheque will satisfy and discharge the liability for interest upon such Series 14 Debenture to the extent of the sum represented thereby (plus the amount of any taxes deducted or withheld as aforesaid) unless such cheque is not paid on presentation.

This Series 14 Debenture is one of an authorized issue of debentures designated as 2.43% Senior Unsecured Debentures due December 11, 2029 (Series 14) and forming the series of debentures created and issued under a fifteenth supplemental trust indenture made as of November 12, 2019 (the “**Fifteenth Supplemental Trust Indenture**") to a trust indenture (the "**Indenture**") made as of May 7, 2003, between the Corporation and BNY Trust Company of Canada (successor trustee of CIBC Mellon Trust Company) (the "**Trustee**"), as Trustee (the first supplemental trust indenture to the Indenture made as of May 7, 2003 between the Corporation and the Trustee, the second supplemental trust indenture to the Indenture made as of November 14, 2007 between the Corporation and the Trustee, the third supplemental trust indenture to the Indenture made as of November 12, 2009 between the Corporation and the Trustee, the fourth supplemental trust indenture to the Indenture made as of April 1, 2010 between the Corporation and the Trustee, the fifth supplemental trust indenture to the Indenture made as of April 1, 2010 between the Corporation and the Trustee, the sixth supplemental trust indenture to the Indenture made as of May 20, 2010 between the Corporation and the Trustee, the seventh supplemental trust indenture to the Indenture made as of September 20, 2011 between the Corporation and the Trustee, the eighth supplemental trust indenture to the Indenture made as of November 18, 2011 between the Corporation and the Trustee, the ninth supplemental trust indenture to the Indenture made as of April 9, 2013 between the Corporation and the Trustee, the tenth supplemental trust indenture to the Indenture made as of April 9, 2013 between the Corporation and the Trustee, the amended and restated tenth supplemental trust indenture to the Indenture made as of September 2, 2015 between the Corporation and the Trustee, the eleventh supplemental trust indenture to the Indenture made as of September 16, 2014 between the Corporation and the Trustee, the twelfth supplemental trust indenture to the Indenture made as of March 16, 2015 between the Corporation and the Trustee, the thirteenth supplemental trust indenture to the Indenture made as of June 14, 2016 between the Corporation and the Trustee, the fourteenth supplemental trust indenture to the Indenture made as of November 14, 2017 between the Corporation and the Trustee, and the Fifteenth Supplemental Trust Indenture to the Indenture (as amended, supplemented or restated from time to time) are collectively referred to herein as the "**Trust Indenture**"). The Trust Indenture specifies the terms and conditions upon which the Series 14 Debentures are created and issued or may be created, issued and held and the rights of the registered holders of the Series 14 Debentures, the Corporation and the Trustee, all of which terms and conditions are incorporated by reference in this Series 14 Debenture and to each of which the registered holder of this Series 14 Debenture, by acceptance hereof, agrees.

The aggregate principal amount of Series 14 Debentures that may be created and issued under the Trust Indenture is unlimited. Series 14 Debentures are issuable as fully registered debentures in denominations of $1,000 and integral multiples thereof.

The Series 14 Debentures are direct unsecured obligations of the Corporation and will rank equally with each other and with all other debentures of every other series from time to time issued and outstanding pursuant to the Trust Indenture and, except to the extent prescribed by law, with all other unsecured and unsubordinated Indebtedness of the Corporation.

This Series 14 Debenture is redeemable, at the option of the Corporation when not in default under the Trust Indenture, in whole at any time or in part from time to time, prior to September 11, 2029, subject to the terms and conditions set forth in the Trust Indenture, at a price equal to the greater of the Canada Yield Price (as defined in the Trust Indenture) and par, together with accrued and unpaid interest to (but excluding) the date fixed for redemption.

This Series 14 Debenture is redeemable, at the option of the Corporation when not in default under the Trust Indenture, in whole at any time or in part from time to time, on or after September 11, 2029, subject to the terms and conditions set forth in the Trust Indenture, at a price equal to 100% of the Principal Amount of the Series 14 Debentures outstanding, together with accrued and unpaid interest to (but excluding) the date fixed for redemption.

At any time when the Corporation is not in default under the Trust Indenture, the Corporation may, subject to the terms and conditions set forth in the Trust Indenture, purchase Series 14 Debentures in the open market, by tender or by private contract, at any price. Series 14 Debentures purchased by the Corporation shall be cancelled and not reissued.

The Principal Amount may become or be declared due before the Stated Maturity on the conditions, in the manner, with the effect and at the times set forth in the Trust Indenture.

The Trust Indenture contains provisions for the holding of meetings of registered holders of debentures issued by the Corporation pursuant to the Trust Indenture and the making of resolutions at such meetings and the creation of instruments in writing signed by the registered holders of a specified majority of debentures issued and outstanding pursuant to the Trust Indenture. Such resolutions and instruments will be binding on and may affect the rights and entitlements of all holders of debentures issued by the Corporation pursuant to the Trust Indenture, subject to the provisions of the Trust Indenture.

This Series 14 Debenture may be transferred only upon compliance with the conditions prescribed in the Trust Indenture by the registered holder hereof or the holder's legal representative or attorney duly appointed by an instrument in form and execution satisfactory to the Trustee, and upon compliance with such reasonable requirements as the Trustee or other registrar may prescribe, and such transfer shall be duly noted hereon by the Trustee or other registrar.

This Series 14 Debenture shall not become obligatory for any purpose until it shall have been certified by the manual signature of the Trustee in accordance with the Trust Indenture.

IN WITNESS WHEREOF TORONTO HYDRO CORPORATION has caused this Series 14 Debenture to be signed by its ● and its ●.

TORONTO HYDRO CORPORATION

By: ______________________________

Name: ●

Title: ●

By: ______________________________

Name: ●

Title: ●

(FORM OF TRUSTEE'S CERTIFICATE)

This Debenture is one of the Series 14 Debentures referred to in the Trust Indenture referred to above.

BNY TRUST COMPANY OF CANADA
Trustee

By: ______________________________
Authorized Signatory

(FORM OF REGISTRATION PANEL)

(NO WRITING HEREON EXCEPT BY THE TRUSTEE OR OTHER REGISTRAR)

TORONTO HYDRO CORPORATION
(Incorporated under the laws of Ontario)
2.43% SENIOR UNSECURED DEBENTURES DUE 2029 (SERIES 14)

DATE OF REGISTRATION	IN WHOSE NAME REGISTERED	SIGNATURE OF TRUSTEE OR OTHER REGISTRAR

SIXTEENTH SUPPLEMENTAL TRUST INDENTURE

Made as of November 12, 2019

Between

TORONTO HYDRO CORPORATION
as issuer

and

BNY TRUST COMPANY OF CANADA
as trustee

Supplementing the Trust Indenture

made as of May 7, 2003

and

providing for the issue of

2.99% Senior Unsecured Debentures
due 2049 (Series 15)

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SIXTEENTH SUPPLEMENTAL TRUST INDENTURE

THIS SIXTEENTH SUPPLEMENTAL TRUST INDENTURE made as of November 12, 2019,

BETWEEN:

TORONTO HYDRO CORPORATION
a corporation incorporated under the laws of Ontario (the "**Corporation**")

and

BNY TRUST COMPANY OF CANADA
a trust company existing under the laws of Canada (the "**Trustee**")

RECITALS

(A) BNY Trust Company of Canada is the successor trustee of CIBC Mellon Trust Company;

(B) The Corporation has entered into a trust indenture with the Trustee made as of May 7, 2003, as amended, supplemented or restated from time to time (the "**Trust Indenture**") which provides for the issuance of one or more series of unsecured Debentures of the Corporation by way of Supplemental Indentures;

(C) The Corporation entered into a first supplemental trust indenture made as of May 7, 2003 for the purpose of providing for the issue of $225,000,000 aggregate principal amount of Series 1 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 1 Debentures;

(D) The Corporation entered into a second supplemental trust indenture made as of November 14, 2007 for the purpose of providing for the issue of $250,000,000 aggregate principal amount of Series 2 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 2 Debentures;

(E) The Corporation entered into a third supplemental trust indenture made as of November 12, 2009 for the purpose of providing for the issue of $250,000,000 aggregate principal amount of Series 3 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 3 Debentures;

(F) The City Note has been converted, in accordance with its terms, into the Series 4 Debentures and the Series 5 Debentures;

(G) The Corporation entered into a fourth supplemental trust indenture made as of April 1, 2010 for the purpose of providing for the issue of $245,057,000 aggregate principal amount of Series 4 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 4 Debentures;

(H) The Corporation entered into a fifth supplemental trust indenture made as of April 1, 2010 for the purpose of providing for the issue of $245,057,000 aggregate principal amount of Series 5 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 5 Debentures;

(I) The Corporation entered into a sixth supplemental trust indenture made as of May 20, 2010 for the purpose of providing for the issue of $200,000,000 aggregate principal amount of Series 6 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 6 Debentures;

(J) The Corporation entered into a seventh supplemental trust indenture made as of September 20, 2011 for the purpose of amending the definition of "GAAP" under the Trust Indenture;

(K) The Corporation entered into an eighth supplemental trust indenture made as of November 18, 2011 for the purpose of providing for the issue of $300,000,000 aggregate principal amount of Series 7 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 7 Debentures;

(L) The Corporation entered into a ninth supplemental trust indenture made as of April 9, 2013 for the purpose of providing for the issue of $250,000,000 aggregate principal amount of Series 8 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 8 Debentures;

(M) The Corporation entered into a tenth supplemental trust indenture made as of April 9, 2013 for the purpose of providing for the issue of $200,000,000 aggregate principal amount of Series 9 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 9 Debentures;

(N) The Corporation entered into an eleventh supplemental trust indenture made as of September 16, 2014 for the purpose of providing for the issue of $200,000,000 aggregate principal amount of Series 10 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 10 Debentures;

(O) The Corporation entered into a twelfth supplemental trust indenture made as of March 16, 2015 for the purpose of providing for the issue of $200,000,000 aggregate principal amount of Series 11 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 11 Debentures;

(P) The Corporation entered into an amended and restated tenth supplemental trust indenture made as of September 2, 2015 for the purpose of making changes and corrections which were required for curing and correcting certain ambiguities and omissions in connection with an issue of $45,000,000 additional aggregate principal amount of the Series 9 Debentures;

(Q) The Corporation entered into a thirteenth supplemental trust indenture made as of June 14, 2016 for the purpose of providing for the issue of $200,000,000 aggregate principal amount of Series 12 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 12 Debentures;

(R) The Corporation entered into a fourteenth supplemental trust indenture made as of November 14, 2017 for the purpose of providing for the issue of $200,000,000 aggregate principal amount of Series 13 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 13 Debentures;

(S) The Corporation entered into a fifteenth supplemental trust indenture made as of November 12, 2019 for the purpose of providing for the issue of $200,000,000 aggregate principal amount of Series 14 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 14 Debentures; and

(T) This Sixteenth Supplemental Trust Indenture is entered into for the purpose of providing for the issue of $200,000,000 aggregate principal amount of Series 15 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 15 Debentures.

NOW THEREFORE THIS SIXTEENTH SUPPLEMENTAL TRUST INDENTURE WITNESSES and it is hereby covenanted, agreed and declared as follows:

Section 1 INTERPRETATION

1.1 To Be Read With Trust Indenture

This Sixteenth Supplemental Trust Indenture is a Supplemental Indenture as that term is used in the Trust Indenture. The Trust Indenture and this Sixteenth Supplemental Trust Indenture shall be read together and shall have effect as though all the provisions of both indentures were contained in one instrument.

1.2 Headings etc.

The division of this Sixteenth Supplemental Trust Indenture into Sections and clauses, the provision of a table of contents and the insertion of headings are for convenience of reference only and shall not affect the interpretation thereof. Unless the context otherwise requires, the expression "Section" and "Schedule" followed by a number, letter or combination of numbers and letters refer to the specified Section of or Schedule to this Sixteenth Supplemental Trust Indenture.

1.3 Definitions

All terms which are defined in the Trust Indenture and used but not defined in this Sixteenth Supplemental Trust Indenture shall have the meanings ascribed to them in the Trust Indenture, as such meanings may be amended or supplemented with respect to Series 15 Debentures by this Sixteenth Supplemental Trust Indenture. In the event of any inconsistency between the meaning given to a term in the Trust Indenture and the meaning given to the same term in this Sixteenth Supplemental Trust Indenture, the meaning given to the term in this Sixteenth Supplemental Trust Indenture shall prevail to the extent of the inconsistency. Subject to the foregoing, in this Sixteenth Supplemental Trust Indenture and in the Series 15 Debentures, the following terms have the following meanings:

(a) ***Canada Yield*** on any date means the yield to maturity on that date, compounded semi-annually, that a non-callable Government of Canada bond would carry if issued, in Canadian dollars in Canada, at 100% of its principal amount on that date with a term to maturity approximately equal to the remaining term to June 10, 2049 of the Series 15 Debentures, such yield to maturity being the average of the yields provided by two major Canadian investment dealers specified by the Corporation.

(b) ***Canada Yield Price*** means the amount equal to the net present value of all scheduled payments of interest (other than accrued and unpaid interest) and principal on the Series 15 Debentures that would have been payable to June 10, 2049 if redemption had not been made, using a discount rate equal to the sum of the Canada Yield and 34 basis points, calculated at 10:00 a.m. (Toronto, Ontario time) three Business Days prior to the Redemption Date of the Series 15 Debentures.

(c) ***Series 15 Debentures*** means the 2.99% Senior Unsecured Debentures due 2049 (Series 15) referred to in Section 2.1.

(d) ***Series 15 Debentures Debt Account*** means the deposit account established in respect of the Series 15 Debentures pursuant to Section 8.2 of the Trust Indenture that is designated in writing by the Corporation to the Trustee as the "Series 15 Debentures Debt Account".

(e) ***Series 15 Debentures Interest Payment Date*** means June 10 and December 10 in each year that the Series 15 Debentures are outstanding, beginning June 10, 2020.

(f) ***Series 15 Debentures Interest Period*** means the period commencing on and including the later of the date of issue of the Series 15 Debentures and the immediately preceding Series 15 Debentures Interest Payment Date and ending on and including the day immediately preceding the next Series 15 Debentures Interest Payment Date to occur in respect of which interest is payable.

(g) ***Trust Indenture*** means the trust indenture made as of May 7, 2003 between the Corporation and the Trustee, as amended, supplemented or restated from time to time.

Section 2 SERIES 15 DEBENTURES

2.1 Creation and Designation

The Corporation is authorized in accordance with the Trust Indenture to issue under this Sixteenth Supplemental Trust Indenture, and hereby creates and issues, a series of debentures designated "2.99% Senior Unsecured Debentures due 2049 (Series 15)", having the terms set out in this Sixteenth Supplemental Trust Indenture.

2.2 No Limitation on Issue

The aggregate principal amount of Series 15 Debentures which may be issued under this Sixteenth Supplemental Trust Indenture including any supplement hereto is unlimited.

2.3 Date of Issue and Maturity

The Series 15 Debentures shall be dated November 12, 2019 (being the applicable date of issue) and will become due and payable, together with all accrued interest and unpaid interest thereon, on December 10, 2049 (being the applicable Stated Maturity).

2.4 Concerning Interest

(a) The Series 15 Debentures shall be issued in $1,000 principal amount denominations or integral multiples thereof and shall bear interest on the unpaid principal amount thereof at a rate of 2.99% per annum from and including their date of issue, payable semi-annually in arrears, in equal instalments (except in respect of the initial interest payment), on each Series 15 Debentures Interest Payment Date.

(b) Interest shall be payable in respect of each Series 15 Debentures Interest Period (after as well as before maturity, default and judgment, with interest on overdue interest at the same rate) on each Series 15 Debentures Interest Payment Date in accordance with Section 2.8 of the Trust Indenture, commencing on June 10, 2020 with an initial interest payment on June 10, 2020 of $17.24369865 per $1,000 principal amount of Series 15 Debentures.

2.5 Interest Payments

The Corporation shall make payments of interest on the Series 15 Debentures in accordance with the provisions of Section 2.8 of the Trust Indenture.

2.6 Payment of Amounts Due on Maturity

In accordance with Section 8.2 of the Trust Indenture, the Corporation will deposit to the Series 15 Debentures Debt Account all amounts required to be paid to the order of Holders of Series 15 Debentures on maturity, prior to 9:00 a.m. (Toronto, Ontario time), on the Stated Maturity of the Series 15 Debentures. The deposit of such funds will satisfy and discharge the liability of the Corporation for principal of, and any accrued and unpaid interest on, the Series 15 Debentures to the extent of the sum represented thereby (plus the amount of any taxes deducted or withheld).

2.7 Redemption and Purchase of Series 15 Debentures

(a) The Series 15 Debentures may be redeemed, at the Corporation's option when not in default under the Trust Indenture, in whole at any time or in part from time to time, prior to June 10, 2049, on not more than 60 Business Days and not less than 15 Business Days prior notice, at a price equal to the greater of the Canada Yield Price and par, together in each case with accrued and unpaid interest to (but excluding) the Redemption Date and in each case otherwise in accordance with Sections 5.1, 5.2, 5.3 and 5.4 of the Trust Indenture.

(b) The Series 15 Debentures may be redeemed, at the Corporation's option when not in default under the Trust Indenture, in whole at any time or in part from time to time, on or after June 10, 2049, on not more than 60 Business Days and not less than 15 Business Days prior notice, at a price equal to 100% of the principal amount of the Series 15 Debentures outstanding, together with accrued and unpaid interest to (but excluding) the Redemption Date and otherwise in accordance with Sections 5.1, 5.2, 5.3 and 5.4 of the Trust Indenture.

(c) The Corporation will be entitled at any time when not in default under the Trust Indenture to purchase for cancellation all or any of the Series 15 Debentures in accordance with Section 5.5 of the Trust Indenture.

(d) The Series 15 Debentures will not be subject to repurchase pursuant to any sinking fund provisions.

2.8 Form of Series 15 Debentures

(a) Except as set out in 2.8(b) below, the Series 15 Debentures and the registration panel and the certificate of the Trustee endorsed thereon shall be issuable initially as one Global Debenture to be held by, or on behalf of, CDS as depository for its participants and registered in the name of CDS or its nominee. The Global Debenture shall be substantially in the form set out in Schedule 1 hereto with such appropriate additions, deletions, substitutions and variations as the Directors shall by resolution determine prior to the time of issue thereof and as the Trustee may approve and with such distinguishing letters and numbers as the Trustee may approve, with such approval in each case to be conclusively evidenced by the Trustee's certification of such Global Debenture.

(b) The Trustee understands and acknowledges that the Series 15 Debentures have not been and will not be registered under the United States Securities Act of 1933, as amended (the "U.S. Securities Act"). Each Series 15 Debenture originally issued in the United States or to a U.S. Person will be represented by a definitive certificate in the form set out in Schedule 2 hereto which definitive certificate, and each Series 15 Debenture certificate issued in exchange therefor or in substitution thereof, shall bear the following legend:

"THE SECURITIES REPRESENTED HEREBY HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE **"U.S. SECURITIES ACT**") OR UNDER ANY STATE SECURITIES LAWS. THE HOLDER HEREOF, BY PURCHASING SUCH SECURITIES, AGREES FOR THE BENEFIT OF THE CORPORATION THAT SUCH SECURITIES MAY BE OFFERED, SOLD OR OTHERWISE TRANSFERRED ONLY (A) TO THE CORPORATION, (B) OUTSIDE THE UNITED STATES IN ACCORDANCE WITH RULE 904 OF REGULATION S UNDER THE U.S. SECURITIES ACT, OR (C) INSIDE THE UNITED STATES IN ACCORDANCE WITH (1) RULE 144A UNDER THE U.S. SECURITIES ACT OR (2) RULE 144 UNDER THE U.S. SECURITIES ACT, IF AVAILABLE, OR (3) IN COMPLIANCE WITH CERTAIN OTHER PROCEDURES SATISFACTORY TO THE CORPORATION. A NEW CERTIFICATE, BEARING NO LEGEND, DELIVERY OF WHICH WILL CONSTITUTE "GOOD DELIVERY", MAY BE

OBTAINED FROM BNY TRUST COMPANY OF CANADA UPON DELIVERY OF THIS CERTIFICATE AND A DULY EXECUTED DECLARATION, IN A FORM SATISFACTORY TO BNY TRUST COMPANY OF CANADA AND THE CORPORATION, TO THE EFFECT THAT THE SALE OF THE SECURITIES REPRESENTED HEREBY IS BEING MADE IN COMPLIANCE WITH RULE 904 OF REGULATION S UNDER THE U.S. SECURITIES ACT."

If any Series 15 Debentures are being sold or transferred outside the United States in compliance with the requirements of Rule 904 of Regulation S under the U.S Securities Act, the legend may be removed by providing a declaration to the Trustee to the following effect (or as the Corporation may prescribe from time to time),

"The undersigned (A) acknowledges that the sale of the ________________ Debentures, represented by certificate numbers _______________ to which this declaration relates is being made in reliance on Rule 904 of Regulation S under the United States Securities Act of 1933, as amended (the "**U.S. Securities Act**") and (B) certifies that (1) it is not an "affiliate" (as defined in Rule 405 under the U.S. Securities Act) of Toronto Hydro Corporation, (2) the offer of such Debentures was not made to a person in the United States and at the time the buy order was originated, the buyer was outside the United States, or the seller and any person acting on its behalf reasonably believe that the buyer was outside the United States and (3) neither the seller, nor any affiliate of the seller, nor any person acting on its or their behalf engaged in any directed selling efforts in connection with the offer and sale of such Debentures. Terms used herein have the meanings given to them by Regulation S under the U.S. Securities Act."

If any Series 15 Debentures are being sold or transferred pursuant to Rule 144 of the U.S. Securities Act, the legend may be removed by delivery to the Trustee of a written opinion of Trustee Counsel (or counsel to the transferor satisfactory to the Trustee) to the effect that such legend is no longer required under applicable requirements of the U.S. Securities Act or state securities laws.

Prior to the issuance of Series 15 Debentures, the Corporation shall notify the Trustee, in writing, concerning which Series 15 Debentures are to be certificated and are to bear the legend described above. The Trustee will thereafter maintain a list of all registered holders from time to time of legended Series 15 Debentures.

2.9 Signatures on Series 15 Debentures

The Series 15 Debentures shall be signed in accordance with the provisions of Section 2.6 of the Trust Indenture.

2.10 Certification

(a) No Series 15 Debenture issued shall be obligatory or shall entitle the Holder of such Series 15 Debenture to the benefits of this Sixteenth Supplemental Trust Indenture until it has been certified by manual signature by or on behalf of the Trustee by execution of the certificate of the Trustee appended thereto substantially in the form set out in Schedule 1 hereto, or in some other form approved by the Trustee, whose approval shall be conclusively evidenced by the Trustee's execution of the certificate. Such certificate on any Series 15 Debenture shall be conclusive evidence that such Series 15 Debenture is duly issued and is a valid and binding obligation of the Corporation and that the Holder of such Series 15 Debenture is entitled to the benefits of the Trust Indenture, as supplemented by this Sixteenth Supplemental Trust Indenture, and such Series 15 Debenture.

(b) The certificate of the Trustee on any Series 15 Debenture shall not be construed as a representation or warranty by the Trustee as to the validity of this Sixteenth Supplemental Trust Indenture or of the Series 15 Debentures (except the due certification thereof and any other warranties implied by law) and the Trustee shall in no respect be liable or answerable for the use made of the Series 15 Debentures or any of them or the proceeds thereof.

2.11 Location of Register

With respect to the Series 15 Debentures, initially the Register referred to in Section 3.1 of the Trust Indenture shall be kept by the Trustee at the Corporate Trust Office and may thereafter be kept by the Trustee in such other place as the Corporation, with the approval of the Trustee, may designate.

2.12 Additional Amounts

The Corporation will not be required to pay an additional amount on the Series 15 Debentures in respect of any tax, assessment or government charge that is required by law to be withheld or deducted by it.

2.13 Trustees, etc.

The Trustee will be the Paying Agent and the Registrar for the Series 15 Debentures.

Section 3 MISCELLANEOUS

3.1 Acceptance of Trust

The Trustee accepts the trusts in this Sixteenth Supplemental Trust Indenture and agrees to carry out and discharge the same upon the terms and conditions set out in this Sixteenth Supplemental Trust Indenture and in accordance with the Trust Indenture.

3.2 Confirmation of Trust Indenture

The Trust Indenture as amended and supplemented by this Sixteenth Supplemental Trust Indenture is in all respects confirmed.

3.3 Counterparts

This Sixteenth Supplemental Trust Indenture may be executed in counterparts, each of which so executed shall be deemed to be original and such counterparts together shall constitute one and the same instrument.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF the parties hereto have executed this Sixteenth Supplemental Trust Indenture under the hands of their proper signatories in that behalf:

TORONTO HYDRO CORPORATION

By: ______________________________

Name: Anthony Haines

Title: President and Chief Executive Officer

By: ______________________________

Name: Aida Cipolla

Title: Executive Vice-President and Chief Financial Officer

[Trustee Signature Page Follows]

IN WITNESS WHEREOF the parties hereto have executed this Sixteenth Supplemental Trust Indenture under the hands of their proper signatories in that behalf:

BNY TRUST COMPANY OF CANADA

By: Wanda Camacho

Name: Wanda Camacho

Title: Authorized Signatory

Schedule 1 – FORM OF GLOBAL DEBENTURE-SERIES 15

This Debenture is a Global Debenture within the meaning of the Trust Indenture hereinafter referred to and is registered in the name of a Depository or a nominee thereof. Unless this Certificate is presented by an authorized representative of CDS Clearing and Depository Services Inc. ("CDS") to Toronto Hydro Corporation or its agent for registration of transfer, exchange or payment, and any certificate issued in respect thereof is registered in the name of CDS & CO., or in such other name as is requested by an authorized representative of CDS (and any payment is made to CDS & CO., or to such other entity as is requested by an authorized representative of CDS), ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL since the registered holder hereof, CDS & CO., has a property interest in the securities represented by this certificate herein and it is a violation of its rights for another person to hold, transfer or deal with this certificate.

[No. 15-000]

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TORONTO HYDRO CORPORATION
(Incorporated under the laws of Ontario)
2.99% SENIOR UNSECURED DEBENTURES DUE 2049 (SERIES 15)

ISIN CA89119ZAM55
CUSIP 89119ZAM5

Issue Date	November 12, 2019
Stated Maturity	December 10, 2049
Interest Rate Per Annum	2.99%
Interest Payment Dates	June 10 and December 10 in each year
Initial Interest Payment Date	June 10, 2020
Principal Amount	$●

TORONTO HYDRO CORPORATION (the "**Corporation**") for value received hereby promises to pay to the registered holder hereof on the Stated Maturity, or on such earlier date as the Principal Amount (or a portion thereof) may become due in accordance with the provisions of the Trust Indenture (as defined below), on presentation and surrender of this 2.99% Senior Unsecured Debenture due December 10, 2049 (Series 15) (the "**Series 15 Debenture**"), the Principal Amount in lawful money of Canada at the office of the Trustee (as defined below) at One York Street, 6th Floor, Toronto, Ontario M5J 0B6, and to pay interest on the Principal Amount at the Interest Rate Per Annum from and including the later of the Issue Date and the last Interest Payment Date on which interest has at that time most recently been paid on this Series 15 Debenture, at the address of the registered holder hereof appearing on the register of Series 15 Debentures maintained by or at the direction of the Trustee (the "**Register**"), in like money semi-annually in arrears, in equal instalments (except in respect of the initial interest payment) on the Interest Payment Dates in each year, and if the Corporation at any time defaults in the payment of any principal or interest, to pay interest on the amount in default at the same rate, in like money, on demand, at the address of the registered holder hereof appearing

on the Register. The Corporation will (i) on the day that is each Interest Payment Date, make payment by a wire transfer, or (ii) on the day that is two Business Days before each Interest Payment Date, forward or cause to be forwarded a cheque by same day delivery, to the address of the registered holder hereof appearing on the Register for interest due and payable to such holder on such Interest Payment Date, less any taxes required by law to be deducted or withheld, made payable to the order of such holder; provided, however that in case of payment of interest at maturity or redemption or as otherwise provided in the Trust Indenture, the time for payment of interest, less any such taxes, may at the option of the Corporation be determined based on the time that the certificate representing this Series 15 Debenture is presented and surrendered to the Trustee. The payment by such wire transfer or forwarding of such cheque (provided such cheque is paid on presentation) will satisfy and discharge the liability for interest upon such Series 15 Debenture to the extent of the sum represented thereby (plus the amount of any taxes deducted or withheld as aforesaid).

This Series 15 Debenture is one of an authorized issue of debentures designated as 2.99% Senior Unsecured Debentures due December 10, 2049 (Series 15) and forming the series of debentures created and issued under a sixteenth supplemental trust indenture made as of November 12, 2019 (the "**Sixteenth Supplemental Trust Indenture**") to a trust indenture (the "**Indenture**") made as of May 7, 2003, between the Corporation and BNY Trust Company of Canada (successor trustee of CIBC Mellon Trust Company) (the "**Trustee**"), as Trustee (the first supplemental trust indenture to the Indenture made as of May 7, 2003 between the Corporation and the Trustee, the second supplemental trust indenture to the Indenture made as of November 14, 2007 between the Corporation and the Trustee, the third supplemental trust indenture to the Indenture made as of November 12, 2009 between the Corporation and the Trustee, the fourth supplemental trust indenture to the Indenture made as of April 1, 2010 between the Corporation and the Trustee, the fifth supplemental trust indenture to the Indenture made as of April 1, 2010 between the Corporation and the Trustee, the sixth supplemental trust indenture to the Indenture made as of May 20, 2010 between the Corporation and the Trustee, the seventh supplemental trust indenture to the Indenture made as of September 20, 2011 between the Corporation and the Trustee, the eighth supplemental trust indenture to the Indenture made as of November 18, 2011 between the Corporation and the Trustee, the ninth supplemental trust indenture to the Indenture made as of April 9, 2013 between the Corporation and the Trustee, the tenth supplemental trust indenture to the Indenture made as of April 9, 2013 between the Corporation and the Trustee, the amended and restated tenth supplemental trust indenture to the Indenture made as of September 2, 2015 between the Corporation and the Trustee, the eleventh supplemental trust indenture to the Indenture made as of September 16, 2014 between the Corporation and the Trustee, the twelfth supplemental trust indenture to the Indenture made as of March 16, 2015 between the Corporation and the Trustee, the thirteenth supplemental trust indenture to the Indenture made as of June 14, 2016 between the Corporation and the Trustee, the fourteenth supplemental trust indenture to the Indenture made as of November 14, 2017 between the Corporation and the Trustee, the fifteenth supplemental trust indenture to the Indenture made as of November 12, 2019 between the Corporation and the Trustee, and the Sixteenth Supplemental Trust Indenture to the Indenture (as amended, supplemented or restated from time to time) are collectively referred to herein as the "**Trust Indenture**"). The Trust Indenture specifies the terms and conditions upon which the Series 15 Debentures are created and issued or may be created, issued and held and the rights of the registered holders of the Series 15 Debentures, the Corporation and the Trustee, all of which terms and conditions are incorporated by reference in this Series 15 Debenture and to each of which the registered holder of this Series 15 Debenture, by acceptance hereof, agrees.

The aggregate principal amount of Series 15 Debentures that may be created and issued under the Trust Indenture is unlimited. Series 15 Debentures are issuable as fully registered debentures in denominations of $1,000 and integral multiples thereof and, subject to the terms and conditions set forth in the Trust Indenture, are issued as book entry only debentures.

The Series 15 Debentures are direct unsecured obligations of the Corporation and will rank equally with each other and with all other debentures of every other series from time to time issued and outstanding pursuant to the Trust Indenture and, except to the extent prescribed by law, with all other unsecured and unsubordinated Indebtedness of the Corporation.

This Series 15 Debenture is redeemable, at the option of the Corporation when not in default under the Trust Indenture, in whole at any time or in part from time to time, prior to June 10, 2049, subject to the terms and conditions set forth in the Trust Indenture, at a price equal to the greater of the Canada Yield Price (as defined in the Trust Indenture) and par, together with accrued and unpaid interest to (but excluding) the date fixed for redemption.

This Series 15 Debenture is redeemable, at the option of the Corporation when not in default under the Trust Indenture, in whole at any time or in part from time to time, on or after June 10, 2049, subject to the terms and conditions set forth in the Trust Indenture, at a price equal to 100% of the Principal Amount of the Series 15 Debentures outstanding, together with accrued and unpaid interest to (but excluding) the date fixed for redemption.

At any time when the Corporation is not in default under the Trust Indenture, the Corporation may, subject to the terms and conditions set forth in the Trust Indenture, purchase Series 15 Debentures in the open market, by tender or by private contract, at any price. Series 15 Debentures purchased by the Corporation shall be cancelled and not reissued.

The Principal Amount may become or be declared due before the Stated Maturity on the conditions, in the manner, with the effect and at the times set forth in the Trust Indenture.

The Trust Indenture contains provisions for the holding of meetings of registered holders of debentures issued by the Corporation pursuant to the Trust Indenture and the making of resolutions at such meetings and the creation of instruments in writing signed by the registered holders of a specified majority of debentures issued and outstanding pursuant to the Trust Indenture. Such resolutions and instruments will be binding on and may affect the rights and entitlements of all holders of debentures issued by the Corporation pursuant to the Trust Indenture, subject to the provisions of the Trust Indenture.

This Series 15 Debenture may be transferred only upon compliance with the conditions prescribed in the Trust Indenture relating to the transfer of a Global Debenture (as defined in the Trust Indenture), and upon compliance with such reasonable requirements as the Trustee or other registrar may prescribe, and such transfer shall be duly noted hereon by the Trustee or other registrar.

This Series 15 Debenture shall not become obligatory for any purpose until it shall have been certified by the manual signature of the Trustee in accordance with the Trust Indenture.

IN WITNESS WHEREOF TORONTO HYDRO CORPORATION has caused this Series 15 Debenture to be signed by its ● and its ●.

TORONTO HYDRO CORPORATION

By: ______________________________
Name: ●
Title: ●

By: ______________________________
Name: ●
Title: ●

(FORM OF TRUSTEE'S CERTIFICATE)

This Debenture is one of the Series 15 Debentures referred to in the Trust Indenture referred to above.

BNY TRUST COMPANY OF CANADA
Trustee

By: ____________________________________
Authorized Signatory

(FORM OF REGISTRATION PANEL)

(NO WRITING HEREON EXCEPT BY THE TRUSTEE OR OTHER REGISTRAR)

TORONTO HYDRO CORPORATION
(Incorporated under the laws of Ontario)
2.99% SENIOR UNSECURED DEBENTURES DUE 2049 (SERIES 15)

ISIN CA89119ZAM55
CUSIP 89119ZAM5

DATE OF REGISTRATION	IN WHOSE NAME REGISTERED	AMOUNT OF DECREASE	AMOUNT OF INCREASE	AMOUNT OF SERIES 15 DEBENTURES OUTSTANDING FOLLOWING CHANGE	SIGNATURE OF TRUSTEE OR OTHER REGISTRAR

Schedule 2 – U.S. FORM OF DEFINITIVE DEBENTURE-SERIES 15

*THE SECURITIES REPRESENTED HEREBY HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "**U.S. SECURITIES ACT**") OR UNDER ANY STATE SECURITIES LAWS. THE HOLDER HEREOF, BY PURCHASING SUCH SECURITIES, AGREES FOR THE BENEFIT OF THE CORPORATION THAT SUCH SECURITIES MAY BE OFFERED, SOLD OR OTHERWISE TRANSFERRED ONLY (A) TO THE CORPORATION, (B) OUTSIDE THE UNITED STATES IN ACCORDANCE WITH RULE 904 OF REGULATION S UNDER THE U.S. SECURITIES ACT, OR (C) INSIDE THE UNITED STATES IN ACCORDANCE WITH (1) RULE 144A UNDER THE U.S. SECURITIES ACT OR (2) RULE 144 UNDER THE U.S. SECURITIES ACT, IF AVAILABLE, OR (3) IN COMPLIANCE WITH CERTAIN OTHER PROCEDURES SATISFACTORY TO THE CORPORATION. A NEW CERTIFICATE, BEARING NO LEGEND, DELIVERY OF WHICH WILL CONSTITUTE "GOOD DELIVERY", MAY BE OBTAINED FROM BNY TRUST COMPANY OF CANADA UPON DELIVERY OF THIS CERTIFICATE AND A DULY EXECUTED DECLARATION, IN A FORM SATISFACTORY TO BNY TRUST COMPANY OF CANADA AND THE CORPORATION, TO THE EFFECT THAT THE SALE OF THE SECURITIES REPRESENTED HEREBY IS BEING MADE IN COMPLIANCE WITH RULE 904 OF REGULATION S UNDER THE U.S. SECURITIES ACT.*

[No. 15-000]

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TORONTO HYDRO CORPORATION
(Incorporated under the laws of Ontario)
2.99% SENIOR UNSECURED DEBENTURES DUE 2049 (SERIES 15)

Issue Date	November 12, 2019
Stated Maturity	December 10, 2049
Interest Rate Per Annum	2.99%
Interest Payment Dates	June 10 and December 10 in each year
Initial Interest Payment Date	June 10, 2020
Principal Amount	$●

TORONTO HYDRO CORPORATION (the "**Corporation**") for value received hereby promises to pay to the registered holder hereof on the Stated Maturity, or on such earlier date as the Principal Amount (or a portion thereof) may become due in accordance with the provisions of the Trust Indenture (as defined below), on presentation and surrender of this 2.99% Senior Unsecured Debenture due December 10, 2049 (Series 15) (the "**Series 15 Debenture**"), the Principal Amount in lawful money of Canada at the office of the Trustee (as defined below) at One York Street, 6th Floor, Toronto, Ontario M5J 0B6, and to pay interest on the Principal Amount at the Interest Rate Per Annum from and including the later of the Issue Date and the last Interest Payment Date on which interest has at that time most recently been paid on this Series 15 Debenture, at the address of the registered holder hereof appearing on the register of Series 15 Debentures maintained by or at the direction of the Trustee (the "**Register**"), in like money semi-annually in arrears, in equal instalments (except in respect of the initial interest payment) on the Interest Payment Dates in each year, and if the Corporation at any time defaults in the payment of any principal or interest, to pay interest on the amount in default at the same rate, in like money, on demand, at the address of the registered holder hereof appearing

on the Register. The Corporation, on the day that is two Business Days before each Interest Payment Date, will forward or cause to be forwarded by same day delivery to the address of the registered holder hereof appearing on the Register a cheque for interest due and payable to such holder on such Interest Payment Date, less any taxes required by law to be deducted or withheld, made payable to the order of such holder; provided, however that in case of payment of interest at maturity or redemption or as otherwise provided in the Trust Indenture, the time for payment of interest, less any such taxes, may at the option of the Corporation be determined based on the time that the certificate representing this Series 15 Debenture is presented and surrendered to the Trustee. The forwarding of such cheque will satisfy and discharge the liability for interest upon such Series 15 Debenture to the extent of the sum represented thereby (plus the amount of any taxes deducted or withheld as aforesaid) unless such cheque is not paid on presentation.

This Series 15 Debenture is one of an authorized issue of debentures designated as 2.99% Senior Unsecured Debentures due December 10, 2049 (Series 15) and forming the series of debentures created and issued under a sixteenth supplemental trust indenture made as of November 12, 2019 (the “**Sixteenth Supplemental Trust Indenture**") to a trust indenture (the "**Indenture**") made as of May 7, 2003, between the Corporation and BNY Trust Company of Canada (successor trustee of CIBC Mellon Trust Company) (the "**Trustee**"), as Trustee (the first supplemental trust indenture to the Indenture made as of May 7, 2003 between the Corporation and the Trustee, the second supplemental trust indenture to the Indenture made as of November 14, 2007 between the Corporation and the Trustee, the third supplemental trust indenture to the Indenture made as of November 12, 2009 between the Corporation and the Trustee, the fourth supplemental trust indenture to the Indenture made as of April 1, 2010 between the Corporation and the Trustee, the fifth supplemental trust indenture to the Indenture made as of April 1, 2010 between the Corporation and the Trustee, the sixth supplemental trust indenture to the Indenture made as of May 20, 2010 between the Corporation and the Trustee, the seventh supplemental trust indenture to the Indenture made as of September 20, 2011 between the Corporation and the Trustee, the eighth supplemental trust indenture to the Indenture made as of November 18, 2011 between the Corporation and the Trustee, the ninth supplemental trust indenture to the Indenture made as of April 9, 2013 between the Corporation and the Trustee, the tenth supplemental trust indenture to the Indenture made as of April 9, 2013 between the Corporation and the Trustee, the amended and restated tenth supplemental trust indenture to the Indenture made as of September 2, 2015 between the Corporation and the Trustee, the eleventh supplemental trust indenture to the Indenture made as of September 16, 2014 between the Corporation and the Trustee, the twelfth supplemental trust indenture to the Indenture made as of March 16, 2015 between the Corporation and the Trustee, the thirteenth supplemental trust indenture to the Indenture made as of June 14, 2016 between the Corporation and the Trustee, the fourteenth supplemental trust indenture to the Indenture made as of November 14, 2017 between the Corporation and the Trustee, the fifteenth supplemental trust indenture to the Indenture made as of November 12, 2019 between the Corporation and the Trustee, and the Sixteenth Supplemental Trust Indenture to the Indenture (as amended, supplemented or restated from time to time) are collectively referred to herein as the "**Trust Indenture**"). The Trust Indenture specifies the terms and conditions upon which the Series 15 Debentures are created and issued or may be created, issued and held and the rights of the registered holders of the Series 15 Debentures, the Corporation and the Trustee, all of which terms and conditions are incorporated by reference in this Series 15 Debenture and to each of which the registered holder of this Series 15 Debenture, by acceptance hereof, agrees.

The aggregate principal amount of Series 15 Debentures that may be created and issued under the Trust Indenture is unlimited. Series 15 Debentures are issuable as fully registered debentures in denominations of $1,000 and integral multiples thereof.

The Series 15 Debentures are direct unsecured obligations of the Corporation and will rank equally with each other and with all other debentures of every other series from time to time issued and outstanding pursuant to the Trust Indenture and, except to the extent prescribed by law, with all other unsecured and unsubordinated Indebtedness of the Corporation.

This Series 15 Debenture is redeemable, at the option of the Corporation when not in default under the Trust Indenture, in whole at any time or in part from time to time, prior to June 10, 2049, subject to the terms and conditions set forth in the Trust Indenture, at a price equal to the greater of the Canada Yield Price (as defined in the Trust Indenture) and par, together with accrued and unpaid interest to (but excluding) the date fixed for redemption.

This Series 15 Debenture is redeemable, at the option of the Corporation when not in default under the Trust Indenture, in whole at any time or in part from time to time, on or after June 10, 2049, subject to the terms and conditions set forth in the Trust Indenture, at a price equal to 100% of the Principal Amount of the Series 15 Debentures outstanding, together with accrued and unpaid interest to (but excluding) the date fixed for redemption.

At any time when the Corporation is not in default under the Trust Indenture, the Corporation may, subject to the terms and conditions set forth in the Trust Indenture, purchase Series 15 Debentures in the open market, by tender or by private contract, at any price. Series 15 Debentures purchased by the Corporation shall be cancelled and not reissued.

The Principal Amount may become or be declared due before the Stated Maturity on the conditions, in the manner, with the effect and at the times set forth in the Trust Indenture.

The Trust Indenture contains provisions for the holding of meetings of registered holders of debentures issued by the Corporation pursuant to the Trust Indenture and the making of resolutions at such meetings and the creation of instruments in writing signed by the registered holders of a specified majority of debentures issued and outstanding pursuant to the Trust Indenture. Such resolutions and instruments will be binding on and may affect the rights and entitlements of all holders of debentures issued by the Corporation pursuant to the Trust Indenture, subject to the provisions of the Trust Indenture.

This Series 15 Debenture may be transferred only upon compliance with the conditions prescribed in the Trust Indenture by the registered holder hereof or the holder's legal representative or attorney duly appointed by an instrument in form and execution satisfactory to the Trustee, and upon compliance with such reasonable requirements as the Trustee or other registrar may prescribe, and such transfer shall be duly noted hereon by the Trustee or other registrar.

This Series 15 Debenture shall not become obligatory for any purpose until it shall have been certified by the manual signature of the Trustee in accordance with the Trust Indenture.

IN WITNESS WHEREOF TORONTO HYDRO CORPORATION has caused this Series 15 Debenture to be signed by its ● and its ●.

TORONTO HYDRO CORPORATION

By: ______________________________

Name: ●

Title: ●

By: ______________________________

Name: ●

Title: ●

(FORM OF TRUSTEE'S CERTIFICATE)

This Debenture is one of the Series 15 Debentures referred to in the Trust Indenture referred to above.

BNY TRUST COMPANY OF CANADA
Trustee

By: ______________________________
Authorized Signatory

(FORM OF REGISTRATION PANEL)

(NO WRITING HEREON EXCEPT BY THE TRUSTEE OR OTHER REGISTRAR)

TORONTO HYDRO CORPORATION
(Incorporated under the laws of Ontario)
2.99% SENIOR UNSECURED DEBENTURES DUE 2049 (SERIES 15)

DATE OF REGISTRATION	IN WHOSE NAME REGISTERED	SIGNATURE OF TRUSTEE OR OTHER REGISTRAR

SEVENTEENTH SUPPLEMENTAL TRUST INDENTURE

Made as of October 15, 2020

Between

TORONTO HYDRO CORPORATION
as issuer

and

BNY TRUST COMPANY OF CANADA
as trustee

Supplementing the Trust Indenture

made as of May 7, 2003

and

providing for the issue of

1.50% Senior Unsecured Debentures
due 2030 (Series 16)

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SEVENTEENTH SUPPLEMENTAL TRUST INDENTURE

THIS SEVENTEENTH SUPPLEMENTAL TRUST INDENTURE made as of October 15, 2020,

BETWEEN:

TORONTO HYDRO CORPORATION
a corporation incorporated under the laws of Ontario (the "**Corporation**")

and

BNY TRUST COMPANY OF CANADA
a trust company existing under the laws of Canada (the "**Trustee**")

RECITALS

(A) BNY Trust Company of Canada is the successor trustee of CIBC Mellon Trust Company;

(B) The Corporation has entered into a trust indenture with the Trustee made as of May 7, 2003, as amended, supplemented or restated from time to time (the "**Trust Indenture**") which provides for the issuance of one or more series of unsecured Debentures of the Corporation by way of Supplemental Indentures;

(C) The Corporation entered into a first supplemental trust indenture made as of May 7, 2003 for the purpose of providing for the issue of $225,000,000 aggregate principal amount of Series 1 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 1 Debentures;

(D) The Corporation entered into a second supplemental trust indenture made as of November 14, 2007 for the purpose of providing for the issue of $250,000,000 aggregate principal amount of Series 2 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 2 Debentures;

(E) The Corporation entered into a third supplemental trust indenture made as of November 12, 2009 for the purpose of providing for the issue of $250,000,000 aggregate principal amount of Series 3 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 3 Debentures;

(F) The City Note has been converted, in accordance with its terms, into the Series 4 Debentures and the Series 5 Debentures;

(G) The Corporation entered into a fourth supplemental trust indenture made as of April 1, 2010 for the purpose of providing for the issue of $245,057,000 aggregate principal amount of Series 4 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 4 Debentures;

(H) The Corporation entered into a fifth supplemental trust indenture made as of April 1, 2010 for the purpose of providing for the issue of $245,057,000 aggregate principal amount of Series 5 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 5 Debentures;

(I) The Corporation entered into a sixth supplemental trust indenture made as of May 20, 2010 for the purpose of providing for the issue of $200,000,000 aggregate principal amount of Series 6 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 6 Debentures;

(J) The Corporation entered into a seventh supplemental trust indenture made as of September 20, 2011 for the purpose of amending the definition of "GAAP" under the Trust Indenture;

(K) The Corporation entered into an eighth supplemental trust indenture made as of November 18, 2011 for the purpose of providing for the issue of $300,000,000 aggregate principal amount of Series 7 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 7 Debentures;

(L) The Corporation entered into a ninth supplemental trust indenture made as of April 9, 2013 for the purpose of providing for the issue of $250,000,000 aggregate principal amount of Series 8 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 8 Debentures;

(M) The Corporation entered into a tenth supplemental trust indenture made as of April 9, 2013 for the purpose of providing for the issue of $200,000,000 aggregate principal amount of Series 9 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 9 Debentures;

(N) The Corporation entered into an eleventh supplemental trust indenture made as of September 16, 2014 for the purpose of providing for the issue of $200,000,000 aggregate principal amount of Series 10 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 10 Debentures;

(O) The Corporation entered into a twelfth supplemental trust indenture made as of March 16, 2015 for the purpose of providing for the issue of $200,000,000 aggregate principal amount of Series 11 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 11 Debentures;

(P) The Corporation entered into an amended and restated tenth supplemental trust indenture made as of September 2, 2015 for the purpose of making changes and corrections which were required for curing and correcting certain ambiguities and omissions in connection with an issue of $45,000,000 additional aggregate principal amount of the Series 9 Debentures;

(Q) The Corporation entered into a thirteenth supplemental trust indenture made as of June 14, 2016 for the purpose of providing for the issue of $200,000,000 aggregate principal amount of Series 12 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 12 Debentures;

(R) The Corporation entered into a fourteenth supplemental trust indenture made as of November 14, 2017 for the purpose of providing for the issue of $200,000,000 aggregate principal amount of Series 13 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 13 Debentures;

(S) The Corporation entered into a fifteenth supplemental trust indenture made as of November 12, 2019 for the purpose of providing for the issue of $200,000,000 aggregate principal amount of Series 14 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 14 Debentures;

(T) The Corporation entered into a sixteenth supplemental trust indenture made as of November 12, 2019 for the purpose of providing for the issue of $200,000,000 aggregate principal amount of Series 15 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 15 Debentures; and

(U) This Seventeenth Supplemental Trust Indenture is entered into for the purpose of providing for the issue of $200,000,000 aggregate principal amount of Series 16 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 16 Debentures.

NOW THEREFORE THIS SEVENTEENTH SUPPLEMENTAL TRUST INDENTURE WITNESSES and it is hereby covenanted, agreed and declared as follows:

Section 1 INTERPRETATION

1.1 To Be Read With Trust Indenture

This Seventeenth Supplemental Trust Indenture is a Supplemental Indenture as that term is used in the Trust Indenture. The Trust Indenture and this Seventeenth Supplemental Trust Indenture shall be read together and shall have effect as though all the provisions of both indentures were contained in one instrument.

1.2 Headings etc.

The division of this Seventeenth Supplemental Trust Indenture into Sections and clauses, the provision of a table of contents and the insertion of headings are for convenience of reference only and shall not affect the interpretation thereof. Unless the context otherwise requires, the expression "Section" and "Schedule" followed by a number, letter or combination of numbers and letters refer to the specified Section of or Schedule to this Seventeenth Supplemental Trust Indenture.

1.3 Definitions

All terms which are defined in the Trust Indenture and used but not defined in this Seventeenth Supplemental Trust Indenture shall have the meanings ascribed to them in the Trust Indenture, as such meanings may be amended or supplemented with respect to Series 16 Debentures by this Seventeenth Supplemental Trust Indenture. In the event of any inconsistency between the meaning given to a term in the Trust Indenture and the meaning given to the same term in this Seventeenth Supplemental Trust Indenture, the meaning given to the term in this Seventeenth Supplemental Trust Indenture shall prevail to the extent of the inconsistency. Subject to the foregoing, in this Seventeenth Supplemental Trust Indenture and in the Series 16 Debentures, the following terms have the following meanings:

(a) ***Canada Yield*** on any date means the yield to maturity on that date, compounded semi-annually, that a non-callable Government of Canada bond would carry if issued, in Canadian dollars in Canada, at 100% of its principal amount on that date with a term to maturity approximately equal to the remaining term to July 15, 2030 of the Series 16 Debentures, such yield to maturity being the average of the yields provided by two major Canadian investment dealers specified by the Corporation.

(b) ***Canada Yield Price*** means the amount equal to the net present value of all scheduled payments of interest (other than accrued and unpaid interest) and principal on the Series 16 Debentures that would have been payable to July 15, 2030 if redemption had not been made, using a discount rate equal to the sum of the Canada Yield and 23 basis points, calculated at 10:00 a.m. (Toronto, Ontario time) three Business Days prior to the Redemption Date of the Series 16 Debentures.

(c) ***Series 16 Debentures*** means the 1.50% Senior Unsecured Debentures due 2030 (Series 16) referred to in Section 2.1.

(d) ***Series 16 Debentures Debt Account*** means the deposit account established in respect of the Series 16 Debentures pursuant to Section 8.2 of the Trust Indenture that is designated in writing by the Corporation to the Trustee as the "Series 16 Debentures Debt Account".

(e) ***Series 16 Debentures Interest Payment Date*** means April 15 and October 15 in each year that the Series 16 Debentures are outstanding, beginning April 15, 2021.

(f) ***Series 16 Debentures Interest Period*** means the period commencing on and including the later of the date of issue of the Series 16 Debentures and the immediately preceding Series 16 Debentures Interest Payment Date and ending on and including the day immediately preceding the next Series 16 Debentures Interest Payment Date to occur in respect of which interest is payable.

(g) ***Trust Indenture*** means the trust indenture made as of May 7, 2003 between the Corporation and the Trustee, as amended, supplemented or restated from time to time.

Section 2 SERIES 16 DEBENTURES

2.1 Creation and Designation

The Corporation is authorized in accordance with the Trust Indenture to issue under this Seventeenth Supplemental Trust Indenture, and hereby creates and issues, a series of debentures designated "1.50% Senior Unsecured Debentures due 2030 (Series 16)", having the terms set out in this Seventeenth Supplemental Trust Indenture.

2.2 No Limitation on Issue

The aggregate principal amount of Series 16 Debentures which may be issued under this Seventeenth Supplemental Trust Indenture including any supplement hereto is unlimited.

2.3 Date of Issue and Maturity

The Series 16 Debentures shall be dated October 15, 2020 (being the applicable date of issue) and will become due and payable, together with all accrued interest and unpaid interest thereon, on October 15, 2030 (being the applicable Stated Maturity).

2.4 Concerning Interest

(a) The Series 16 Debentures shall be issued in $1,000 principal amount denominations or integral multiples thereof and shall bear interest on the unpaid principal amount thereof at a rate of 1.50% per annum from and including their date of issue, payable semi-annually in arrears, in equal instalments, on each Series 16 Debentures Interest Payment Date.

(b) Interest shall be payable in respect of each Series 16 Debentures Interest Period (after as well as before maturity, default and judgment, with interest on overdue interest at the same rate) on each Series 16 Debentures Interest Payment Date in accordance with Section 2.8 of the Trust Indenture.

2.5 Interest Payments

The Corporation shall make payments of interest on the Series 16 Debentures in accordance with the provisions of Section 2.8 of the Trust Indenture.

2.6 Payment of Amounts Due on Maturity

In accordance with Section 8.2 of the Trust Indenture, the Corporation will deposit to the Series 16 Debentures Debt Account all amounts required to be paid to the order of Holders of Series 16 Debentures on maturity, prior to 9:00 a.m. (Toronto, Ontario time), on the Stated Maturity of the Series 16 Debentures. The deposit of such funds will satisfy and discharge the liability of the Corporation for principal of, and any accrued and unpaid interest on, the Series 16 Debentures to the extent of the sum represented thereby (plus the amount of any taxes deducted or withheld).

2.7 Redemption and Purchase of Series 16 Debentures

(a) The Series 16 Debentures may be redeemed, at the Corporation's option when not in default under the Trust Indenture, in whole at any time or in part from time to time, prior to July 15, 2030, on not more than 60 calendar days and not less than 10 calendar days prior notice, at a price equal to the greater of the Canada Yield Price and par, together in each case with accrued and unpaid interest to (but excluding) the Redemption Date and in each case otherwise in accordance with Sections 5.1, 5.2, 5.3 and 5.4 of the Trust Indenture.

(b) The Series 16 Debentures may be redeemed, at the Corporation's option when not in default under the Trust Indenture, in whole at any time or in part from time to time, on or after July 15, 2030, on not more than 60 calendar days and not less than 10 calendar days prior notice, at a price equal to 100% of the principal amount of the Series 16 Debentures outstanding, together with accrued and unpaid interest to (but excluding) the Redemption Date and otherwise in accordance with Sections 5.1, 5.2, 5.3 and 5.4 of the Trust Indenture.

(c) The Corporation will be entitled at any time when not in default under the Trust Indenture to purchase for cancellation all or any of the Series 16 Debentures in accordance with Section 5.5 of the Trust Indenture.

(d) The Series 16 Debentures will not be subject to repurchase pursuant to any sinking fund provisions.

(e) Notice of redemption of any Series 16 Debentures given to the holders of the Series 16 Debentures may be conditional and, in such case, such notice of redemption shall specify the details and terms of any event (e.g., a financing, asset disposition or other transaction) on which such redemption is conditional.

2.8 Form of Series 16 Debentures

(a) Except as set out in 2.8(b) below, the Series 16 Debentures and the registration panel and the certificate of the Trustee endorsed thereon shall be issuable initially as one Global Debenture to be held by, or on behalf of, CDS as depository for its participants and registered in the name of CDS or its nominee. The Global Debenture shall be substantially in the form set out in Schedule 1 hereto with such appropriate additions, deletions, substitutions and variations as the Directors shall by resolution determine prior to the time of issue thereof and as the Trustee may approve and with such distinguishing letters and numbers as the Trustee may approve, with such approval in each case to be conclusively evidenced by the Trustee's certification of such Global Debenture.

(b) The Trustee understands and acknowledges that the Series 16 Debentures have not been and will not be registered under the United States Securities Act of 1933, as amended (the "U.S. Securities Act"). Each Series 16 Debenture originally issued in the United States or to a U.S. Person will be represented by a definitive certificate in the form set out in Schedule 2 hereto which definitive certificate, and each Series 16 Debenture certificate issued in exchange therefor or in substitution thereof, shall bear the following legend:

"THE SECURITIES REPRESENTED HEREBY HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE **"U.S. SECURITIES ACT**") OR UNDER ANY STATE SECURITIES LAWS. THE HOLDER HEREOF, BY PURCHASING SUCH SECURITIES, AGREES FOR THE BENEFIT OF THE CORPORATION THAT SUCH SECURITIES MAY BE OFFERED, SOLD OR OTHERWISE TRANSFERRED ONLY (A) TO THE CORPORATION, (B) OUTSIDE THE UNITED STATES IN ACCORDANCE WITH RULE 904 OF REGULATION S UNDER THE U.S. SECURITIES ACT, OR (C) INSIDE THE

UNITED STATES IN ACCORDANCE WITH (1) RULE 144A UNDER THE U.S. SECURITIES ACT OR (2) RULE 144 UNDER THE U.S. SECURITIES ACT, IF AVAILABLE, OR (3) IN COMPLIANCE WITH CERTAIN OTHER PROCEDURES SATISFACTORY TO THE CORPORATION. A NEW CERTIFICATE, BEARING NO LEGEND, DELIVERY OF WHICH WILL CONSTITUTE "GOOD DELIVERY", MAY BE OBTAINED FROM BNY TRUST COMPANY OF CANADA UPON DELIVERY OF THIS CERTIFICATE AND A DULY EXECUTED DECLARATION, IN A FORM SATISFACTORY TO BNY TRUST COMPANY OF CANADA AND THE CORPORATION, TO THE EFFECT THAT THE SALE OF THE SECURITIES REPRESENTED HEREBY IS BEING MADE IN COMPLIANCE WITH RULE 904 OF REGULATION S UNDER THE U.S. SECURITIES ACT."

If any Series 16 Debentures are being sold or transferred outside the United States in compliance with the requirements of Rule 904 of Regulation S under the U.S Securities Act, the legend may be removed by providing a declaration to the Trustee to the following effect (or as the Corporation may prescribe from time to time),

"The undersigned (A) acknowledges that the sale of the ________________ Debentures, represented by certificate numbers _______________ to which this declaration relates is being made in reliance on Rule 904 of Regulation S under the United States Securities Act of 1933, as amended (the "**U.S. Securities Act**") and (B) certifies that (1) it is not an "affiliate" (as defined in Rule 405 under the U.S. Securities Act) of Toronto Hydro Corporation, (2) the offer of such Debentures was not made to a person in the United States and at the time the buy order was originated, the buyer was outside the United States, or the seller and any person acting on its behalf reasonably believe that the buyer was outside the United States and (3) neither the seller, nor any affiliate of the seller, nor any person acting on its or their behalf engaged in any directed selling efforts in connection with the offer and sale of such Debentures. Terms used herein have the meanings given to them by Regulation S under the U.S. Securities Act."

If any Series 16 Debentures are being sold or transferred pursuant to Rule 144 of the U.S. Securities Act, the legend may be removed by delivery to the Trustee of a written opinion of Trustee Counsel (or counsel to the transferor satisfactory to the Trustee) to the effect that such legend is no longer required under applicable requirements of the U.S. Securities Act or state securities laws.

Prior to the issuance of Series 16 Debentures, the Corporation shall notify the Trustee, in writing, concerning which Series 16 Debentures are to be certificated and are to bear the legend described above. The Trustee will thereafter maintain a list of all registered holders from time to time of legended Series 16 Debentures.

2.9 Signatures on Series 16 Debentures

The Series 16 Debentures shall be signed in accordance with the provisions of Section 2.6 of the Trust Indenture.

2.10 Certification

(a) No Series 16 Debenture issued shall be obligatory or shall entitle the Holder of such Series 16 Debenture to the benefits of this Seventeenth Supplemental Trust Indenture until it has been certified by manual, facsimile or electronic signature by or on behalf of the Trustee by execution of the certificate of the Trustee appended thereto substantially in the form set out in Schedule 1 hereto, or in some other form approved by the Trustee, whose approval shall be conclusively evidenced by the Trustee's execution of the certificate. Such certificate on any Series 16 Debenture shall be conclusive evidence that such Series 16 Debenture is duly issued and is a valid and binding obligation of the Corporation and that the Holder of such Series 16 Debenture is entitled to the benefits of the Trust Indenture, as supplemented by this Seventeenth Supplemental Trust Indenture, and such Series 16 Debenture.

(b) The certificate of the Trustee on any Series 16 Debenture shall not be construed as a representation or warranty by the Trustee as to the validity of this Seventeenth Supplemental Trust Indenture or of the Series 16 Debentures (except the due certification thereof and any other warranties implied by law) and the Trustee shall in no respect be liable or answerable for the use made of the Series 16 Debentures or any of them or the proceeds thereof.

2.11 Location of Register

With respect to the Series 16 Debentures, initially the Register referred to in Section 3.1 of the Trust Indenture shall be kept by the Trustee at the Corporate Trust Office and may thereafter be kept by the Trustee in such other place as the Corporation, with the approval of the Trustee, may designate.

2.12 Additional Amounts

The Corporation will not be required to pay an additional amount on the Series 16 Debentures in respect of any tax, assessment or government charge that is required by law to be withheld or deducted by it.

2.13 Trustees, etc.

The Trustee will be the Paying Agent and the Registrar for the Series 16 Debentures.

Section 3 MISCELLANEOUS

3.1 Acceptance of Trust

The Trustee accepts the trusts in this Seventeenth Supplemental Trust Indenture and agrees to carry out and discharge the same upon the terms and conditions set out in this Seventeenth Supplemental Trust Indenture and in accordance with the Trust Indenture.

3.2 Confirmation of Trust Indenture

The Trust Indenture as amended and supplemented by this Seventeenth Supplemental Trust Indenture is in all respects confirmed.

3.3 Counterparts

This Seventeenth Supplemental Trust Indenture may be executed in counterparts, each of which so executed shall be deemed to be original and such counterparts together shall constitute one and the same instrument.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF the parties hereto have executed this Seventeenth Supplemental Trust Indenture under the hands of their proper signatories in that behalf:

TORONTO HYDRO CORPORATION

By: ____________________________

Name: Anthony Haines

Title: President and Chief Executive Officer

By: ____________________________

Name: Aida Cipolla

Title: Executive Vice-President and Chief Financial Officer

[Trustee Signature Page Follows]

IN WITNESS WHEREOF the parties hereto have executed this Seventeenth Supplemental Trust Indenture under the hands of their proper signatories in that behalf:

BNY TRUST COMPANY OF CANADA

By: ________________________________

Name: Ismail Bawa

Title: Authorized Signatory

Schedule 1 – FORM OF GLOBAL DEBENTURE-SERIES 16

This Debenture is a Global Debenture within the meaning of the Trust Indenture hereinafter referred to and is registered in the name of a Depository or a nominee thereof. Unless this Certificate is presented by an authorized representative of CDS Clearing and Depository Services Inc. ("CDS") to Toronto Hydro Corporation or its agent for registration of transfer, exchange or payment, and any certificate issued in respect thereof is registered in the name of CDS & CO., or in such other name as is requested by an authorized representative of CDS (and any payment is made to CDS & CO., or to such other entity as is requested by an authorized representative of CDS), ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL since the registered holder hereof, CDS & CO., has a property interest in the securities represented by this certificate herein and it is a violation of its rights for another person to hold, transfer or deal with this certificate.

[No. 16-000]

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TORONTO HYDRO CORPORATION
(Incorporated under the laws of Ontario)
1.50% SENIOR UNSECURED DEBENTURES DUE 2030 (SERIES 16)

ISIN CA89119ZAN39
CUSIP 89119ZAN3

Issue Date	October 15, 2020
Stated Maturity	October 15, 2030
Interest Rate Per Annum	1.50%
Interest Payment Dates	April 15 and October 15 in each year
Initial Interest Payment Date	April 15, 2021
Principal Amount	$●

TORONTO HYDRO CORPORATION (the "**Corporation**") for value received hereby promises to pay to the registered holder hereof on the Stated Maturity, or on such earlier date as the Principal Amount (or a portion thereof) may become due in accordance with the provisions of the Trust Indenture (as defined below), on presentation and surrender of this 1.50% Senior Unsecured Debenture due October 15, 2030 (Series 16) (the "**Series 16 Debenture**"), the Principal Amount in lawful money of Canada at the office of the Trustee (as defined below) at One York Street, 6th Floor, Toronto, Ontario M5J 0B6, and to pay interest on the Principal Amount at the Interest Rate Per Annum from and including the later of the Issue Date and the last Interest Payment Date on which interest has at that time most recently been paid on this Series 16 Debenture, at the address of the registered holder hereof appearing on the register of Series 16 Debentures maintained by or at the direction of the Trustee (the "**Register**"), in like money semi-annually in arrears, in equal instalments (except in respect of the initial interest payment) on the Interest Payment Dates in each year, and if the Corporation at any time defaults in the payment of any principal or interest, to pay interest on the amount in default at the same rate, in like money, on demand, at the address of the registered holder hereof appearing

on the Register. The Corporation will (i) on the day that is each Interest Payment Date, make payment by a wire transfer, or (ii) on the day that is two Business Days before each Interest Payment Date, forward or cause to be forwarded a cheque by same day delivery, to the address of the registered holder hereof appearing on the Register for interest due and payable to such holder on such Interest Payment Date, less any taxes required by law to be deducted or withheld, made payable to the order of such holder; provided, however that in case of payment of interest at maturity or redemption or as otherwise provided in the Trust Indenture, the time for payment of interest, less any such taxes, may at the option of the Corporation be determined based on the time that the certificate representing this Series 16 Debenture is presented and surrendered to the Trustee. The payment by such wire transfer or forwarding of such cheque (provided such cheque is paid on presentation) will satisfy and discharge the liability for interest upon such Series 16 Debenture to the extent of the sum represented thereby (plus the amount of any taxes deducted or withheld as aforesaid).

This Series 16 Debenture is one of an authorized issue of debentures designated as 1.50% Senior Unsecured Debentures due October 15, 2030 (Series 16) and forming the series of debentures created and issued under a seventeenth supplemental trust indenture made as of October 15, 2020 (the "**Seventeenth Supplemental Trust Indenture**") to a trust indenture (the "**Indenture**") made as of May 7, 2003, between the Corporation and BNY Trust Company of Canada (successor trustee of CIBC Mellon Trust Company) (the "**Trustee**"), as Trustee (the first supplemental trust indenture to the Indenture made as of May 7, 2003 between the Corporation and the Trustee, the second supplemental trust indenture to the Indenture made as of November 14, 2007 between the Corporation and the Trustee, the third supplemental trust indenture to the Indenture made as of November 12, 2009 between the Corporation and the Trustee, the fourth supplemental trust indenture to the Indenture made as of April 1, 2010 between the Corporation and the Trustee, the fifth supplemental trust indenture to the Indenture made as of April 1, 2010 between the Corporation and the Trustee, the sixth supplemental trust indenture to the Indenture made as of May 20, 2010 between the Corporation and the Trustee, the seventh supplemental trust indenture to the Indenture made as of September 20, 2011 between the Corporation and the Trustee, the eighth supplemental trust indenture to the Indenture made as of November 18, 2011 between the Corporation and the Trustee, the ninth supplemental trust indenture to the Indenture made as of April 9, 2013 between the Corporation and the Trustee, the tenth supplemental trust indenture to the Indenture made as of April 9, 2013 between the Corporation and the Trustee, the amended and restated tenth supplemental trust indenture to the Indenture made as of September 2, 2015 between the Corporation and the Trustee, the eleventh supplemental trust indenture to the Indenture made as of September 16, 2014 between the Corporation and the Trustee, the twelfth supplemental trust indenture to the Indenture made as of March 16, 2015 between the Corporation and the Trustee, the thirteenth supplemental trust indenture to the Indenture made as of June 14, 2016 between the Corporation and the Trustee, the fourteenth supplemental trust indenture to the Indenture made as of November 14, 2017 between the Corporation and the Trustee, the fifteenth supplemental trust indenture to the Indenture made as of November 12, 2019 between the Corporation and the Trustee, the sixteenth supplemental trust indenture to the Indenture made as of November 12, 2019 between the Corporation and the Trustee, and the Seventeenth Supplemental Trust Indenture to the Indenture (as amended, supplemented or restated from time to time) are collectively referred to herein as the "**Trust Indenture**"). The Trust Indenture specifies the terms and conditions upon which the Series 16 Debentures are created and issued or may be created, issued and held and the rights of the registered holders of the Series 16 Debentures, the Corporation and the Trustee, all of which terms and conditions are incorporated by reference in this Series 16 Debenture and to each of which the registered holder of this Series 16 Debenture, by acceptance hereof, agrees.

The aggregate principal amount of Series 16 Debentures that may be created and issued under the Trust Indenture is unlimited. Series 16 Debentures are issuable as fully registered debentures in denominations of $1,000 and integral multiples thereof and, subject to the terms and conditions set forth in the Trust Indenture, are issued as book entry only debentures.

The Series 16 Debentures are direct unsecured obligations of the Corporation and will rank equally with each other and with all other debentures of every other series from time to time issued and outstanding pursuant to the Trust Indenture and, except to the extent prescribed by law, with all other unsecured and unsubordinated Indebtedness of the Corporation.

This Series 16 Debenture is redeemable, at the option of the Corporation when not in default under the Trust Indenture, in whole at any time or in part from time to time, prior to July 15, 2030, subject to the terms and conditions set forth in the Trust Indenture, at a price equal to the greater of the Canada Yield Price (as defined in the Trust Indenture) and par, together with accrued and unpaid interest to (but excluding) the date fixed for redemption.

This Series 16 Debenture is redeemable, at the option of the Corporation when not in default under the Trust Indenture, in whole at any time or in part from time to time, on or after July 15, 2030, subject to the terms and conditions set forth in the Trust Indenture, at a price equal to 100% of the Principal Amount of the Series 16 Debentures outstanding, together with accrued and unpaid interest to (but excluding) the date fixed for redemption.

At any time when the Corporation is not in default under the Trust Indenture, the Corporation may, subject to the terms and conditions set forth in the Trust Indenture, purchase Series 16 Debentures in the open market, by tender or by private contract, at any price. Series 16 Debentures purchased by the Corporation shall be cancelled and not reissued.

The Principal Amount may become or be declared due before the Stated Maturity on the conditions, in the manner, with the effect and at the times set forth in the Trust Indenture.

The Trust Indenture contains provisions for the holding of meetings of registered holders of debentures issued by the Corporation pursuant to the Trust Indenture and the making of resolutions at such meetings and the creation of instruments in writing signed by the registered holders of a specified majority of debentures issued and outstanding pursuant to the Trust Indenture. Such resolutions and instruments will be binding on and may affect the rights and entitlements of all holders of debentures issued by the Corporation pursuant to the Trust Indenture, subject to the provisions of the Trust Indenture.

This Series 16 Debenture may be transferred only upon compliance with the conditions prescribed in the Trust Indenture relating to the transfer of a Global Debenture (as defined in the Trust Indenture), and upon compliance with such reasonable requirements as the Trustee or other registrar may prescribe, and such transfer shall be duly noted hereon by the Trustee or other registrar.

This Series 16 Debenture shall not become obligatory for any purpose until it shall have been certified by the manual signature of the Trustee in accordance with the Trust Indenture.

IN WITNESS WHEREOF TORONTO HYDRO CORPORATION has caused this Series 16 Debenture to be signed by its ● and its ●.

TORONTO HYDRO CORPORATION

By: ______________________________

Name: ●

Title: ●

By: ______________________________

Name: ●

Title: ●

(FORM OF TRUSTEE'S CERTIFICATE)

This Debenture is one of the Series 16 Debentures referred to in the Trust Indenture referred to above.

BNY TRUST COMPANY OF CANADA
Trustee

By: ______________________________
Authorized Signatory

(FORM OF REGISTRATION PANEL)

(NO WRITING HEREON EXCEPT BY THE TRUSTEE OR OTHER REGISTRAR)

TORONTO HYDRO CORPORATION
(Incorporated under the laws of Ontario)
1.50% SENIOR UNSECURED DEBENTURES DUE 2030 (SERIES 16)

ISIN CA89119ZAN39
CUSIP 89119ZAN3

DATE OF REGISTRATION	IN WHOSE NAME REGISTERED	AMOUNT OF DECREASE	AMOUNT OF INCREASE	AMOUNT OF SERIES 16 DEBENTURES OUTSTANDING FOLLOWING CHANGE	SIGNATURE OF TRUSTEE OR OTHER REGISTRAR

Schedule 2 – U.S. FORM OF DEFINITIVE DEBENTURE-SERIES 16

*THE SECURITIES REPRESENTED HEREBY HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "**U.S. SECURITIES ACT**") OR UNDER ANY STATE SECURITIES LAWS. THE HOLDER HEREOF, BY PURCHASING SUCH SECURITIES, AGREES FOR THE BENEFIT OF THE CORPORATION THAT SUCH SECURITIES MAY BE OFFERED, SOLD OR OTHERWISE TRANSFERRED ONLY (A) TO THE CORPORATION, (B) OUTSIDE THE UNITED STATES IN ACCORDANCE WITH RULE 904 OF REGULATION S UNDER THE U.S. SECURITIES ACT, OR (C) INSIDE THE UNITED STATES IN ACCORDANCE WITH (1) RULE 144A UNDER THE U.S. SECURITIES ACT OR (2) RULE 144 UNDER THE U.S. SECURITIES ACT, IF AVAILABLE, OR (3) IN COMPLIANCE WITH CERTAIN OTHER PROCEDURES SATISFACTORY TO THE CORPORATION. A NEW CERTIFICATE, BEARING NO LEGEND, DELIVERY OF WHICH WILL CONSTITUTE "GOOD DELIVERY", MAY BE OBTAINED FROM BNY TRUST COMPANY OF CANADA UPON DELIVERY OF THIS CERTIFICATE AND A DULY EXECUTED DECLARATION, IN A FORM SATISFACTORY TO BNY TRUST COMPANY OF CANADA AND THE CORPORATION, TO THE EFFECT THAT THE SALE OF THE SECURITIES REPRESENTED HEREBY IS BEING MADE IN COMPLIANCE WITH RULE 904 OF REGULATION S UNDER THE U.S. SECURITIES ACT.*

[No. 16-000]

$●

TORONTO HYDRO CORPORATION
(Incorporated under the laws of Ontario)
1.50% SENIOR UNSECURED DEBENTURES DUE 2030 (SERIES 16)

Issue Date	October 15, 2020
Stated Maturity	October 15, 2030
Interest Rate Per Annum	1.50%
Interest Payment Dates	April 15 and October 15 in each year
Initial Interest Payment Date	April 15, 2021
Principal Amount	$●

TORONTO HYDRO CORPORATION (the "**Corporation**") for value received hereby promises to pay to the registered holder hereof on the Stated Maturity, or on such earlier date as the Principal Amount (or a portion thereof) may become due in accordance with the provisions of the Trust Indenture (as defined below), on presentation and surrender of this 1.50% Senior Unsecured Debenture October 15, 2030 (Series 16) (the "**Series 16 Debenture**"), the Principal Amount in lawful money of Canada at the office of the Trustee (as defined below) at One York Street, 6th Floor, Toronto, Ontario M5J 0B6, and to pay interest on the Principal Amount at the Interest Rate Per Annum from and including the later of the Issue Date and the last Interest Payment Date on which interest has at that time most recently been paid on this Series 16 Debenture, at the address of the registered holder hereof appearing on the register of Series 16 Debentures maintained by or at the direction of the Trustee (the "**Register**"), in like money semi-annually in arrears, in equal instalments (except in respect of the initial interest payment) on the Interest Payment Dates in each year, and if the Corporation at any time defaults in the payment of any principal or interest, to pay interest on the amount in default at the same rate, in like money, on demand, at the address of the registered holder hereof appearing

on the Register. The Corporation, on the day that is two Business Days before each Interest Payment Date, will forward or cause to be forwarded by same day delivery to the address of the registered holder hereof appearing on the Register a cheque for interest due and payable to such holder on such Interest Payment Date, less any taxes required by law to be deducted or withheld, made payable to the order of such holder; provided, however that in case of payment of interest at maturity or redemption or as otherwise provided in the Trust Indenture, the time for payment of interest, less any such taxes, may at the option of the Corporation be determined based on the time that the certificate representing this Series 16 Debenture is presented and surrendered to the Trustee. The forwarding of such cheque will satisfy and discharge the liability for interest upon such Series 16 Debenture to the extent of the sum represented thereby (plus the amount of any taxes deducted or withheld as aforesaid) unless such cheque is not paid on presentation.

This Series 16 Debenture is one of an authorized issue of debentures designated as 1.50% Senior Unsecured Debentures due October 15, 2030 (Series 16) and forming the series of debentures created and issued under a seventeenth supplemental trust indenture made as of October 15, 2020 (the "**Seventeenth Supplemental Trust Indenture**") to a trust indenture (the "**Indenture**") made as of May 7, 2003, between the Corporation and BNY Trust Company of Canada (successor trustee of CIBC Mellon Trust Company) (the "**Trustee**"), as Trustee (the first supplemental trust indenture to the Indenture made as of May 7, 2003 between the Corporation and the Trustee, the second supplemental trust indenture to the Indenture made as of November 14, 2007 between the Corporation and the Trustee, the third supplemental trust indenture to the Indenture made as of November 12, 2009 between the Corporation and the Trustee, the fourth supplemental trust indenture to the Indenture made as of April 1, 2010 between the Corporation and the Trustee, the fifth supplemental trust indenture to the Indenture made as of April 1, 2010 between the Corporation and the Trustee, the sixth supplemental trust indenture to the Indenture made as of May 20, 2010 between the Corporation and the Trustee, the seventh supplemental trust indenture to the Indenture made as of September 20, 2011 between the Corporation and the Trustee, the eighth supplemental trust indenture to the Indenture made as of November 18, 2011 between the Corporation and the Trustee, the ninth supplemental trust indenture to the Indenture made as of April 9, 2013 between the Corporation and the Trustee, the tenth supplemental trust indenture to the Indenture made as of April 9, 2013 between the Corporation and the Trustee, the amended and restated tenth supplemental trust indenture to the Indenture made as of September 2, 2015 between the Corporation and the Trustee, the eleventh supplemental trust indenture to the Indenture made as of September 16, 2014 between the Corporation and the Trustee, the twelfth supplemental trust indenture to the Indenture made as of March 16, 2015 between the Corporation and the Trustee, the thirteenth supplemental trust indenture to the Indenture made as of June 14, 2016 between the Corporation and the Trustee, the fourteenth supplemental trust indenture to the Indenture made as of November 14, 2017 between the Corporation and the Trustee, the fifteenth supplemental trust indenture to the Indenture made as of November 12, 2019 between the Corporation and the Trustee, the sixteenth supplemental trust indenture to the Indenture made as of November 12, 2019 between the Corporation and the Trustee, and the Seventeenth Supplemental Trust Indenture to the Indenture (as amended, supplemented or restated from time to time) are collectively referred to herein as the "**Trust Indenture**"). The Trust Indenture specifies the terms and conditions upon which the Series 16 Debentures are created and issued or may be created, issued and held and the rights of the registered holders of the Series 16 Debentures, the Corporation and the Trustee, all of which terms and conditions are incorporated by reference in this Series 16 Debenture and to each of which the registered holder of this Series 16 Debenture, by acceptance hereof, agrees.

The aggregate principal amount of Series 16 Debentures that may be created and issued under the Trust Indenture is unlimited. Series 16 Debentures are issuable as fully registered debentures in denominations of $1,000 and integral multiples thereof.

The Series 16 Debentures are direct unsecured obligations of the Corporation and will rank equally with each other and with all other debentures of every other series from time to time issued and outstanding pursuant to the Trust Indenture and, except to the extent prescribed by law, with all other unsecured and unsubordinated Indebtedness of the Corporation.

This Series 16 Debenture is redeemable, at the option of the Corporation when not in default under the Trust Indenture, in whole at any time or in part from time to time, prior to July 15, 2030, subject to the terms and conditions set forth in the Trust Indenture, at a price equal to the greater of the Canada Yield Price (as defined in the Trust Indenture) and par, together with accrued and unpaid interest to (but excluding) the date fixed for redemption.

This Series 16 Debenture is redeemable, at the option of the Corporation when not in default under the Trust Indenture, in whole at any time or in part from time to time, on or after July 15, 2030, subject to the terms and conditions set forth in the Trust Indenture, at a price equal to 100% of the Principal Amount of the Series 16 Debentures outstanding, together with accrued and unpaid interest to (but excluding) the date fixed for redemption.

At any time when the Corporation is not in default under the Trust Indenture, the Corporation may, subject to the terms and conditions set forth in the Trust Indenture, purchase Series 16 Debentures in the open market, by tender or by private contract, at any price. Series 16 Debentures purchased by the Corporation shall be cancelled and not reissued.

The Principal Amount may become or be declared due before the Stated Maturity on the conditions, in the manner, with the effect and at the times set forth in the Trust Indenture.

The Trust Indenture contains provisions for the holding of meetings of registered holders of debentures issued by the Corporation pursuant to the Trust Indenture and the making of resolutions at such meetings and the creation of instruments in writing signed by the registered holders of a specified majority of debentures issued and outstanding pursuant to the Trust Indenture. Such resolutions and instruments will be binding on and may affect the rights and entitlements of all holders of debentures issued by the Corporation pursuant to the Trust Indenture, subject to the provisions of the Trust Indenture.

This Series 16 Debenture may be transferred only upon compliance with the conditions prescribed in the Trust Indenture by the registered holder hereof or the holder's legal representative or attorney duly appointed by an instrument in form and execution satisfactory to the Trustee, and upon compliance with such reasonable requirements as the Trustee or other registrar may prescribe, and such transfer shall be duly noted hereon by the Trustee or other registrar.

This Series 16 Debenture shall not become obligatory for any purpose until it shall have been certified by the manual signature of the Trustee in accordance with the Trust Indenture.

IN WITNESS WHEREOF TORONTO HYDRO CORPORATION has caused this Series 16 Debenture to be signed by its ● and its ●.

TORONTO HYDRO CORPORATION

By: ______________________________

Name: ●

Title: ●

By: ______________________________

Name: ●

Title: ●

(FORM OF TRUSTEE'S CERTIFICATE)

This Debenture is one of the Series 16 Debentures referred to in the Trust Indenture referred to above.

BNY TRUST COMPANY OF CANADA
Trustee

By: ______________________________
Authorized Signatory

(FORM OF REGISTRATION PANEL)

(NO WRITING HEREON EXCEPT BY THE TRUSTEE OR OTHER REGISTRAR)

TORONTO HYDRO CORPORATION
(Incorporated under the laws of Ontario)
1.50% SENIOR UNSECURED DEBENTURES DUE 2030 (SERIES 16)

DATE OF REGISTRATION	IN WHOSE NAME REGISTERED	SIGNATURE OF TRUSTEE OR OTHER REGISTRAR

EIGHTEENTH SUPPLEMENTAL TRUST INDENTURE

Made as of October 18, 2021

Between

TORONTO HYDRO CORPORATION
as issuer

and

BNY TRUST COMPANY OF CANADA
as trustee

Supplementing the Trust Indenture

made as of May 7, 2003

and

providing for the issue of

2.47% Senior Unsecured Debentures
due 2031 (Series 17)

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EIGHTEENTH SUPPLEMENTAL TRUST INDENTURE

THIS EIGHTEENTH SUPPLEMENTAL TRUST INDENTURE made as of October 18, 2021,

BETWEEN:

TORONTO HYDRO CORPORATION
a corporation incorporated under the laws of Ontario (the "**Corporation**")

and

BNY TRUST COMPANY OF CANADA
a trust company existing under the laws of Canada (the "**Trustee**")

RECITALS

(A) BNY Trust Company of Canada is the successor trustee of CIBC Mellon Trust Company;

(B) The Corporation has entered into a trust indenture with the Trustee made as of May 7, 2003, as amended, supplemented or restated from time to time (the "**Trust Indenture**") which provides for the issuance of one or more series of unsecured Debentures of the Corporation by way of Supplemental Indentures;

(C) The Corporation entered into a first supplemental trust indenture made as of May 7, 2003 for the purpose of providing for the issue of $225,000,000 aggregate principal amount of Series 1 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 1 Debentures;

(D) The Corporation entered into a second supplemental trust indenture made as of November 14, 2007 for the purpose of providing for the issue of $250,000,000 aggregate principal amount of Series 2 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 2 Debentures;

(E) The Corporation entered into a third supplemental trust indenture made as of November 12, 2009 for the purpose of providing for the issue of $250,000,000 aggregate principal amount of Series 3 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 3 Debentures;

(F) The City Note has been converted, in accordance with its terms, into the Series 4 Debentures and the Series 5 Debentures;

(G) The Corporation entered into a fourth supplemental trust indenture made as of April 1, 2010 for the purpose of providing for the issue of $245,057,000 aggregate principal amount of Series 4 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 4 Debentures;

(H) The Corporation entered into a fifth supplemental trust indenture made as of April 1, 2010 for the purpose of providing for the issue of $245,057,000 aggregate principal amount of Series 5 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 5 Debentures;

(I) The Corporation entered into a sixth supplemental trust indenture made as of May 20, 2010 for the purpose of providing for the issue of $200,000,000 aggregate principal amount of Series 6 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 6 Debentures;

(J) The Corporation entered into a seventh supplemental trust indenture made as of September 20, 2011 for the purpose of amending the definition of "GAAP" under the Trust Indenture;

(K) The Corporation entered into an eighth supplemental trust indenture made as of November 18, 2011 for the purpose of providing for the issue of $300,000,000 aggregate principal amount of Series 7 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 7 Debentures;

(L) The Corporation entered into a ninth supplemental trust indenture made as of April 9, 2013 for the purpose of providing for the issue of $250,000,000 aggregate principal amount of Series 8 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 8 Debentures;

(M) The Corporation entered into a tenth supplemental trust indenture made as of April 9, 2013 for the purpose of providing for the issue of $200,000,000 aggregate principal amount of Series 9 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 9 Debentures;

(N) The Corporation entered into an eleventh supplemental trust indenture made as of September 16, 2014 for the purpose of providing for the issue of $200,000,000 aggregate principal amount of Series 10 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 10 Debentures;

(O) The Corporation entered into a twelfth supplemental trust indenture made as of March 16, 2015 for the purpose of providing for the issue of $200,000,000 aggregate principal amount of Series 11 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 11 Debentures;

(P) The Corporation entered into an amended and restated tenth supplemental trust indenture made as of September 2, 2015 for the purpose of making changes and corrections which were required for curing and correcting certain ambiguities and omissions in connection with an issue of $45,000,000 additional aggregate principal amount of the Series 9 Debentures;

(Q) The Corporation entered into a thirteenth supplemental trust indenture made as of June 14, 2016 for the purpose of providing for the issue of $200,000,000 aggregate principal amount of Series 12 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 12 Debentures;

(R) The Corporation entered into a fourteenth supplemental trust indenture made as of November 14, 2017 for the purpose of providing for the issue of $200,000,000 aggregate principal amount of Series 13 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 13 Debentures;

(S) The Corporation entered into a fifteenth supplemental trust indenture made as of November 12, 2019 for the purpose of providing for the issue of $200,000,000 aggregate principal amount of Series 14 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 14 Debentures;

(T) The Corporation entered into a sixteenth supplemental trust indenture made as of November 12, 2019 for the purpose of providing for the issue of $200,000,000 aggregate principal amount of Series 15 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 15 Debentures;

(U) The Corporation entered into a seventeenth supplemental trust indenture made as of October 15, 2020 for the purpose of providing for the issue of $200,000,000 aggregate principal amount of Series 16 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 16 Debentures; and

(V) This Eighteenth Supplemental Trust Indenture is entered into for the purpose of providing for the issue of $150,000,000 aggregate principal amount of Series 17 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 17 Debentures.

NOW THEREFORE THIS EIGHTEENTH SUPPLEMENTAL TRUST INDENTURE WITNESSES and it is hereby covenanted, agreed and declared as follows:

Section 1 INTERPRETATION

1.1 To Be Read With Trust Indenture

This Eighteenth Supplemental Trust Indenture is a Supplemental Indenture as that term is used in the Trust Indenture. The Trust Indenture and this Eighteenth Supplemental Trust Indenture shall be read together and shall have effect as though all the provisions of both indentures were contained in one instrument.

1.2 Headings etc.

The division of this Eighteenth Supplemental Trust Indenture into Sections and clauses, the provision of a table of contents and the insertion of headings are for convenience of reference only and shall not affect the interpretation thereof. Unless the context otherwise requires, the expression "Section" and "Schedule" followed by a number, letter or combination of numbers and letters refer to the specified Section of or Schedule to this Eighteenth Supplemental Trust Indenture.

1.3 Definitions

All terms which are defined in the Trust Indenture and used but not defined in this Eighteenth Supplemental Trust Indenture shall have the meanings ascribed to them in the Trust Indenture, as such meanings may be amended or supplemented with respect to Series 17 Debentures by this Eighteenth Supplemental Trust Indenture. In the event of any inconsistency between the meaning given to a term in the Trust Indenture and the meaning given to the same term in this Eighteenth Supplemental Trust Indenture, the meaning given to the term in this Eighteenth Supplemental Trust Indenture shall prevail to the extent of the inconsistency. Subject to the foregoing, in this Eighteenth Supplemental Trust Indenture and in the Series 17 Debentures, the following terms have the following meanings:

(a) ***Canada Yield*** on any date means the yield to maturity on that date, compounded semi-annually, that a non-callable Government of Canada bond would carry if issued, in Canadian dollars in Canada, at 100% of its principal amount on that date with a term to maturity approximately equal to the remaining term to July 20, 2031 of the Series 17 Debentures, such yield to maturity being the average of the yields provided by two major Canadian investment dealers specified by the Corporation.

(b) ***Canada Yield Price*** means the amount equal to the net present value of all scheduled payments of interest (other than accrued and unpaid interest) and principal on the Series 17 Debentures that would have been payable to July 20, 2031 if redemption had not been made, using a discount rate equal to the sum of the Canada Yield and 22 basis points, calculated at 10:00 a.m. (Toronto, Ontario time) three Business Days prior to the Redemption Date of the Series 17 Debentures.

(c) ***Series 17 Debentures*** means the 2.47% Senior Unsecured Debentures due 2031 (Series 17) referred to in Section 2.1.

(d) ***Series 17 Debentures Debt Account*** means the deposit account established in respect of the Series 17 Debentures pursuant to Section 8.2 of the Trust Indenture that is designated in writing by the Corporation to the Trustee as the "Series 17 Debentures Debt Account".

(e) ***Series 17 Debentures Interest Payment Date*** means April 20 and October 20 in each year that the Series 17 Debentures are outstanding, beginning April 20, 2022.

(f) ***Series 17 Debentures Interest Period*** means the period commencing on and including the later of the date of issue of the Series 17 Debentures and the immediately preceding Series 17 Debentures Interest Payment Date and ending on and including the day immediately preceding the next Series 17 Debentures Interest Payment Date to occur in respect of which interest is payable.

(g) ***Trust Indenture*** means the trust indenture made as of May 7, 2003 between the Corporation and the Trustee, as amended, supplemented or restated from time to time.

Section 2 SERIES 17 DEBENTURES

2.1 Creation and Designation

The Corporation is authorized in accordance with the Trust Indenture to issue under this Eighteenth Supplemental Trust Indenture, and hereby creates and issues, a series of debentures designated "2.47% Senior Unsecured Debentures due 2031 (Series 17)", having the terms set out in this Eighteenth Supplemental Trust Indenture.

2.2 No Limitation on Issue

The aggregate principal amount of Series 17 Debentures which may be issued under this Eighteenth Supplemental Trust Indenture including any supplement hereto is unlimited.

2.3 Date of Issue and Maturity

The Series 17 Debentures shall be dated October 18, 2021 (being the applicable date of issue) and will become due and payable, together with all accrued interest and unpaid interest thereon, on October 20, 2031 (being the applicable Stated Maturity).

2.4 Concerning Interest

(a) The Series 17 Debentures shall be issued in $1,000 principal amount denominations or integral multiples thereof and shall bear interest on the unpaid principal amount thereof at a rate of 2.47% per annum from and including their date of issue, payable semi-annually in arrears, in equal instalments (except in respect of the initial interest payment), on each Series 17 Debentures Interest Payment Date.

(b) Interest shall be payable in respect of each Series 17 Debentures Interest Period (after as well as before maturity, default and judgment, with interest on overdue interest at the same rate) on each Series 17 Debentures Interest Payment Date in accordance with Section 2.8 of the Trust Indenture, commencing on April 20, 2022 with an initial interest payment on April 20, 2022 of $12.48534247 per $1,000 principal amount of Series 17 Debentures.

2.5 Interest Payments

The Corporation shall make payments of interest on the Series 17 Debentures in accordance with the provisions of Section 2.8 of the Trust Indenture.

2.6 Payment of Amounts Due on Maturity

In accordance with Section 8.2 of the Trust Indenture, the Corporation will deposit to the Series 17 Debentures Debt Account all amounts required to be paid to the order of Holders of Series 17 Debentures on maturity, prior to 9:00 a.m. (Toronto, Ontario time), on the Stated Maturity of the Series 17 Debentures. The deposit of such funds will satisfy and discharge the liability of the Corporation for principal of, and any accrued and unpaid interest on, the Series 17 Debentures to the extent of the sum represented thereby (plus the amount of any taxes deducted or withheld).

2.7 Redemption and Purchase of Series 17 Debentures

(a) The Series 17 Debentures may be redeemed, at the Corporation's option when not in default under the Trust Indenture, in whole at any time or in part from time to time, prior to July 20, 2031, on not more than 60 calendar days and not less than 10 calendar days prior notice, at a price equal to the greater of the Canada Yield Price and par, together in each case with accrued and unpaid interest to (but excluding) the Redemption Date and in each case otherwise in accordance with Sections 5.1, 5.2, 5.3 and 5.4 of the Trust Indenture.

(b) The Series 17 Debentures may be redeemed, at the Corporation's option when not in default under the Trust Indenture, in whole at any time or in part from time to time, on or after July 20, 2031, on not more than 60 calendar days and not less than 10 calendar days prior notice, at a price equal to 100% of the principal amount of the Series 17 Debentures outstanding, together with accrued and unpaid interest to (but excluding) the Redemption Date and otherwise in accordance with Sections 5.1, 5.2, 5.3 and 5.4 of the Trust Indenture.

(c) The Corporation will be entitled at any time when not in default under the Trust Indenture to purchase for cancellation all or any of the Series 17 Debentures in accordance with Section 5.5 of the Trust Indenture.

(d) The Series 17 Debentures will not be subject to repurchase pursuant to any sinking fund provisions.

(e) Notice of redemption of any Series 17 Debentures given to the holders of the Series 17 Debentures may be conditional and, in such case, such notice of redemption shall specify the details and terms of any event (e.g., a financing, asset disposition or other transaction) on which such redemption is conditional.

2.8 Form of Series 17 Debentures

(a) Except as set out in 2.8(b) below, the Series 17 Debentures and the registration panel and the certificate of the Trustee endorsed thereon shall be issuable initially as one Global Debenture to be held by, or on behalf of, CDS as depository for its participants and registered in the name of CDS or its nominee. The Global Debenture shall be substantially in the form set out in Schedule 1 hereto with such appropriate additions, deletions, substitutions and variations as the Directors shall by resolution determine prior to the time of issue thereof and as the Trustee may approve and with such distinguishing letters and numbers as the Trustee may approve, with such approval in each case to be conclusively evidenced by the Trustee's certification of such Global Debenture.

(b) The Trustee understands and acknowledges that the Series 17 Debentures have not been and will not be registered under the United States Securities Act of 1933, as amended (the "U.S. Securities Act"). Each Series 17 Debenture originally issued in the United States or to a U.S. Person will be represented by a definitive certificate in the form set out in Schedule 2 hereto which definitive certificate, and each Series 17 Debenture certificate issued in exchange therefor or in substitution thereof, shall bear the following legend:

"THE SECURITIES REPRESENTED HEREBY HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE **"U.S. SECURITIES ACT**") OR UNDER ANY STATE SECURITIES LAWS. THE HOLDER HEREOF, BY PURCHASING SUCH SECURITIES, AGREES FOR THE BENEFIT OF THE CORPORATION THAT SUCH SECURITIES MAY BE OFFERED, SOLD OR OTHERWISE TRANSFERRED ONLY (A) TO THE CORPORATION, (B) OUTSIDE THE UNITED STATES IN ACCORDANCE WITH RULE 904 OF REGULATION S UNDER THE U.S. SECURITIES ACT, OR (C) INSIDE THE UNITED STATES IN

ACCORDANCE WITH (1) RULE 144A UNDER THE U.S. SECURITIES ACT OR (2) RULE 144 UNDER THE U.S. SECURITIES ACT, IF AVAILABLE, OR (3) IN COMPLIANCE WITH CERTAIN OTHER PROCEDURES SATISFACTORY TO THE CORPORATION. A NEW CERTIFICATE, BEARING NO LEGEND, DELIVERY OF WHICH WILL CONSTITUTE "GOOD DELIVERY", MAY BE OBTAINED FROM BNY TRUST COMPANY OF CANADA UPON DELIVERY OF THIS CERTIFICATE AND A DULY EXECUTED DECLARATION, IN A FORM SATISFACTORY TO BNY TRUST COMPANY OF CANADA AND THE CORPORATION, TO THE EFFECT THAT THE SALE OF THE SECURITIES REPRESENTED HEREBY IS BEING MADE IN COMPLIANCE WITH RULE 904 OF REGULATION S UNDER THE U.S. SECURITIES ACT."

If any Series 17 Debentures are being sold or transferred outside the United States in compliance with the requirements of Rule 904 of Regulation S under the U.S Securities Act, the legend may be removed by providing a declaration to the Trustee to the following effect (or as the Corporation may prescribe from time to time),

"The undersigned (A) acknowledges that the sale of the ________________ Debentures, represented by certificate numbers _______________ to which this declaration relates is being made in reliance on Rule 904 of Regulation S under the United States Securities Act of 1933, as amended (the "**U.S. Securities Act**") and (B) certifies that (1) it is not an "affiliate" (as defined in Rule 405 under the U.S. Securities Act) of Toronto Hydro Corporation, (2) the offer of such Debentures was not made to a person in the United States and at the time the buy order was originated, the buyer was outside the United States, or the seller and any person acting on its behalf reasonably believe that the buyer was outside the United States and (3) neither the seller, nor any affiliate of the seller, nor any person acting on its or their behalf engaged in any directed selling efforts in connection with the offer and sale of such Debentures. Terms used herein have the meanings given to them by Regulation S under the U.S. Securities Act."

If any Series 17 Debentures are being sold or transferred pursuant to Rule 144 of the U.S. Securities Act, the legend may be removed by delivery to the Trustee of a written opinion of Trustee Counsel (or counsel to the transferor satisfactory to the Trustee) to the effect that such legend is no longer required under applicable requirements of the U.S. Securities Act or state securities laws.

Prior to the issuance of Series 17 Debentures, the Corporation shall notify the Trustee, in writing, concerning which Series 17 Debentures are to be certificated and are to bear the legend described above. The Trustee will thereafter maintain a list of all registered holders from time to time of legended Series 17 Debentures.

2.9 Signatures on Series 17 Debentures

The Series 17 Debentures shall be signed in accordance with the provisions of Section 2.6 of the Trust Indenture.

2.10 Certification

(a) No Series 17 Debenture issued shall be obligatory or shall entitle the Holder of such Series 17 Debenture to the benefits of this Eighteenth Supplemental Trust Indenture until it has been certified by manual, facsimile or electronic signature by or on behalf of the Trustee by execution of the certificate of the Trustee appended thereto substantially in the form set out in Schedule 1 hereto, or in some other form approved by the Trustee, whose approval shall be conclusively evidenced by the Trustee's execution of the certificate. Such certificate on any Series 17 Debenture shall be conclusive evidence that such Series 17 Debenture is duly issued and is a valid and binding obligation of the Corporation and that the Holder of such Series 17 Debenture is entitled to the benefits of the Trust Indenture, as supplemented by this Eighteenth Supplemental Trust Indenture, and such Series 17 Debenture.

(b) The certificate of the Trustee on any Series 17 Debenture shall not be construed as a representation or warranty by the Trustee as to the validity of this Eighteenth Supplemental Trust Indenture or of the Series 17 Debentures (except the due certification thereof and any other warranties implied by law) and the Trustee shall in no respect be liable or answerable for the use made of the Series 17 Debentures or any of them or the proceeds thereof.

2.11 Location of Register

With respect to the Series 17 Debentures, initially the Register referred to in Section 3.1 of the Trust Indenture shall be kept by the Trustee at the Corporate Trust Office and may thereafter be kept by the Trustee in such other place as the Corporation, with the approval of the Trustee, may designate.

2.12 Additional Amounts

The Corporation will not be required to pay an additional amount on the Series 17 Debentures in respect of any tax, assessment or government charge that is required by law to be withheld or deducted by it.

2.13 Trustees, etc.

The Trustee will be the Paying Agent and the Registrar for the Series 17 Debentures.

Section 3 MISCELLANEOUS

3.1 Acceptance of Trust

The Trustee accepts the trusts in this Eighteenth Supplemental Trust Indenture and agrees to carry out and discharge the same upon the terms and conditions set out in this Eighteenth Supplemental Trust Indenture and in accordance with the Trust Indenture.

3.2 Confirmation of Trust Indenture

The Trust Indenture as amended and supplemented by this Eighteenth Supplemental Trust Indenture is in all respects confirmed.

3.3 Counterparts

This Eighteenth Supplemental Trust Indenture may be executed in counterparts, each of which so executed shall be deemed to be original and such counterparts together shall constitute one and the same instrument.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF the parties hereto have executed this Eighteenth Supplemental Trust Indenture under the hands of their proper signatories in that behalf:

TORONTO HYDRO CORPORATION

By: ______________________________

Name: Anthony Haines

Title: President and Chief Executive Officer

By: ______________________________

Name: Aida Cipolla

Title: Executive Vice-President and Chief Financial Officer

[Trustee Signature Page Follows]

IN WITNESS WHEREOF the parties hereto have executed this Eighteenth Supplemental Trust Indenture under the hands of their proper signatories in that behalf:

BNY TRUST COMPANY OF CANADA

By: I. E. Bawa

Name: Ismail Bawa

Title: Authorized Signatory

Schedule 1 – FORM OF GLOBAL DEBENTURE-SERIES 17

This Debenture is a Global Debenture within the meaning of the Trust Indenture hereinafter referred to and is registered in the name of a Depository or a nominee thereof. Unless this Certificate is presented by an authorized representative of CDS Clearing and Depository Services Inc. ("CDS") to Toronto Hydro Corporation or its agent for registration of transfer, exchange or payment, and any certificate issued in respect thereof is registered in the name of CDS & CO., or in such other name as is requested by an authorized representative of CDS (and any payment is made to CDS & CO., or to such other entity as is requested by an authorized representative of CDS), ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL since the registered holder hereof, CDS & CO., has a property interest in the securities represented by this certificate herein and it is a violation of its rights for another person to hold, transfer or deal with this certificate.

[No. 17-000]

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TORONTO HYDRO CORPORATION
(Incorporated under the laws of Ontario)
2.47% SENIOR UNSECURED DEBENTURES DUE 2031 (SERIES 17)

ISIN CA89119ZAP86
CUSIP 89119ZAP8

Issue Date	October 18, 2021
Stated Maturity	October 20, 2031
Interest Rate Per Annum	2.47%
Interest Payment Dates	April 20 and October 20 in each year
Initial Interest Payment Date	April 20, 2022
Principal Amount	$●

TORONTO HYDRO CORPORATION (the "**Corporation**") for value received hereby promises to pay to the registered holder hereof on the Stated Maturity, or on such earlier date as the Principal Amount (or a portion thereof) may become due in accordance with the provisions of the Trust Indenture (as defined below), on presentation and surrender of this 2.47% Senior Unsecured Debenture due October 20, 2031 (Series 17) (the "**Series 17 Debenture**"), the Principal Amount in lawful money of Canada at the office of the Trustee (as defined below) at One York Street, 6th Floor, Toronto, Ontario M5J 0B6, and to pay interest on the Principal Amount at the Interest Rate Per Annum from and including the later of the Issue Date and the last Interest Payment Date on which interest has at that time most recently been paid on this Series 17 Debenture, at the address of the registered holder hereof appearing on the register of Series 17 Debentures maintained by or at the direction of the Trustee (the "**Register**"), in like money semi-annually in arrears, in equal instalments on the Interest Payment Dates in each year (except in respect of the Initial Interest Payment Date), and if the Corporation at any time defaults in the payment of any principal or interest, to pay interest on the amount in default at the same rate, in like money, on demand, at the address of the registered holder hereof appearing on the Register. The Corporation will (i) on the day that is each Interest Payment Date, make payment by a wire transfer, or (ii) on the day that is two Business Days before each Interest Payment Date, forward or cause to be forwarded a cheque by same day delivery, to the address of the registered holder hereof appearing on the Register for interest due and payable to such holder on such Interest Payment Date, less any taxes required by law to be deducted or withheld, made payable to the order of such holder; provided, however that in case of payment of interest at maturity or redemption or as otherwise provided in the Trust Indenture, the time for payment of interest, less any such taxes, may at the option of the Corporation be determined based on the time that the certificate representing this Series 17 Debenture is presented and surrendered to the Trustee. The payment by such wire transfer or forwarding of such cheque (provided such cheque is paid on presentation) will satisfy and discharge the liability for interest upon such Series 17 Debenture to the extent of the sum represented thereby (plus the amount of any taxes deducted or withheld as aforesaid).

This Series 17 Debenture is one of an authorized issue of debentures designated as 2.47% Senior Unsecured Debentures due October 20, 2031 (Series 17) and forming the series of debentures created and issued under an eighteenth supplemental trust indenture made as of October 18, 2021 (the "**Eighteenth Supplemental Trust Indenture**") to a trust indenture (the "**Indenture**") made as of May 7, 2003, between the Corporation and BNY Trust Company of Canada (successor trustee of CIBC Mellon Trust Company) (the "**Trustee**"), as Trustee (the first supplemental trust indenture to the Indenture made as of May 7, 2003 between the Corporation and the Trustee, the second supplemental trust indenture to the Indenture made as of November 14, 2007 between the Corporation and the Trustee, the third supplemental trust indenture to the Indenture made as of November 12, 2009 between the Corporation and the Trustee, the fourth supplemental trust indenture to the Indenture made as of April 1, 2010 between the Corporation and the Trustee, the fifth supplemental trust indenture to the Indenture made as of April 1, 2010 between the Corporation and the Trustee, the sixth supplemental trust indenture to the Indenture made as of May 20, 2010 between the Corporation and the Trustee, the seventh supplemental trust indenture to the Indenture made as of September 20, 2011 between the Corporation and the Trustee, the eighth supplemental trust indenture to the Indenture made as of November 18, 2011 between the Corporation and the Trustee, the ninth supplemental trust indenture to the Indenture made as of April 9, 2013 between the Corporation and the Trustee, the tenth supplemental trust indenture to the Indenture made as of April 9, 2013 between the Corporation and the Trustee, the amended and restated tenth supplemental trust indenture to the Indenture made as of September 2, 2015 between the Corporation and the Trustee, the eleventh supplemental trust indenture to the Indenture made as of September 16, 2014 between the Corporation and the Trustee, the twelfth supplemental trust indenture to the Indenture made as of March 16, 2015 between the Corporation and the Trustee, the thirteenth supplemental trust indenture to the Indenture made as of June 14, 2016 between the Corporation and the Trustee, the fourteenth supplemental trust indenture to the Indenture made as of November 14, 2017 between the Corporation and the Trustee, the fifteenth supplemental trust indenture to the Indenture made as of November 12, 2019 between the Corporation and the Trustee, the sixteenth supplemental trust indenture to the Indenture made as of November 12, 2019 between the Corporation and the Trustee, the seventeenth supplemental trust indenture to the Indenture made as of October 15, 2020 between the Corporation and the Trustee, and the Eighteenth Supplemental Trust Indenture to the Indenture (as amended, supplemented or restated from time to time) are collectively referred to herein as the "**Trust Indenture**"). The Trust Indenture specifies the terms and conditions upon which the Series 17 Debentures are created and issued or may be created, issued and held and the rights of the registered holders of the Series 17 Debentures, the Corporation and the Trustee, all of which terms and conditions are incorporated by reference in this Series 17 Debenture and to each of which the registered holder of this Series 17 Debenture, by acceptance hereof, agrees.

The aggregate principal amount of Series 17 Debentures that may be created and issued under the Trust Indenture is unlimited. Series 17 Debentures are issuable as fully registered debentures in denominations of $1,000 and integral multiples thereof and, subject to the terms and conditions set forth in the Trust Indenture, are issued as book entry only debentures.

The Series 17 Debentures are direct unsecured obligations of the Corporation and will rank equally with each other and with all other debentures of every other series from time to time issued and outstanding pursuant to the Trust Indenture and, except to the extent prescribed by law, with all other unsecured and unsubordinated Indebtedness of the Corporation.

This Series 17 Debenture is redeemable, at the option of the Corporation when not in default under the Trust Indenture, in whole at any time or in part from time to time, prior to July 20, 2031, subject to the terms and conditions set forth in the Trust Indenture, at a price equal to the greater of the Canada Yield Price (as defined in the Trust Indenture) and par, together with accrued and unpaid interest to (but excluding) the date fixed for redemption.

This Series 17 Debenture is redeemable, at the option of the Corporation when not in default under the Trust Indenture, in whole at any time or in part from time to time, on or after July 20, 2031, subject to the terms and conditions set forth in the Trust Indenture, at a price equal to 100% of the Principal Amount of the Series 17 Debentures outstanding, together with accrued and unpaid interest to (but excluding) the date fixed for redemption.

At any time when the Corporation is not in default under the Trust Indenture, the Corporation may, subject to the terms and conditions set forth in the Trust Indenture, purchase Series 17 Debentures in the open market, by tender or by private contract, at any price. Series 17 Debentures purchased by the Corporation shall be cancelled and not reissued.

The Principal Amount may become or be declared due before the Stated Maturity on the conditions, in the manner, with the effect and at the times set forth in the Trust Indenture.

The Trust Indenture contains provisions for the holding of meetings of registered holders of debentures issued by the Corporation pursuant to the Trust Indenture and the making of resolutions at such meetings and the creation of instruments in writing signed by the registered holders of a specified majority of debentures issued and outstanding pursuant to the Trust Indenture. Such resolutions and instruments will be binding on and may affect the rights and entitlements of all holders of debentures issued by the Corporation pursuant to the Trust Indenture, subject to the provisions of the Trust Indenture.

This Series 17 Debenture may be transferred only upon compliance with the conditions prescribed in the Trust Indenture relating to the transfer of a Global Debenture (as defined in the Trust Indenture), and upon compliance with such reasonable requirements as the Trustee or other registrar may prescribe, and such transfer shall be duly noted hereon by the Trustee or other registrar.

This Series 17 Debenture shall not become obligatory for any purpose until it shall have been certified by the manual signature of the Trustee in accordance with the Trust Indenture.

IN WITNESS WHEREOF TORONTO HYDRO CORPORATION has caused this Series 17 Debenture to be signed by its ● and its ●.

TORONTO HYDRO CORPORATION

By: ______________________________

Name: ●

Title: ●

By: ______________________________

Name: ●

Title: ●

(FORM OF TRUSTEE'S CERTIFICATE)

This Debenture is one of the Series 17 Debentures referred to in the Trust Indenture referred to above.

BNY TRUST COMPANY OF CANADA
Trustee

By: ______________________________
Authorized Signatory

(FORM OF REGISTRATION PANEL)

(NO WRITING HEREON EXCEPT BY THE TRUSTEE OR OTHER REGISTRAR)

TORONTO HYDRO CORPORATION
(Incorporated under the laws of Ontario)
2.47% SENIOR UNSECURED DEBENTURES DUE 2031 (SERIES 17)

ISIN CA89119ZAP86
CUSIP 89119ZAP8

DATE OF REGISTRATION	IN WHOSE NAME REGISTERED	AMOUNT OF DECREASE	AMOUNT OF INCREASE	AMOUNT OF SERIES 17 DEBENTURES OUTSTANDING FOLLOWING CHANGE	SIGNATURE OF TRUSTEE OR OTHER REGISTRAR

Schedule 2 – U.S. FORM OF DEFINITIVE DEBENTURE-SERIES 17

*THE SECURITIES REPRESENTED HEREBY HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "**U.S. SECURITIES ACT**") OR UNDER ANY STATE SECURITIES LAWS. THE HOLDER HEREOF, BY PURCHASING SUCH SECURITIES, AGREES FOR THE BENEFIT OF THE CORPORATION THAT SUCH SECURITIES MAY BE OFFERED, SOLD OR OTHERWISE TRANSFERRED ONLY (A) TO THE CORPORATION, (B) OUTSIDE THE UNITED STATES IN ACCORDANCE WITH RULE 904 OF REGULATION S UNDER THE U.S. SECURITIES ACT, OR (C) INSIDE THE UNITED STATES IN ACCORDANCE WITH (1) RULE 144A UNDER THE U.S. SECURITIES ACT OR (2) RULE 144 UNDER THE U.S. SECURITIES ACT, IF AVAILABLE, OR (3) IN COMPLIANCE WITH CERTAIN OTHER PROCEDURES SATISFACTORY TO THE CORPORATION. A NEW CERTIFICATE, BEARING NO LEGEND, DELIVERY OF WHICH WILL CONSTITUTE "GOOD DELIVERY", MAY BE OBTAINED FROM BNY TRUST COMPANY OF CANADA UPON DELIVERY OF THIS CERTIFICATE AND A DULY EXECUTED DECLARATION, IN A FORM SATISFACTORY TO BNY TRUST COMPANY OF CANADA AND THE CORPORATION, TO THE EFFECT THAT THE SALE OF THE SECURITIES REPRESENTED HEREBY IS BEING MADE IN COMPLIANCE WITH RULE 904 OF REGULATION S UNDER THE U.S. SECURITIES ACT.*

[No. 17-000]

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TORONTO HYDRO CORPORATION
(Incorporated under the laws of Ontario)
2.47% SENIOR UNSECURED DEBENTURES DUE 2031 (SERIES 17)

Issue Date	October 18, 2021
Stated Maturity	October 20, 2031
Interest Rate Per Annum	2.47%
Interest Payment Dates	April 20 and October 20 in each year
Initial Interest Payment Date	April 20, 2022
Principal Amount	$●

TORONTO HYDRO CORPORATION (the "**Corporation**") for value received hereby promises to pay to the registered holder hereof on the Stated Maturity, or on such earlier date as the Principal Amount (or a portion thereof) may become due in accordance with the provisions of the Trust Indenture (as defined below), on presentation and surrender of this 2.47% Senior Unsecured Debenture due October 20, 2031 (Series 17) (the "**Series 17 Debenture**"), the Principal Amount in lawful money of Canada at the office of the Trustee (as defined below) at One York Street, 6th Floor, Toronto, Ontario M5J 0B6, and to pay interest on the Principal Amount at the Interest Rate Per Annum from and including the later of the Issue Date and the last Interest Payment Date on which interest has at that time most recently been paid on this Series 17 Debenture, at the address of the registered holder hereof appearing on the register of Series 17 Debentures maintained by or at the direction of the Trustee (the "**Register**"), in like money semi-annually in arrears, in equal instalments on the Interest Payment Dates in each year (except in respect of the Initial Interest Payment Date), and if the Corporation at any time defaults in the payment of any principal or interest, to pay interest on the amount in default at the same rate, in like money, on demand, at the address of the registered holder hereof appearing on the Register. The

Corporation, on the day that is two Business Days before each Interest Payment Date, will forward or cause to be forwarded by same day delivery to the address of the registered holder hereof appearing on the Register a cheque for interest due and payable to such holder on such Interest Payment Date, less any taxes required by law to be deducted or withheld, made payable to the order of such holder; provided, however that in case of payment of interest at maturity or redemption or as otherwise provided in the Trust Indenture, the time for payment of interest, less any such taxes, may at the option of the Corporation be determined based on the time that the certificate representing this Series 17 Debenture is presented and surrendered to the Trustee. The forwarding of such cheque will satisfy and discharge the liability for interest upon such Series 17 Debenture to the extent of the sum represented thereby (plus the amount of any taxes deducted or withheld as aforesaid) unless such cheque is not paid on presentation.

This Series 17 Debenture is one of an authorized issue of debentures designated as 2.47% Senior Unsecured Debentures due October 20, 2031 (Series 17) and forming the series of debentures created and issued under an eighteenth supplemental trust indenture made as of October 18, 2021 (the “**Eighteenth Supplemental Trust Indenture**") to a trust indenture (the "**Indenture**") made as of May 7, 2003, between the Corporation and BNY Trust Company of Canada (successor trustee of CIBC Mellon Trust Company) (the "**Trustee**"), as Trustee (the first supplemental trust indenture to the Indenture made as of May 7, 2003 between the Corporation and the Trustee, the second supplemental trust indenture to the Indenture made as of November 14, 2007 between the Corporation and the Trustee, the third supplemental trust indenture to the Indenture made as of November 12, 2009 between the Corporation and the Trustee, the fourth supplemental trust indenture to the Indenture made as of April 1, 2010 between the Corporation and the Trustee, the fifth supplemental trust indenture to the Indenture made as of April 1, 2010 between the Corporation and the Trustee, the sixth supplemental trust indenture to the Indenture made as of May 20, 2010 between the Corporation and the Trustee, the seventh supplemental trust indenture to the Indenture made as of September 20, 2011 between the Corporation and the Trustee, the eighth supplemental trust indenture to the Indenture made as of November 18, 2011 between the Corporation and the Trustee, the ninth supplemental trust indenture to the Indenture made as of April 9, 2013 between the Corporation and the Trustee, the tenth supplemental trust indenture to the Indenture made as of April 9, 2013 between the Corporation and the Trustee, the amended and restated tenth supplemental trust indenture to the Indenture made as of September 2, 2015 between the Corporation and the Trustee, the eleventh supplemental trust indenture to the Indenture made as of September 16, 2014 between the Corporation and the Trustee, the twelfth supplemental trust indenture to the Indenture made as of March 16, 2015 between the Corporation and the Trustee, the thirteenth supplemental trust indenture to the Indenture made as of June 14, 2016 between the Corporation and the Trustee, the fourteenth supplemental trust indenture to the Indenture made as of November 14, 2017 between the Corporation and the Trustee, the fifteenth supplemental trust indenture to the Indenture made as of November 12, 2019 between the Corporation and the Trustee, the sixteenth supplemental trust indenture to the Indenture made as of November 12, 2019 between the Corporation and the Trustee, the seventeenth supplemental trust indenture to the Indenture made as of October 15, 2020 between the Corporation and the Trustee and the Eighteenth Supplemental Trust Indenture to the Indenture (as amended, supplemented or restated from time to time) are collectively referred to herein as the "**Trust Indenture**"). The Trust Indenture specifies the terms and conditions upon which the Series 17 Debentures are created and issued or may be created, issued and held and the rights of the registered holders of the Series 17 Debentures, the Corporation and the Trustee, all of which terms and conditions are incorporated by reference in this Series 17 Debenture and to each of which the registered holder of this Series 17 Debenture, by acceptance hereof, agrees.

The aggregate principal amount of Series 17 Debentures that may be created and issued under the Trust Indenture is unlimited. Series 17 Debentures are issuable as fully registered debentures in denominations of $1,000 and integral multiples thereof.

The Series 17 Debentures are direct unsecured obligations of the Corporation and will rank equally with each other and with all other debentures of every other series from time to time issued and outstanding pursuant to the Trust Indenture and, except to the extent prescribed by law, with all other unsecured and unsubordinated Indebtedness of the Corporation.

This Series 17 Debenture is redeemable, at the option of the Corporation when not in default under the Trust Indenture, in whole at any time or in part from time to time, prior to July 20, 2031, subject to the terms and conditions set forth in the Trust Indenture, at a price equal to the greater of the Canada Yield Price (as defined in the Trust Indenture) and par, together with accrued and unpaid interest to (but excluding) the date fixed for redemption.

This Series 17 Debenture is redeemable, at the option of the Corporation when not in default under the Trust Indenture, in whole at any time or in part from time to time, on or after July 20, 2031, subject to the terms and conditions set forth in the Trust Indenture, at a price equal to 100% of the Principal Amount of the Series 17 Debentures outstanding, together with accrued and unpaid interest to (but excluding) the date fixed for redemption.

At any time when the Corporation is not in default under the Trust Indenture, the Corporation may, subject to the terms and conditions set forth in the Trust Indenture, purchase Series 17 Debentures in the open market, by tender or by private contract, at any price. Series 17 Debentures purchased by the Corporation shall be cancelled and not reissued.

The Principal Amount may become or be declared due before the Stated Maturity on the conditions, in the manner, with the effect and at the times set forth in the Trust Indenture.

The Trust Indenture contains provisions for the holding of meetings of registered holders of debentures issued by the Corporation pursuant to the Trust Indenture and the making of resolutions at such meetings and the creation of instruments in writing signed by the registered holders of a specified majority of debentures issued and outstanding pursuant to the Trust Indenture. Such resolutions and instruments will be binding on and may affect the rights and entitlements of all holders of debentures issued by the Corporation pursuant to the Trust Indenture, subject to the provisions of the Trust Indenture.

This Series 17 Debenture may be transferred only upon compliance with the conditions prescribed in the Trust Indenture by the registered holder hereof or the holder's legal representative or attorney duly appointed by an instrument in form and execution satisfactory to the Trustee, and upon compliance with such reasonable requirements as the Trustee or other registrar may prescribe, and such transfer shall be duly noted hereon by the Trustee or other registrar.

This Series 17 Debenture shall not become obligatory for any purpose until it shall have been certified by the manual signature of the Trustee in accordance with the Trust Indenture.

IN WITNESS WHEREOF TORONTO HYDRO CORPORATION has caused this Series 17 Debenture to be signed by its ● and its ●.

TORONTO HYDRO CORPORATION

By: ______________________________

Name: ●

Title: ●

By: ______________________________

Name: ●

Title: ●

(FORM OF TRUSTEE'S CERTIFICATE)

This Debenture is one of the Series 17 Debentures referred to in the Trust Indenture referred to above.

BNY TRUST COMPANY OF CANADA
Trustee

By: ______________________________
Authorized Signatory

(FORM OF REGISTRATION PANEL)

(NO WRITING HEREON EXCEPT BY THE TRUSTEE OR OTHER REGISTRAR)

TORONTO HYDRO CORPORATION
(Incorporated under the laws of Ontario)
2.47% SENIOR UNSECURED DEBENTURES DUE 2031 (SERIES 17)

DATE OF REGISTRATION	IN WHOSE NAME REGISTERED	SIGNATURE OF TRUSTEE OR OTHER REGISTRAR

NINETEENTH SUPPLEMENTAL TRUST INDENTURE

Made as of October 18, 2021

Between

TORONTO HYDRO CORPORATION
as issuer

and

BNY TRUST COMPANY OF CANADA
as trustee

Supplementing the Trust Indenture

made as of May 7, 2003

and

providing for the issue of

3.27% Senior Unsecured Debentures
due 2051 (Series 18)

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NINETEENTH SUPPLEMENTAL TRUST INDENTURE

THIS NINETEENTH SUPPLEMENTAL TRUST INDENTURE made as of October 18, 2021,

BETWEEN:

TORONTO HYDRO CORPORATION
a corporation incorporated under the laws of Ontario (the "**Corporation**")

and

BNY TRUST COMPANY OF CANADA
a trust company existing under the laws of Canada (the "**Trustee**")

RECITALS

(A) BNY Trust Company of Canada is the successor trustee of CIBC Mellon Trust Company;

(B) The Corporation has entered into a trust indenture with the Trustee made as of May 7, 2003, as amended, supplemented or restated from time to time (the "**Trust Indenture**") which provides for the issuance of one or more series of unsecured Debentures of the Corporation by way of Supplemental Indentures;

(C) The Corporation entered into a first supplemental trust indenture made as of May 7, 2003 for the purpose of providing for the issue of $225,000,000 aggregate principal amount of Series 1 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 1 Debentures;

(D) The Corporation entered into a second supplemental trust indenture made as of November 14, 2007 for the purpose of providing for the issue of $250,000,000 aggregate principal amount of Series 2 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 2 Debentures;

(E) The Corporation entered into a third supplemental trust indenture made as of November 12, 2009 for the purpose of providing for the issue of $250,000,000 aggregate principal amount of Series 3 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 3 Debentures;

(F) The City Note has been converted, in accordance with its terms, into the Series 4 Debentures and the Series 5 Debentures;

(G) The Corporation entered into a fourth supplemental trust indenture made as of April 1, 2010 for the purpose of providing for the issue of $245,057,000 aggregate principal amount of Series 4 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 4 Debentures;

(H) The Corporation entered into a fifth supplemental trust indenture made as of April 1, 2010 for the purpose of providing for the issue of $245,057,000 aggregate principal amount of Series 5 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 5 Debentures;

(I) The Corporation entered into a sixth supplemental trust indenture made as of May 20, 2010 for the purpose of providing for the issue of $200,000,000 aggregate principal amount of Series 6 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 6 Debentures;

(J) The Corporation entered into a seventh supplemental trust indenture made as of September 20, 2011 for the purpose of amending the definition of "GAAP" under the Trust Indenture;

(K) The Corporation entered into an eighth supplemental trust indenture made as of November 18, 2011 for the purpose of providing for the issue of $300,000,000 aggregate principal amount of Series 7 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 7 Debentures;

(L) The Corporation entered into a ninth supplemental trust indenture made as of April 9, 2013 for the purpose of providing for the issue of $250,000,000 aggregate principal amount of Series 8 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 8 Debentures;

(M) The Corporation entered into a tenth supplemental trust indenture made as of April 9, 2013 for the purpose of providing for the issue of $200,000,000 aggregate principal amount of Series 9 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 9 Debentures;

(N) The Corporation entered into an eleventh supplemental trust indenture made as of September 16, 2014 for the purpose of providing for the issue of $200,000,000 aggregate principal amount of Series 10 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 10 Debentures;

(O) The Corporation entered into a twelfth supplemental trust indenture made as of March 16, 2015 for the purpose of providing for the issue of $200,000,000 aggregate principal amount of Series 11 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 11 Debentures;

(P) The Corporation entered into an amended and restated tenth supplemental trust indenture made as of September 2, 2015 for the purpose of making changes and corrections which were required for curing and correcting certain ambiguities and omissions in connection with an issue of $45,000,000 additional aggregate principal amount of the Series 9 Debentures;

(Q) The Corporation entered into a thirteenth supplemental trust indenture made as of June 14, 2016 for the purpose of providing for the issue of $200,000,000 aggregate principal amount of Series 12 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 12 Debentures;

(R) The Corporation entered into a fourteenth supplemental trust indenture made as of November 14, 2017 for the purpose of providing for the issue of $200,000,000 aggregate principal amount of Series 13 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 13 Debentures;

(S) The Corporation entered into a fifteenth supplemental trust indenture made as of November 12, 2019 for the purpose of providing for the issue of $200,000,000 aggregate principal amount of Series 14 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 14 Debentures;

(T) The Corporation entered into a sixteenth supplemental trust indenture made as of November 12, 2019 for the purpose of providing for the issue of $200,000,000 aggregate principal amount of Series 15 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 15 Debentures;

(U) The Corporation entered into a seventeenth supplemental trust indenture made as of October 15, 2020 for the purpose of providing for the issue of $200,000,000 aggregate principal amount of Series 16 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 16 Debentures;

(V) The Corporation entered into an eighteenth supplemental trust indenture made as of October 18, 2021 for the purpose of providing for the issue of $150,000,000 aggregate principal amount of Series 17 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 17 Debentures; and

(W) This Nineteenth Supplemental Trust Indenture is entered into for the purpose of providing for the issue of $200,000,000 aggregate principal amount of Series 18 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 18 Debentures.

NOW THEREFORE THIS NINETEENTH SUPPLEMENTAL TRUST INDENTURE WITNESSES and it is hereby covenanted, agreed and declared as follows:

Section 1 INTERPRETATION

1.1 To Be Read With Trust Indenture

This Nineteenth Supplemental Trust Indenture is a Supplemental Indenture as that term is used in the Trust Indenture. The Trust Indenture and this Nineteenth Supplemental Trust Indenture shall be read together and shall have effect as though all the provisions of both indentures were contained in one instrument.

1.2 Headings etc.

The division of this Nineteenth Supplemental Trust Indenture into Sections and clauses, the provision of a table of contents and the insertion of headings are for convenience of reference only and shall not affect the interpretation thereof. Unless the context otherwise requires, the expression "Section" and "Schedule" followed by a number, letter or combination of numbers and letters refer to the specified Section of or Schedule to this Nineteenth Supplemental Trust Indenture.

1.3 Definitions

All terms which are defined in the Trust Indenture and used but not defined in this Nineteenth Supplemental Trust Indenture shall have the meanings ascribed to them in the Trust Indenture, as such meanings may be amended or supplemented with respect to Series 18 Debentures by this Nineteenth Supplemental Trust Indenture. In the event of any inconsistency between the meaning given to a term in the Trust Indenture and the meaning given to the same term in this Nineteenth Supplemental Trust Indenture, the meaning given to the term in this Nineteenth Supplemental Trust Indenture shall prevail to the extent of the inconsistency. Subject to the foregoing, in this Nineteenth Supplemental Trust Indenture and in the Series 18 Debentures, the following terms have the following meanings:

(a) ***Canada Yield*** on any date means the yield to maturity on that date, compounded semi-annually, that a non-callable Government of Canada bond would carry if issued, in Canadian dollars in Canada, at 100% of its principal amount on that date with a term to maturity approximately equal to the remaining term to April 18, 2051 of the Series 18 Debentures, such yield to maturity being the average of the yields provided by two major Canadian investment dealers specified by the Corporation.

(b) ***Canada Yield Price*** means the amount equal to the net present value of all scheduled payments of interest (other than accrued and unpaid interest) and principal on the Series 18 Debentures that would have been payable to April 18, 2051 if redemption had not been made, using a discount rate equal to the sum of the Canada Yield and 30.5 basis points, calculated at 10:00 a.m. (Toronto, Ontario time) three Business Days prior to the Redemption Date of the Series 18 Debentures.

(c) ***Series 18 Debentures*** means the 3.27% Senior Unsecured Debentures due 2051 (Series 18) referred to in Section 2.1.

(d) ***Series 18 Debentures Debt Account*** means the deposit account established in respect of the Series 18 Debentures pursuant to Section 8.2 of the Trust Indenture that is designated in writing by the Corporation to the Trustee as the "Series 18 Debentures Debt Account".

(e) ***Series 18 Debentures Interest Payment Date*** means April 18 and October 18 in each year that the Series 18 Debentures are outstanding, beginning April 18, 2022.

(f) ***Series 18 Debentures Interest Period*** means the period commencing on and including the later of the date of issue of the Series 18 Debentures and the immediately preceding Series 18 Debentures Interest Payment Date and ending on and including the day immediately preceding the next Series 18 Debentures Interest Payment Date to occur in respect of which interest is payable.

(g) ***Trust Indenture*** means the trust indenture made as of May 7, 2003 between the Corporation and the Trustee, as amended, supplemented or restated from time to time.

Section 2 SERIES 18 DEBENTURES

2.1 Creation and Designation

The Corporation is authorized in accordance with the Trust Indenture to issue under this Nineteenth Supplemental Trust Indenture, and hereby creates and issues, a series of debentures designated "3.27% Senior Unsecured Debentures due 2051 (Series 18)", having the terms set out in this Nineteenth Supplemental Trust Indenture.

2.2 No Limitation on Issue

The aggregate principal amount of Series 18 Debentures which may be issued under this Nineteenth Supplemental Trust Indenture including any supplement hereto is unlimited.

2.3 Date of Issue and Maturity

The Series 18 Debentures shall be dated October 18, 2021 (being the applicable date of issue) and will become due and payable, together with all accrued interest and unpaid interest thereon, on October 18, 2051 (being the applicable Stated Maturity).

2.4 Concerning Interest

(a) The Series 18 Debentures shall be issued in $1,000 principal amount denominations or integral multiples thereof and shall bear interest on the unpaid principal amount thereof at a rate of 3.27% per annum from and including their date of issue, payable semi-annually in arrears, in equal instalments, on each Series 18 Debentures Interest Payment Date.

(b) Interest shall be payable in respect of each Series 18 Debentures Interest Period (after as well as before maturity, default and judgment, with interest on overdue interest at the same rate) on each Series 18 Debentures Interest Payment Date in accordance with Section 2.8 of the Trust Indenture.

2.5 Interest Payments

The Corporation shall make payments of interest on the Series 18 Debentures in accordance with the provisions of Section 2.8 of the Trust Indenture.

2.6 Payment of Amounts Due on Maturity

In accordance with Section 8.2 of the Trust Indenture, the Corporation will deposit to the Series 18 Debentures Debt Account all amounts required to be paid to the order of Holders of Series 18 Debentures on maturity, prior to 9:00 a.m. (Toronto, Ontario time), on the Stated Maturity of the Series 18 Debentures. The deposit of such funds will satisfy and discharge the liability of the Corporation for principal of, and any accrued and unpaid interest on, the Series 18 Debentures to the extent of the sum represented thereby (plus the amount of any taxes deducted or withheld).

2.7 Redemption and Purchase of Series 18 Debentures

(a) The Series 18 Debentures may be redeemed, at the Corporation's option when not in default under the Trust Indenture, in whole at any time or in part from time to time, prior to April 18, 2051, on not more than 60 calendar days and not less than 10 calendar days prior notice, at a price equal to the greater of the Canada Yield Price and par, together in each case with accrued and unpaid interest to (but excluding) the Redemption Date and in each case otherwise in accordance with Sections 5.1, 5.2, 5.3 and 5.4 of the Trust Indenture.

(b) The Series 18 Debentures may be redeemed, at the Corporation's option when not in default under the Trust Indenture, in whole at any time or in part from time to time, on or after April 18, 2051, on not more than 60 calendar days and not less than 10 calendar days prior notice, at a price equal to 100% of the principal amount of the Series 18 Debentures outstanding, together with accrued and unpaid interest to (but excluding) the Redemption Date and otherwise in accordance with Sections 5.1, 5.2, 5.3 and 5.4 of the Trust Indenture.

(c) The Corporation will be entitled at any time when not in default under the Trust Indenture to purchase for cancellation all or any of the Series 18 Debentures in accordance with Section 5.5 of the Trust Indenture.

(d) The Series 18 Debentures will not be subject to repurchase pursuant to any sinking fund provisions.

(e) Notice of redemption of any Series 18 Debentures given to the holders of the Series 18 Debentures may be conditional and, in such case, such notice of redemption shall specify the details and terms of any event (e.g., a financing, asset disposition or other transaction) on which such redemption is conditional.

2.8 Form of Series 18 Debentures

(a) Except as set out in 2.8(b) below, the Series 18 Debentures and the registration panel and the certificate of the Trustee endorsed thereon shall be issuable initially as one Global Debenture to be held by, or on behalf of, CDS as depository for its participants and registered in the name of CDS or its nominee. The Global Debenture shall be substantially in the form set out in Schedule 1 hereto with such appropriate additions, deletions, substitutions and variations as the Directors shall by resolution determine prior to the time of issue thereof and as the Trustee may approve and with such distinguishing letters and numbers as the Trustee may approve, with such approval in each case to be conclusively evidenced by the Trustee's certification of such Global Debenture.

(b) The Trustee understands and acknowledges that the Series 18 Debentures have not been and will not be registered under the United States Securities Act of 1933, as amended (the "U.S. Securities Act"). Each Series 18 Debenture originally issued in the United States or to a U.S. Person will be represented by a definitive certificate in the form set out in Schedule 2 hereto which definitive certificate, and each Series 18 Debenture certificate issued in exchange therefor or in substitution thereof, shall bear the following legend:

"THE SECURITIES REPRESENTED HEREBY HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE **"U.S. SECURITIES ACT**") OR UNDER ANY STATE SECURITIES LAWS. THE HOLDER HEREOF, BY PURCHASING SUCH SECURITIES, AGREES FOR THE BENEFIT OF THE CORPORATION THAT SUCH SECURITIES MAY BE OFFERED, SOLD OR OTHERWISE TRANSFERRED ONLY (A) TO THE CORPORATION, (B) OUTSIDE THE UNITED STATES IN ACCORDANCE WITH RULE 904 OF REGULATION S UNDER THE U.S. SECURITIES ACT, OR (C) INSIDE THE UNITED STATES IN ACCORDANCE WITH (1) RULE 144A UNDER THE U.S. SECURITIES ACT OR (2) RULE 144 UNDER THE U.S. SECURITIES ACT, IF AVAILABLE, OR (3) IN COMPLIANCE WITH CERTAIN OTHER PROCEDURES SATISFACTORY TO THE CORPORATION. A NEW CERTIFICATE, BEARING NO LEGEND, DELIVERY OF WHICH WILL CONSTITUTE "GOOD DELIVERY", MAY BE OBTAINED FROM BNY TRUST COMPANY OF CANADA UPON DELIVERY OF THIS CERTIFICATE AND A DULY EXECUTED DECLARATION, IN A FORM SATISFACTORY TO BNY TRUST COMPANY OF CANADA AND THE CORPORATION, TO THE EFFECT THAT THE SALE OF THE SECURITIES REPRESENTED HEREBY IS BEING MADE IN COMPLIANCE WITH RULE 904 OF REGULATION S UNDER THE U.S. SECURITIES ACT."

If any Series 18 Debentures are being sold or transferred outside the United States in compliance with the requirements of Rule 904 of Regulation S under the U.S Securities Act, the legend may be removed by providing a declaration to the Trustee to the following effect (or as the Corporation may prescribe from time to time),

"The undersigned (A) acknowledges that the sale of the ________________ Debentures, represented by certificate numbers _______________ to which this declaration relates is being made in reliance on Rule 904 of Regulation S under the United States Securities Act of 1933, as amended (the "**U.S. Securities Act**") and (B) certifies that (1) it is not an "affiliate" (as defined in Rule 405 under the U.S. Securities Act) of Toronto Hydro Corporation, (2) the offer of such Debentures was not made to a person in the United States and at the time the buy order was originated, the buyer was outside the United States, or the seller and any person acting on its behalf reasonably believe that the buyer was outside the United States and (3) neither the seller, nor any affiliate of the seller, nor any person acting on its or their behalf engaged in any directed selling efforts in connection with the offer and sale of such Debentures. Terms used herein have the meanings given to them by Regulation S under the U.S. Securities Act."

If any Series 18 Debentures are being sold or transferred pursuant to Rule 144 of the U.S. Securities Act, the legend may be removed by delivery to the Trustee of a written opinion of Trustee Counsel (or counsel to the transferor satisfactory to the Trustee) to the effect that such legend is no longer required under applicable requirements of the U.S. Securities Act or state securities laws.

Prior to the issuance of Series 18 Debentures, the Corporation shall notify the Trustee, in writing, concerning which Series 18 Debentures are to be certificated and are to bear the legend described above. The Trustee will thereafter maintain a list of all registered holders from time to time of legended Series 18 Debentures.

2.9 Signatures on Series 18 Debentures

The Series 18 Debentures shall be signed in accordance with the provisions of Section 2.6 of the Trust Indenture.

2.10 Certification

(a) No Series 18 Debenture issued shall be obligatory or shall entitle the Holder of such Series 18 Debenture to the benefits of this Nineteenth Supplemental Trust Indenture until it has been certified by manual, facsimile or electronic signature by or on behalf of the

Trustee by execution of the certificate of the Trustee appended thereto substantially in the form set out in Schedule 1 hereto, or in some other form approved by the Trustee, whose approval shall be conclusively evidenced by the Trustee's execution of the certificate. Such certificate on any Series 18 Debenture shall be conclusive evidence that such Series 18 Debenture is duly issued and is a valid and binding obligation of the Corporation and that the Holder of such Series 18 Debenture is entitled to the benefits of the Trust Indenture, as supplemented by this Nineteenth Supplemental Trust Indenture, and such Series 18 Debenture.

(b) The certificate of the Trustee on any Series 18 Debenture shall not be construed as a representation or warranty by the Trustee as to the validity of this Nineteenth Supplemental Trust Indenture or of the Series 18 Debentures (except the due certification thereof and any other warranties implied by law) and the Trustee shall in no respect be liable or answerable for the use made of the Series 18 Debentures or any of them or the proceeds thereof.

2.11 Location of Register

With respect to the Series 18 Debentures, initially the Register referred to in Section 3.1 of the Trust Indenture shall be kept by the Trustee at the Corporate Trust Office and may thereafter be kept by the Trustee in such other place as the Corporation, with the approval of the Trustee, may designate.

2.12 Additional Amounts

The Corporation will not be required to pay an additional amount on the Series 18 Debentures in respect of any tax, assessment or government charge that is required by law to be withheld or deducted by it.

2.13 Trustees, etc.

The Trustee will be the Paying Agent and the Registrar for the Series 18 Debentures.

Section 3 MISCELLANEOUS

3.1 Acceptance of Trust

The Trustee accepts the trusts in this Nineteenth Supplemental Trust Indenture and agrees to carry out and discharge the same upon the terms and conditions set out in this Nineteenth Supplemental Trust Indenture and in accordance with the Trust Indenture.

3.2 Confirmation of Trust Indenture

The Trust Indenture as amended and supplemented by this Nineteenth Supplemental Trust Indenture is in all respects confirmed.

3.3 Counterparts

This Nineteenth Supplemental Trust Indenture may be executed in counterparts, each of which so executed shall be deemed to be original and such counterparts together shall constitute one and the same instrument.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF the parties hereto have executed this Nineteenth Supplemental Trust Indenture under the hands of their proper signatories in that behalf:

TORONTO HYDRO CORPORATION

By: ______________________

Name: Anthony Haines

Title: President and Chief Executive Officer

By: ______________________

Name: Aida Cipolla

Title: Executive Vice-President and Chief Financial Officer

[Trustee Signature Page Follows]

IN WITNESS WHEREOF the parties hereto have executed this Nineteenth Supplemental Trust Indenture under the hands of their proper signatories in that behalf:

BNY TRUST COMPANY OF CANADA

By: I. E. Bawa

Name: Ismail Bawa

Title: Authorized Signatory

Schedule 1 – FORM OF GLOBAL DEBENTURE-SERIES 18

This Debenture is a Global Debenture within the meaning of the Trust Indenture hereinafter referred to and is registered in the name of a Depository or a nominee thereof. Unless this Certificate is presented by an authorized representative of CDS Clearing and Depository Services Inc. ("CDS") to Toronto Hydro Corporation or its agent for registration of transfer, exchange or payment, and any certificate issued in respect thereof is registered in the name of CDS & CO., or in such other name as is requested by an authorized representative of CDS (and any payment is made to CDS & CO., or to such other entity as is requested by an authorized representative of CDS), ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL since the registered holder hereof, CDS & CO., has a property interest in the securities represented by this certificate herein and it is a violation of its rights for another person to hold, transfer or deal with this certificate.

[No. 18-000]

$●

TORONTO HYDRO CORPORATION
(Incorporated under the laws of Ontario)
3.27% SENIOR UNSECURED DEBENTURES DUE 2051 (SERIES 18)

ISIN CA89119ZAQ69
CUSIP 89119ZAQ6

Issue Date	October 18, 2021
Stated Maturity	October 18, 2051
Interest Rate Per Annum	3.27%
Interest Payment Dates	April 18 and October 18 in each year
Initial Interest Payment Date	April 18, 2022
Principal Amount	$●

TORONTO HYDRO CORPORATION (the "**Corporation**") for value received hereby promises to pay to the registered holder hereof on the Stated Maturity, or on such earlier date as the Principal Amount (or a portion thereof) may become due in accordance with the provisions of the Trust Indenture (as defined below), on presentation and surrender of this 3.27% Senior Unsecured Debenture due October 18, 2051 (Series 18) (the "**Series 18 Debenture**"), the Principal Amount in lawful money of Canada at the office of the Trustee (as defined below) at One York Street, 6th Floor, Toronto, Ontario M5J 0B6, and to pay interest on the Principal Amount at the Interest Rate Per Annum from and including the later of the Issue Date and the last Interest Payment Date on which interest has at that time most recently been paid on this Series 18 Debenture, at the address of the registered holder hereof appearing on the register of Series 18 Debentures maintained by or at the direction of the Trustee (the "**Register**"), in like money semi-annually in arrears, in equal instalments on the Interest Payment Dates in each year, and if the Corporation at any time defaults in the payment of any principal or interest, to pay interest on the amount in default at the same rate, in like money, on demand, at the address of the registered holder hereof appearing on the Register. The Corporation will (i) on the day that is each Interest Payment Date, make payment by a wire transfer, or (ii) on the day that is two Business Days before each Interest Payment Date, forward or cause to be forwarded a cheque by same day delivery, to the address of the registered holder hereof appearing on the Register for interest due and payable to such holder on such Interest Payment Date, less any taxes required by law to be deducted or withheld, made payable to the order of such holder; provided, however that in case of payment of interest at maturity or redemption or as otherwise provided in the Trust Indenture, the time for payment of interest, less any such taxes, may at the option of the Corporation be determined based on the time that the certificate representing this Series 18 Debenture is presented and surrendered to the Trustee. The payment by such wire transfer or forwarding of such cheque (provided such cheque is paid on presentation) will satisfy and discharge the liability for interest upon such Series 18 Debenture to the extent of the sum represented thereby (plus the amount of any taxes deducted or withheld as aforesaid).

This Series 18 Debenture is one of an authorized issue of debentures designated as 3.27% Senior Unsecured Debentures due October 18, 2051 (Series 18) and forming the series of debentures created and issued under a nineteenth supplemental trust indenture made as of October 18, 2021 (the "**Nineteenth Supplemental Trust Indenture**") to a trust indenture (the "**Indenture**") made as of May 7, 2003, between the Corporation and BNY Trust Company of Canada (successor trustee of CIBC Mellon Trust Company) (the "**Trustee**"), as Trustee (the first supplemental trust indenture to the Indenture made as of May 7, 2003 between the Corporation and the Trustee, the second supplemental trust indenture to the Indenture made as of November 14, 2007 between the Corporation and the Trustee, the third supplemental trust indenture to the Indenture made as of November 12, 2009 between the Corporation and the Trustee, the fourth supplemental trust indenture to the Indenture made as of April 1, 2010 between the Corporation and the Trustee, the fifth supplemental trust indenture to the Indenture made as of April 1, 2010 between the Corporation and the Trustee, the sixth supplemental trust indenture to the Indenture made as of May 20, 2010 between the Corporation and the Trustee, the seventh supplemental trust indenture to the Indenture made as of September 20, 2011 between the Corporation and the Trustee, the eighth supplemental trust indenture to the Indenture made as of November 18, 2011 between the Corporation and the Trustee, the ninth supplemental trust indenture to the Indenture made as of April 9, 2013 between the Corporation and the Trustee, the tenth supplemental trust indenture to the Indenture made as of April 9, 2013 between the Corporation and the Trustee, the amended and restated tenth supplemental trust indenture to the Indenture made as of September 2, 2015 between the Corporation and the Trustee, the eleventh supplemental trust indenture to the Indenture made as of September 16, 2014 between the Corporation and the Trustee, the twelfth supplemental trust indenture to the Indenture made as of March 16, 2015 between the Corporation and the Trustee, the thirteenth supplemental trust indenture to the Indenture made as of June 14, 2016 between the Corporation and the Trustee, the fourteenth supplemental trust indenture to the Indenture made as of November 14, 2017 between the Corporation and the Trustee, the fifteenth supplemental trust indenture to the Indenture made as of November 12, 2019 between the Corporation and the Trustee, the sixteenth supplemental trust indenture to the Indenture made as of November 12, 2019 between the Corporation and the Trustee, the seventeenth supplemental trust indenture to the Indenture made as of October 15, 2020 between the Corporation and the Trustee, the eighteenth supplemental trust indenture to the Indenture made as of October 18, 2021 between the Corporation and the Trustee and the Nineteenth Supplemental Trust Indenture to the Indenture (as amended, supplemented or restated from time to time) are collectively referred to herein as the "**Trust Indenture**"). The Trust Indenture specifies the terms and conditions upon which the Series 18 Debentures are created and issued or may be created, issued and held and the rights of the registered holders of the Series 18 Debentures, the Corporation and the Trustee, all of which terms and conditions are incorporated by reference in this Series 18 Debenture and to each of which the registered holder of this Series 18 Debenture, by acceptance hereof, agrees.

The aggregate principal amount of Series 18 Debentures that may be created and issued under the Trust Indenture is unlimited. Series 18 Debentures are issuable as fully registered debentures in denominations of $1,000 and integral multiples thereof and, subject to the terms and conditions set forth in the Trust Indenture, are issued as book entry only debentures.

The Series 18 Debentures are direct unsecured obligations of the Corporation and will rank equally with each other and with all other debentures of every other series from time to time issued and outstanding pursuant to the Trust Indenture and, except to the extent prescribed by law, with all other unsecured and unsubordinated Indebtedness of the Corporation.

This Series 18 Debenture is redeemable, at the option of the Corporation when not in default under the Trust Indenture, in whole at any time or in part from time to time, prior to April 18, 2051, subject to the terms and conditions set forth in the Trust Indenture, at a price equal to the greater of the Canada Yield Price (as defined in the Trust Indenture) and par, together with accrued and unpaid interest to (but excluding) the date fixed for redemption.

This Series 18 Debenture is redeemable, at the option of the Corporation when not in default under the Trust Indenture, in whole at any time or in part from time to time, on or after April 18, 2051, subject to the terms and conditions set forth in the Trust Indenture, at a price equal to 100% of the Principal Amount of the Series 18 Debentures outstanding, together with accrued and unpaid interest to (but excluding) the date fixed for redemption.

At any time when the Corporation is not in default under the Trust Indenture, the Corporation may, subject to the terms and conditions set forth in the Trust Indenture, purchase Series 18 Debentures in the open market, by tender or by private contract, at any price. Series 18 Debentures purchased by the Corporation shall be cancelled and not reissued.

The Principal Amount may become or be declared due before the Stated Maturity on the conditions, in the manner, with the effect and at the times set forth in the Trust Indenture.

The Trust Indenture contains provisions for the holding of meetings of registered holders of debentures issued by the Corporation pursuant to the Trust Indenture and the making of resolutions at such meetings and the creation of instruments in writing signed by the registered holders of a specified majority of debentures issued and outstanding pursuant to the Trust Indenture. Such resolutions and instruments will be binding on and may affect the rights and entitlements of all holders of debentures issued by the Corporation pursuant to the Trust Indenture, subject to the provisions of the Trust Indenture.

This Series 18 Debenture may be transferred only upon compliance with the conditions prescribed in the Trust Indenture relating to the transfer of a Global Debenture (as defined in the Trust Indenture), and upon compliance with such reasonable requirements as the Trustee or other registrar may prescribe, and such transfer shall be duly noted hereon by the Trustee or other registrar.

This Series 18 Debenture shall not become obligatory for any purpose until it shall have been certified by the manual signature of the Trustee in accordance with the Trust Indenture.

IN WITNESS WHEREOF TORONTO HYDRO CORPORATION has caused this Series 18 Debenture to be signed by its ● and its ●.

TORONTO HYDRO CORPORATION

By: ______________________________
Name: ●
Title: ●

By: ______________________________
Name: ●
Title: ●

(FORM OF TRUSTEE'S CERTIFICATE)

This Debenture is one of the Series 18 Debentures referred to in the Trust Indenture referred to above.

BNY TRUST COMPANY OF CANADA
Trustee

By: ______________________________
Authorized Signatory

(FORM OF REGISTRATION PANEL)

(NO WRITING HEREON EXCEPT BY THE TRUSTEE OR OTHER REGISTRAR)

TORONTO HYDRO CORPORATION
(Incorporated under the laws of Ontario)
3.27% SENIOR UNSECURED DEBENTURES DUE 2051 (SERIES 18)

ISIN CA89119ZAQ69
CUSIP 89119ZAQ6

DATE OF REGISTRATION	IN WHOSE NAME REGISTERED	AMOUNT OF DECREASE	AMOUNT OF INCREASE	AMOUNT OF SERIES 18 DEBENTURES OUTSTANDING FOLLOWING CHANGE	SIGNATURE OF TRUSTEE OR OTHER REGISTRAR

Schedule 2 – U.S. FORM OF DEFINITIVE DEBENTURE-SERIES 18

*THE SECURITIES REPRESENTED HEREBY HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "**U.S. SECURITIES ACT**") OR UNDER ANY STATE SECURITIES LAWS. THE HOLDER HEREOF, BY PURCHASING SUCH SECURITIES, AGREES FOR THE BENEFIT OF THE CORPORATION THAT SUCH SECURITIES MAY BE OFFERED, SOLD OR OTHERWISE TRANSFERRED ONLY (A) TO THE CORPORATION, (B) OUTSIDE THE UNITED STATES IN ACCORDANCE WITH RULE 904 OF REGULATION S UNDER THE U.S. SECURITIES ACT, OR (C) INSIDE THE UNITED STATES IN ACCORDANCE WITH (1) RULE 144A UNDER THE U.S. SECURITIES ACT OR (2) RULE 144 UNDER THE U.S. SECURITIES ACT, IF AVAILABLE, OR (3) IN COMPLIANCE WITH CERTAIN OTHER PROCEDURES SATISFACTORY TO THE CORPORATION. A NEW CERTIFICATE, BEARING NO LEGEND, DELIVERY OF WHICH WILL CONSTITUTE "GOOD DELIVERY", MAY BE OBTAINED FROM BNY TRUST COMPANY OF CANADA UPON DELIVERY OF THIS CERTIFICATE AND A DULY EXECUTED DECLARATION, IN A FORM SATISFACTORY TO BNY TRUST COMPANY OF CANADA AND THE CORPORATION, TO THE EFFECT THAT THE SALE OF THE SECURITIES REPRESENTED HEREBY IS BEING MADE IN COMPLIANCE WITH RULE 904 OF REGULATION S UNDER THE U.S. SECURITIES ACT.*

[No. 18-000]

$●

TORONTO HYDRO CORPORATION
(Incorporated under the laws of Ontario)
3.27% SENIOR UNSECURED DEBENTURES DUE 2051 (SERIES 18)

Issue Date	October 18, 2021
Stated Maturity	October 18, 2051
Interest Rate Per Annum	3.27%
Interest Payment Dates	April 18 and October 18 in each year
Initial Interest Payment Date	April 18, 2022
Principal Amount	$●

TORONTO HYDRO CORPORATION (the "**Corporation**") for value received hereby promises to pay to the registered holder hereof on the Stated Maturity, or on such earlier date as the Principal Amount (or a portion thereof) may become due in accordance with the provisions of the Trust Indenture (as defined below), on presentation and surrender of this 3.27% Senior Unsecured Debenture due October 18, 2051 (Series 18) (the "**Series 18 Debenture**"), the Principal Amount in lawful money of Canada at the office of the Trustee (as defined below) at One York Street, 6th Floor, Toronto, Ontario M5J 0B6, and to pay interest on the Principal Amount at the Interest Rate Per Annum from and including the later of the Issue Date and the last Interest Payment Date on which interest has at that time most recently been paid on this Series 18 Debenture, at the address of the registered holder hereof appearing on the register of Series 18 Debentures maintained by or at the direction of the Trustee (the "**Register**"), in like money semi-annually in arrears, in equal instalments on the Interest Payment Dates in each year, and if the Corporation at any time defaults in the payment of any principal or interest, to pay interest on the amount in default at the same rate, in like money, on demand, at the address of the registered holder hereof appearing on the Register. The Corporation, on the day that is two

Business Days before each Interest Payment Date, will forward or cause to be forwarded by same day delivery to the address of the registered holder hereof appearing on the Register a cheque for interest due and payable to such holder on such Interest Payment Date, less any taxes required by law to be deducted or withheld, made payable to the order of such holder; provided, however that in case of payment of interest at maturity or redemption or as otherwise provided in the Trust Indenture, the time for payment of interest, less any such taxes, may at the option of the Corporation be determined based on the time that the certificate representing this Series 18 Debenture is presented and surrendered to the Trustee. The forwarding of such cheque will satisfy and discharge the liability for interest upon such Series 18 Debenture to the extent of the sum represented thereby (plus the amount of any taxes deducted or withheld as aforesaid) unless such cheque is not paid on presentation.

This Series 18 Debenture is one of an authorized issue of debentures designated as 3.27% Senior Unsecured Debentures due October 18, 2051 (Series 18) and forming the series of debentures created and issued under a nineteenth supplemental trust indenture made as of October 18, 2021 (the "**Nineteenth Supplemental Trust Indenture**") to a trust indenture (the "**Indenture**") made as of May 7, 2003, between the Corporation and BNY Trust Company of Canada (successor trustee of CIBC Mellon Trust Company) (the "**Trustee**"), as Trustee (the first supplemental trust indenture to the Indenture made as of May 7, 2003 between the Corporation and the Trustee, the second supplemental trust indenture to the Indenture made as of November 14, 2007 between the Corporation and the Trustee, the third supplemental trust indenture to the Indenture made as of November 12, 2009 between the Corporation and the Trustee, the fourth supplemental trust indenture to the Indenture made as of April 1, 2010 between the Corporation and the Trustee, the fifth supplemental trust indenture to the Indenture made as of April 1, 2010 between the Corporation and the Trustee, the sixth supplemental trust indenture to the Indenture made as of May 20, 2010 between the Corporation and the Trustee, the seventh supplemental trust indenture to the Indenture made as of September 20, 2011 between the Corporation and the Trustee, the eighth supplemental trust indenture to the Indenture made as of November 18, 2011 between the Corporation and the Trustee, the ninth supplemental trust indenture to the Indenture made as of April 9, 2013 between the Corporation and the Trustee, the tenth supplemental trust indenture to the Indenture made as of April 9, 2013 between the Corporation and the Trustee, the amended and restated tenth supplemental trust indenture to the Indenture made as of September 2, 2015 between the Corporation and the Trustee, the eleventh supplemental trust indenture to the Indenture made as of September 16, 2014 between the Corporation and the Trustee, the twelfth supplemental trust indenture to the Indenture made as of March 16, 2015 between the Corporation and the Trustee, the thirteenth supplemental trust indenture to the Indenture made as of June 14, 2016 between the Corporation and the Trustee, the fourteenth supplemental trust indenture to the Indenture made as of November 14, 2017 between the Corporation and the Trustee, the fifteenth supplemental trust indenture to the Indenture made as of November 12, 2019 between the Corporation and the Trustee, the sixteenth supplemental trust indenture to the Indenture made as of November 12, 2019 between the Corporation and the Trustee, the seventeenth supplemental trust indenture to the Indenture made as of October 15, 2020 between the Corporation and the Trustee, the eighteenth supplemental trust indenture to the Indenture made as of October 18, 2021 between the Corporation and the Trustee and the Nineteenth Supplemental Trust Indenture to the Indenture (as amended, supplemented or restated from time to time) are collectively referred to herein as the "**Trust Indenture**"). The Trust Indenture specifies the terms and conditions upon which the Series 18 Debentures are created and issued or may be created, issued and held and the rights of the registered holders of the Series 18 Debentures, the Corporation and the Trustee, all of which terms and conditions are incorporated by reference in this Series 18 Debenture and to each of which the registered holder of this Series 18 Debenture, by acceptance hereof, agrees.

The aggregate principal amount of Series 18 Debentures that may be created and issued under the Trust Indenture is unlimited. Series 18 Debentures are issuable as fully registered debentures in denominations of $1,000 and integral multiples thereof.

The Series 18 Debentures are direct unsecured obligations of the Corporation and will rank equally with each other and with all other debentures of every other series from time to time issued and outstanding pursuant to the Trust Indenture and, except to the extent prescribed by law, with all other unsecured and unsubordinated Indebtedness of the Corporation.

This Series 18 Debenture is redeemable, at the option of the Corporation when not in default under the Trust Indenture, in whole at any time or in part from time to time, prior to April 18, 2051, subject to the terms and conditions set forth in the Trust Indenture, at a price equal to the greater of the Canada Yield Price (as defined in the Trust Indenture) and par, together with accrued and unpaid interest to (but excluding) the date fixed for redemption.

This Series 18 Debenture is redeemable, at the option of the Corporation when not in default under the Trust Indenture, in whole at any time or in part from time to time, on or after April 18, 2051, subject to the terms and conditions set forth in the Trust Indenture, at a price equal to 100% of the Principal Amount of the Series 18 Debentures outstanding, together with accrued and unpaid interest to (but excluding) the date fixed for redemption.

At any time when the Corporation is not in default under the Trust Indenture, the Corporation may, subject to the terms and conditions set forth in the Trust Indenture, purchase Series 18 Debentures in the open market, by tender or by private contract, at any price. Series 18 Debentures purchased by the Corporation shall be cancelled and not reissued.

The Principal Amount may become or be declared due before the Stated Maturity on the conditions, in the manner, with the effect and at the times set forth in the Trust Indenture.

The Trust Indenture contains provisions for the holding of meetings of registered holders of debentures issued by the Corporation pursuant to the Trust Indenture and the making of resolutions at such meetings and the creation of instruments in writing signed by the registered holders of a specified majority of debentures issued and outstanding pursuant to the Trust Indenture. Such resolutions and instruments will be binding on and may affect the rights and entitlements of all holders of debentures issued by the Corporation pursuant to the Trust Indenture, subject to the provisions of the Trust Indenture.

This Series 18 Debenture may be transferred only upon compliance with the conditions prescribed in the Trust Indenture by the registered holder hereof or the holder's legal representative or attorney duly appointed by an instrument in form and execution satisfactory to the Trustee, and upon compliance with such reasonable requirements as the Trustee or other registrar may prescribe, and such transfer shall be duly noted hereon by the Trustee or other registrar.

This Series 18 Debenture shall not become obligatory for any purpose until it shall have been certified by the manual signature of the Trustee in accordance with the Trust Indenture.

IN WITNESS WHEREOF TORONTO HYDRO CORPORATION has caused this Series 18 Debenture to be signed by its ● and its ●.

TORONTO HYDRO CORPORATION

By: ______________________________

Name: ●

Title: ●

By: ______________________________

Name: ●

Title: ●

(FORM OF TRUSTEE'S CERTIFICATE)

This Debenture is one of the Series 18 Debentures referred to in the Trust Indenture referred to above.

BNY TRUST COMPANY OF CANADA
Trustee

By: ______________________________
Authorized Signatory

(FORM OF REGISTRATION PANEL)

(NO WRITING HEREON EXCEPT BY THE TRUSTEE OR OTHER REGISTRAR)

TORONTO HYDRO CORPORATION
(Incorporated under the laws of Ontario)
3.27% SENIOR UNSECURED DEBENTURES DUE 2051 (SERIES 18)

DATE OF REGISTRATION	IN WHOSE NAME REGISTERED	SIGNATURE OF TRUSTEE OR OTHER REGISTRAR

TWENTIETH SUPPLEMENTAL TRUST INDENTURE

Made as of October 13, 2022

Between

TORONTO HYDRO CORPORATION
as issuer

and

BNY TRUST COMPANY OF CANADA
as trustee

Supplementing the Trust Indenture

made as of May 7, 2003

and

providing for the issue of

4.95% Senior Unsecured Debentures
due 2052 (Series 19)

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TWENTIETH SUPPLEMENTAL TRUST INDENTURE

THIS TWENTIETH SUPPLEMENTAL TRUST INDENTURE made as of October 13, 2022,

BETWEEN:

TORONTO HYDRO CORPORATION
a corporation incorporated under the laws of Ontario (the "**Corporation**")

and

BNY TRUST COMPANY OF CANADA
a trust company existing under the laws of Canada (the "**Trustee**")

RECITALS

(A) BNY Trust Company of Canada is the successor trustee of CIBC Mellon Trust Company;

(B) The Corporation has entered into a trust indenture with the Trustee made as of May 7, 2003, as amended, supplemented or restated from time to time (the "**Trust Indenture**") which provides for the issuance of one or more series of unsecured Debentures of the Corporation by way of Supplemental Indentures;

(C) The Corporation entered into a first supplemental trust indenture made as of May 7, 2003 for the purpose of providing for the issue of $225,000,000 aggregate principal amount of Series 1 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 1 Debentures;

(D) The Corporation entered into a second supplemental trust indenture made as of November 14, 2007 for the purpose of providing for the issue of $250,000,000 aggregate principal amount of Series 2 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 2 Debentures;

(E) The Corporation entered into a third supplemental trust indenture made as of November 12, 2009 for the purpose of providing for the issue of $250,000,000 aggregate principal amount of Series 3 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 3 Debentures;

(F) The City Note has been converted, in accordance with its terms, into the Series 4 Debentures and the Series 5 Debentures;

(G) The Corporation entered into a fourth supplemental trust indenture made as of April 1, 2010 for the purpose of providing for the issue of $245,057,000 aggregate principal amount of Series 4 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 4 Debentures;

(H) The Corporation entered into a fifth supplemental trust indenture made as of April 1, 2010 for the purpose of providing for the issue of $245,057,000 aggregate principal amount of Series 5 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 5 Debentures;

(I) The Corporation entered into a sixth supplemental trust indenture made as of May 20, 2010 for the purpose of providing for the issue of $200,000,000 aggregate principal amount of Series 6 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 6 Debentures;

(J) The Corporation entered into a seventh supplemental trust indenture made as of September 20, 2011 for the purpose of amending the definition of "GAAP" under the Trust Indenture;

(K) The Corporation entered into an eighth supplemental trust indenture made as of November 18, 2011 for the purpose of providing for the issue of $300,000,000 aggregate principal amount of Series 7 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 7 Debentures;

(L) The Corporation entered into a ninth supplemental trust indenture made as of April 9, 2013 for the purpose of providing for the issue of $250,000,000 aggregate principal amount of Series 8 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 8 Debentures;

(M) The Corporation entered into a tenth supplemental trust indenture made as of April 9, 2013 for the purpose of providing for the issue of $200,000,000 aggregate principal amount of Series 9 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 9 Debentures;

(N) The Corporation entered into an eleventh supplemental trust indenture made as of September 16, 2014 for the purpose of providing for the issue of $200,000,000 aggregate principal amount of Series 10 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 10 Debentures;

(O) The Corporation entered into a twelfth supplemental trust indenture made as of March 16, 2015 for the purpose of providing for the issue of $200,000,000 aggregate principal amount of Series 11 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 11 Debentures;

(P) The Corporation entered into an amended and restated tenth supplemental trust indenture made as of September 2, 2015 for the purpose of making changes and corrections which were required for curing and correcting certain ambiguities and omissions in connection with an issue of $45,000,000 additional aggregate principal amount of the Series 9 Debentures;

(Q) The Corporation entered into a thirteenth supplemental trust indenture made as of June 14, 2016 for the purpose of providing for the issue of $200,000,000 aggregate principal amount of Series 12 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 12 Debentures;

(R) The Corporation entered into a fourteenth supplemental trust indenture made as of November 14, 2017 for the purpose of providing for the issue of $200,000,000 aggregate principal amount of Series 13 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 13 Debentures;

(S) The Corporation entered into a fifteenth supplemental trust indenture made as of November 12, 2019 for the purpose of providing for the issue of $200,000,000 aggregate principal amount of Series 14 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 14 Debentures;

(T) The Corporation entered into a sixteenth supplemental trust indenture made as of November 12, 2019 for the purpose of providing for the issue of $200,000,000 aggregate principal amount of Series 15 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 15 Debentures;

(U) The Corporation entered into a seventeenth supplemental trust indenture made as of October 15, 2020 for the purpose of providing for the issue of $200,000,000 aggregate principal amount of Series 16 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 16 Debentures;

(V) The Corporation entered into an eighteenth supplemental trust indenture made as of October 18, 2021 for the purpose of providing for the issue of $150,000,000 aggregate principal amount of Series 17 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 17 Debentures;

(W) The Corporation entered into a nineteenth supplemental trust indenture made as of October 18, 2021 for the purpose of providing for the issue of $200,000,000 aggregate principal amount of Series 18 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 18 Debentures; and

(X) This Twentieth Supplemental Trust Indenture is entered into for the purpose of providing for the issue of $300,000,000 aggregate principal amount of Series 19 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 19 Debentures.

NOW THEREFORE THIS TWENTIETH SUPPLEMENTAL TRUST INDENTURE WITNESSES and it is hereby covenanted, agreed and declared as follows:

Section 1 INTERPRETATION

1.1 To Be Read With Trust Indenture

This Twentieth Supplemental Trust Indenture is a Supplemental Indenture as that term is used in the Trust Indenture. The Trust Indenture and this Twentieth Supplemental Trust Indenture shall be read together and shall have effect as though all the provisions of both indentures were contained in one instrument.

1.2 Headings etc.

The division of this Twentieth Supplemental Trust Indenture into Sections and clauses, the provision of a table of contents and the insertion of headings are for convenience of reference only and shall not affect the interpretation thereof. Unless the context otherwise requires, the expression "Section" and "Schedule" followed by a number, letter or combination of numbers and letters refer to the specified Section of or Schedule to this Twentieth Supplemental Trust Indenture.

1.3 Definitions

All terms which are defined in the Trust Indenture and used but not defined in this Twentieth Supplemental Trust Indenture shall have the meanings ascribed to them in the Trust Indenture, as such meanings may be amended or supplemented with respect to Series 19 Debentures by this Twentieth Supplemental Trust Indenture. In the event of any inconsistency between the meaning given to a term in the Trust Indenture and the meaning given to the same term in this Twentieth Supplemental Trust Indenture, the meaning given to the term in this Twentieth Supplemental Trust Indenture shall prevail to the extent of the inconsistency. Subject to the foregoing, in this Twentieth Supplemental Trust Indenture and in the Series 19 Debentures, the following terms have the following meanings:

(a) ***Canada Yield*** on any date means the yield to maturity on that date, compounded semi-annually, that a non-callable Government of Canada bond would carry if issued, in Canadian dollars in Canada, at 100% of its principal amount on that date with a term to maturity approximately equal to the remaining term to April 13, 2052 of the Series 19 Debentures, such yield to maturity being the average of the yields provided by two major Canadian investment dealers specified by the Corporation.

(b) ***Canada Yield Price*** means the amount equal to the net present value of all scheduled payments of interest (other than accrued and unpaid interest) and principal on the Series 19 Debentures that would have been payable to April 13, 2052 if redemption had not been made, using a discount rate equal to the sum of the Canada Yield and 41 basis points, calculated at 10:00 a.m. (Toronto, Ontario time) three Business Days prior to the Redemption Date of the Series 19 Debentures.

(c) ***Series 19 Debentures*** means the 4.95% Senior Unsecured Debentures due 2052 (Series 19) referred to in Section 2.1.

(d) ***Series 19 Debentures Debt Account*** means the deposit account established in respect of the Series 19 Debentures pursuant to Section 8.2 of the Trust Indenture that is designated in writing by the Corporation to the Trustee as the "Series 19 Debentures Debt Account".

(e) ***Series 19 Debentures Interest Payment Date*** means April 13 and October 13 in each year that the Series 19 Debentures are outstanding, beginning April 13, 2023.

(f) ***Series 19 Debentures Interest Period*** means the period commencing on and including the later of the date of issue of the Series 19 Debentures and the immediately preceding Series 19 Debentures Interest Payment Date and ending on and including the day immediately preceding the next Series 19 Debentures Interest Payment Date to occur in respect of which interest is payable.

(g) ***Trust Indenture*** means the trust indenture made as of May 7, 2003 between the Corporation and the Trustee, as amended, supplemented or restated from time to time.

Section 2 SERIES 19 DEBENTURES

2.1 Creation and Designation

The Corporation is authorized in accordance with the Trust Indenture to issue under this Twentieth Supplemental Trust Indenture, and hereby creates and issues, a series of debentures designated "4.95% Senior Unsecured Debentures due 2052 (Series 19)", having the terms set out in this Twentieth Supplemental Trust Indenture.

2.2 No Limitation on Issue

The aggregate principal amount of Series 19 Debentures which may be issued under this Twentieth Supplemental Trust Indenture including any supplement hereto is unlimited.

2.3 Date of Issue and Maturity

The Series 19 Debentures shall be dated October 13, 2022 (being the applicable date of issue) and will become due and payable, together with all accrued interest and unpaid interest thereon, on October 13, 2052 (being the applicable Stated Maturity).

2.4 Concerning Interest

(a) The Series 19 Debentures shall be issued in $1,000 principal amount denominations or integral multiples thereof and shall bear interest on the unpaid principal amount thereof at a rate of 4.95% per annum from and including their date of issue, payable semi-annually in arrears, in equal instalments, on each Series 19 Debentures Interest Payment Date.

(b) Interest shall be payable in respect of each Series 19 Debentures Interest Period (after as well as before maturity, default and judgment, with interest on overdue interest at the same rate) on each Series 19 Debentures Interest Payment Date in accordance with Section 2.8 of the Trust Indenture.

2.5 Interest Payments

The Corporation shall make payments of interest on the Series 19 Debentures in accordance with the provisions of Section 2.8 of the Trust Indenture.

2.6 Payment of Amounts Due on Maturity

In accordance with Section 8.2 of the Trust Indenture, the Corporation will deposit to the Series 19 Debentures Debt Account all amounts required to be paid to the order of Holders of Series 19 Debentures on maturity, prior to 9:00 a.m. (Toronto, Ontario time), on the Stated Maturity of the Series 19 Debentures. The deposit of such funds will satisfy and discharge the liability of the Corporation for principal of, and any accrued and unpaid interest on, the Series 19 Debentures to the extent of the sum represented thereby (plus the amount of any taxes deducted or withheld).

2.7 Redemption and Purchase of Series 19 Debentures

(a) The Series 19 Debentures may be redeemed, at the Corporation's option when not in default under the Trust Indenture, in whole at any time or in part from time to time, prior to April 13, 2052, on not more than 60 calendar days and not less than 10 calendar days prior notice, at a price equal to the greater of the Canada Yield Price and par, together in each case with accrued and unpaid interest to (but excluding) the Redemption Date and in each case otherwise in accordance with Sections 5.1, 5.2, 5.3 and 5.4 of the Trust Indenture.

(b) The Series 19 Debentures may be redeemed, at the Corporation's option when not in default under the Trust Indenture, in whole at any time or in part from time to time, on or after April 13, 2052, on not more than 60 calendar days and not less than 10 calendar days prior notice, at a price equal to 100% of the principal amount of the Series 19 Debentures outstanding, together with accrued and unpaid interest to (but excluding) the Redemption Date and otherwise in accordance with Sections 5.1, 5.2, 5.3 and 5.4 of the Trust Indenture.

(c) The Corporation will be entitled at any time when not in default under the Trust Indenture to purchase for cancellation all or any of the Series 19 Debentures in accordance with Section 5.5 of the Trust Indenture.

(d) The Series 19 Debentures will not be subject to repurchase pursuant to any sinking fund provisions.

(e) Notice of redemption of any Series 19 Debentures given to the holders of the Series 19 Debentures may be conditional and, in such case, such notice of redemption shall specify the details and terms of any event (e.g., a financing, asset disposition or other transaction) on which such redemption is conditional.

2.8 Form of Series 19 Debentures

(a) Except as set out in 2.8(b) below, the Series 19 Debentures and the registration panel and the certificate of the Trustee endorsed thereon shall be issuable initially as one Global Debenture to be held by, or on behalf of, CDS as depository for its participants and registered in the name of CDS or its nominee. The Global Debenture shall be substantially in the form set out in Schedule 1 hereto with such appropriate additions, deletions, substitutions and variations as the Directors shall by resolution determine prior to the time of issue thereof and as the Trustee may approve and with such distinguishing letters and numbers as the Trustee may approve, with such approval in each case to be conclusively evidenced by the Trustee's certification of such Global Debenture.

(b) The Trustee understands and acknowledges that the Series 19 Debentures have not been and will not be registered under the United States Securities Act of 1933, as amended (the "U.S. Securities Act"). Each Series 19 Debenture originally issued in the United States or to a U.S. Person will be represented by a definitive certificate in the form set out in Schedule 2 hereto which definitive certificate, and each Series 19 Debenture certificate issued in exchange therefor or in substitution thereof, shall bear the following legend:

"THE SECURITIES REPRESENTED HEREBY HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE **"U.S. SECURITIES ACT"**) OR UNDER ANY STATE SECURITIES LAWS. THE HOLDER HEREOF, BY PURCHASING SUCH SECURITIES, AGREES FOR THE BENEFIT OF THE CORPORATION THAT SUCH SECURITIES MAY BE OFFERED, SOLD OR OTHERWISE TRANSFERRED ONLY (A) TO THE CORPORATION, (B) OUTSIDE THE UNITED STATES IN ACCORDANCE WITH RULE 904 OF REGULATION S UNDER THE U.S. SECURITIES ACT, OR (C) INSIDE THE UNITED STATES IN ACCORDANCE WITH (1) RULE 144A UNDER THE U.S. SECURITIES ACT OR (2) RULE 144 UNDER THE U.S. SECURITIES ACT, IF AVAILABLE, OR (3) IN COMPLIANCE WITH CERTAIN OTHER PROCEDURES SATISFACTORY TO THE CORPORATION. A NEW CERTIFICATE, BEARING NO LEGEND, DELIVERY OF WHICH WILL CONSTITUTE "GOOD DELIVERY", MAY BE OBTAINED FROM BNY TRUST COMPANY OF CANADA UPON DELIVERY OF THIS CERTIFICATE AND A DULY EXECUTED DECLARATION, IN A FORM SATISFACTORY TO BNY TRUST COMPANY OF CANADA AND THE CORPORATION, TO THE EFFECT THAT THE SALE OF THE SECURITIES REPRESENTED HEREBY IS BEING MADE IN COMPLIANCE WITH RULE 904 OF REGULATION S UNDER THE U.S. SECURITIES ACT."

If any Series 19 Debentures are being sold or transferred outside the United States in compliance with the requirements of Rule 904 of Regulation S under the U.S Securities Act, the legend may be removed by providing a declaration to the Trustee to the following effect (or as the Corporation may prescribe from time to time),

"The undersigned (A) acknowledges that the sale of the ________________ Debentures, represented by certificate numbers _______________ to which this declaration relates is being made in reliance on Rule 904 of Regulation S under the United States Securities Act of 1933, as amended (the "**U.S. Securities Act**") and (B) certifies that (1) it is not an "affiliate" (as defined in Rule 405 under the U.S. Securities Act) of Toronto Hydro Corporation, (2) the offer of such Debentures was not made to a person in the United States and at the time the buy order was originated, the buyer was outside the United States, or the seller and any person acting on its behalf reasonably believe that the buyer was outside the United States and (3) neither the seller, nor any affiliate of the seller, nor any person acting on its or their behalf engaged in any directed selling efforts in connection with the offer and sale of such Debentures. Terms used herein have the meanings given to them by Regulation S under the U.S. Securities Act."

If any Series 19 Debentures are being sold or transferred pursuant to Rule 144 of the U.S. Securities Act, the legend may be removed by delivery to the Trustee of a written opinion of Trustee Counsel (or counsel to the transferor satisfactory to the Trustee) to the effect that such legend is no longer required under applicable requirements of the U.S. Securities Act or state securities laws.

Prior to the issuance of Series 19 Debentures, the Corporation shall notify the Trustee, in writing, concerning which Series 19 Debentures are to be certificated and are to bear the legend described above. The Trustee will thereafter maintain a list of all registered holders from time to time of legended Series 19 Debentures.

2.9 Signatures on Series 19 Debentures

The Series 19 Debentures shall be signed in accordance with the provisions of Section 2.6 of the Trust Indenture.

2.10 Certification

(a) No Series 19 Debenture issued shall be obligatory or shall entitle the Holder of such Series 19 Debenture to the benefits of this Twentieth Supplemental Trust Indenture until it has been certified by manual, facsimile or electronic signature by or on behalf of the Trustee by execution of the certificate of the Trustee appended thereto substantially in the form set out in Schedule 1 hereto, or in some other form approved by the Trustee, whose approval shall be conclusively evidenced by the Trustee's execution of the certificate. Such certificate on any Series 19 Debenture shall be conclusive evidence that such Series 19 Debenture is duly issued and is a valid and binding obligation of the Corporation and that the Holder of such Series 19 Debenture is entitled to the benefits of the Trust Indenture, as supplemented by this Twentieth Supplemental Trust Indenture, and such Series 19 Debenture.

(b) The certificate of the Trustee on any Series 19 Debenture shall not be construed as a representation or warranty by the Trustee as to the validity of this Twentieth Supplemental Trust Indenture or of the Series 19 Debentures (except the due certification thereof and any other warranties implied by law) and the Trustee shall in no respect be liable or answerable for the use made of the Series 19 Debentures or any of them or the proceeds thereof.

2.11 Location of Register

With respect to the Series 19 Debentures, initially the Register referred to in Section 3.1 of the Trust Indenture shall be kept by the Trustee at the Corporate Trust Office and may thereafter be kept by the Trustee in such other place as the Corporation, with the approval of the Trustee, may designate.

2.12 Additional Amounts

The Corporation will not be required to pay an additional amount on the Series 19 Debentures in respect of any tax, assessment or government charge that is required by law to be withheld or deducted by it.

2.13 Trustees, etc.

The Trustee will be the Paying Agent and the Registrar for the Series 19 Debentures.

Section 3 MISCELLANEOUS

3.1 Acceptance of Trust

The Trustee accepts the trusts in this Twentieth Supplemental Trust Indenture and agrees to carry out and discharge the same upon the terms and conditions set out in this Twentieth Supplemental Trust Indenture and in accordance with the Trust Indenture.

3.2 Confirmation of Trust Indenture

The Trust Indenture as amended and supplemented by this Twentieth Supplemental Trust Indenture is in all respects confirmed.

3.3 Counterparts

This Twentieth Supplemental Trust Indenture may be executed in counterparts, each of which so executed shall be deemed to be original and such counterparts together shall constitute one and the same instrument.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF the parties hereto have executed this Twentieth Supplemental Trust Indenture under the hands of their proper signatories in that behalf:

TORONTO HYDRO CORPORATION

By: ______________________

Name: Anthony Haines

Title: President and Chief Executive Officer

By: ______________________ Digitally signed by Celine Arsenault
DN: cn=Celine Arsenault,
email=CArsenault@TorontoHydro.com
Date: 2022.10.05 09:52:55 -04'00'

Name: Céline Arsenault

Title: Executive Vice-President and Chief Financial Officer

[Trustee Signature Page Follows]

IN WITNESS WHEREOF the parties hereto have executed this Twentieth Supplemental Trust Indenture under the hands of their proper signatories in that behalf:

BNY TRUST COMPANY OF CANADA

By: I.E. Bawa

Name: Ismail Bawa

Title: Authorized Signatory

Schedule 1 – FORM OF GLOBAL DEBENTURE-SERIES 19

This Debenture is a Global Debenture within the meaning of the Trust Indenture hereinafter referred to and is registered in the name of a Depository or a nominee thereof. Unless this Certificate is presented by an authorized representative of CDS Clearing and Depository Services Inc. ("CDS") to Toronto Hydro Corporation or its agent for registration of transfer, exchange or payment, and any certificate issued in respect thereof is registered in the name of CDS & CO., or in such other name as is requested by an authorized representative of CDS (and any payment is made to CDS & CO., or to such other entity as is requested by an authorized representative of CDS), ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL since the registered holder hereof, CDS & CO., has a property interest in the securities represented by this certificate herein and it is a violation of its rights for another person to hold, transfer or deal with this certificate.

[No. 19-000]

$●

TORONTO HYDRO CORPORATION
(Incorporated under the laws of Ontario)
4.95% SENIOR UNSECURED DEBENTURES DUE 2052 (SERIES 19)

ISIN CA89119ZAR43
CUSIP 89119ZAR4

Issue Date	October 13, 2022
Stated Maturity	October 13, 2052
Interest Rate Per Annum	4.95%
Interest Payment Dates	April 13 and October 13 in each year
Initial Interest Payment Date	April 13, 2023
Principal Amount	$●

TORONTO HYDRO CORPORATION (the "**Corporation**") for value received hereby promises to pay to the registered holder hereof on the Stated Maturity, or on such earlier date as the Principal Amount (or a portion thereof) may become due in accordance with the provisions of the Trust Indenture (as defined below), on presentation and surrender of this 4.95% Senior Unsecured Debenture due October 13, 2052 (Series 19) (the "**Series 19 Debenture**"), the Principal Amount in lawful money of Canada at the office of the Trustee (as defined below) at One York Street, 6th Floor, Toronto, Ontario M5J 0B6, and to pay interest on the Principal Amount at the Interest Rate Per Annum from and including the later of the Issue Date and the last Interest Payment Date on which interest has at that time most recently been paid on this Series 19 Debenture, at the address of the registered holder hereof appearing on the register of Series 19 Debentures maintained by or at the direction of the Trustee (the "**Register**"), in like money semi-annually in arrears, in equal instalments on the Interest Payment Dates in each year, and if the Corporation at any time defaults in the payment of any principal or interest, to pay interest on the amount in default at the same rate, in like money, on demand, at the address of the registered holder hereof appearing on the Register. The Corporation will (i) on the day that is each Interest Payment Date, make payment by a wire transfer, or (ii) on the day that is two Business Days before each Interest Payment Date, forward or cause to be forwarded a cheque by same day delivery, to the address of the registered holder hereof appearing on the Register for interest due and payable to such holder on such Interest Payment Date, less any taxes required by law to be deducted or withheld, made payable to the order of such holder; provided, however that in case of payment of interest at maturity or redemption or as otherwise provided in the Trust Indenture, the time for payment of interest, less any such taxes, may at the option of the Corporation be determined based on the time that the certificate representing this Series 19 Debenture is presented and surrendered to the Trustee. The payment by such wire transfer or forwarding of such cheque (provided such cheque is paid on presentation) will satisfy and discharge the liability for interest upon such Series 19 Debenture to the extent of the sum represented thereby (plus the amount of any taxes deducted or withheld as aforesaid).

This Series 19 Debenture is one of an authorized issue of debentures designated as 4.95% Senior Unsecured Debentures due October 13, 2052 (Series 19) and forming the series of debentures created and issued under a twentieth supplemental trust indenture made as of October 13, 2022 (the "**Twentieth Supplemental Trust Indenture**") to a trust indenture (the "**Indenture**") made as of May 7, 2003, between the Corporation and BNY Trust Company of Canada (successor trustee of CIBC Mellon Trust Company) (the "**Trustee**"), as Trustee (the first supplemental trust indenture to the Indenture made as of May 7, 2003 between the Corporation and the Trustee, the second supplemental trust indenture to the Indenture made as of November 14, 2007 between the Corporation and the Trustee, the third supplemental trust indenture to the Indenture made as of November 12, 2009 between the Corporation and the Trustee, the fourth supplemental trust indenture to the Indenture made as of April 1, 2010 between the Corporation and the Trustee, the fifth supplemental trust indenture to the Indenture made as of April 1, 2010 between the Corporation and the Trustee, the sixth supplemental trust indenture to the Indenture made as of May 20, 2010 between the Corporation and the Trustee, the seventh supplemental trust indenture to the Indenture made as of September 20, 2011 between the Corporation and the Trustee, the eighth supplemental trust indenture to the Indenture made as of November 18, 2011 between the Corporation and the Trustee, the ninth supplemental trust indenture to the Indenture made as of April 9, 2013 between the Corporation and the Trustee, the tenth supplemental trust indenture to the Indenture made as of April 9, 2013 between the Corporation and the Trustee, the amended and restated tenth supplemental trust indenture to the Indenture made as of September 2, 2015 between the Corporation and the Trustee, the eleventh supplemental trust indenture to the Indenture made as of September 16, 2014 between the Corporation and the Trustee, the twelfth supplemental trust indenture to the Indenture made as of March 16, 2015 between the Corporation and the Trustee, the thirteenth supplemental trust indenture to the Indenture made as of June 14, 2016 between the Corporation and the Trustee, the fourteenth supplemental trust indenture to the Indenture made as of November 14, 2017 between the Corporation and the Trustee, the fifteenth supplemental trust indenture to the Indenture made as of November 12, 2019 between the Corporation and the Trustee, the sixteenth supplemental trust indenture to the Indenture made as of November 12, 2019 between the Corporation and the Trustee, the seventeenth supplemental trust indenture to the Indenture made as of October 15, 2020 between the Corporation and the Trustee, the eighteenth supplemental trust indenture to the Indenture made as of October 18, 2021 between the Corporation and the Trustee, the nineteenth supplemental trust indenture to the Indenture made as of October 18, 2021 between the Corporation and the Trustee, and the Twentieth Supplemental Trust Indenture to the Indenture (as amended, supplemented or restated from time to time) are collectively referred to herein as the "**Trust Indenture**"). The Trust Indenture specifies the terms and conditions upon which the Series 19 Debentures are created and issued or may be created, issued and held and the rights of the registered holders of the Series 19 Debentures, the Corporation and the Trustee, all of which terms and conditions are incorporated by reference in this Series 19 Debenture and to each of which the registered holder of this Series 19 Debenture, by acceptance hereof, agrees.

The aggregate principal amount of Series 19 Debentures that may be created and issued under the Trust Indenture is unlimited. Series 19 Debentures are issuable as fully registered debentures in denominations of $1,000 and integral multiples thereof and, subject to the terms and conditions set forth in the Trust Indenture, are issued as book entry only debentures.

The Series 19 Debentures are direct unsecured obligations of the Corporation and will rank equally with each other and with all other debentures of every other series from time to time issued and outstanding pursuant to the Trust Indenture and, except to the extent prescribed by law, with all other unsecured and unsubordinated Indebtedness of the Corporation.

This Series 19 Debenture is redeemable, at the option of the Corporation when not in default under the Trust Indenture, in whole at any time or in part from time to time, prior to April 13, 2052, subject to the terms and conditions set forth in the Trust Indenture, at a price equal to the greater of the Canada Yield Price (as defined in the Trust Indenture) and par, together with accrued and unpaid interest to (but excluding) the date fixed for redemption.

This Series 19 Debenture is redeemable, at the option of the Corporation when not in default under the Trust Indenture, in whole at any time or in part from time to time, on or after April 13, 2052, subject to the terms and conditions set forth in the Trust Indenture, at a price equal to 100% of the Principal Amount of the Series 19 Debentures outstanding, together with accrued and unpaid interest to (but excluding) the date fixed for redemption.

At any time when the Corporation is not in default under the Trust Indenture, the Corporation may, subject to the terms and conditions set forth in the Trust Indenture, purchase Series 19 Debentures in the open market, by tender or by private contract, at any price. Series 19 Debentures purchased by the Corporation shall be cancelled and not reissued.

The Principal Amount may become or be declared due before the Stated Maturity on the conditions, in the manner, with the effect and at the times set forth in the Trust Indenture.

The Trust Indenture contains provisions for the holding of meetings of registered holders of debentures issued by the Corporation pursuant to the Trust Indenture and the making of resolutions at such meetings and the creation of instruments in writing signed by the registered holders of a specified majority of debentures issued and outstanding pursuant to the Trust Indenture. Such resolutions and instruments will be binding on and may affect the rights and entitlements of all holders of debentures issued by the Corporation pursuant to the Trust Indenture, subject to the provisions of the Trust Indenture.

This Series 19 Debenture may be transferred only upon compliance with the conditions prescribed in the Trust Indenture relating to the transfer of a Global Debenture (as defined in the Trust Indenture), and upon compliance with such reasonable requirements as the Trustee or other registrar may prescribe, and such transfer shall be duly noted hereon by the Trustee or other registrar.

This Series 19 Debenture shall not become obligatory for any purpose until it shall have been certified by the manual signature of the Trustee in accordance with the Trust Indenture.

IN WITNESS WHEREOF TORONTO HYDRO CORPORATION has caused this Series 19 Debenture to be signed by its ● and its ●.

TORONTO HYDRO CORPORATION

By: ______________________________

Name: ●

Title: ●

By: ______________________________

Name: ●

Title: ●

(FORM OF TRUSTEE'S CERTIFICATE)

This Debenture is one of the Series 19 Debentures referred to in the Trust Indenture referred to above.

BNY TRUST COMPANY OF CANADA
Trustee

By: ______________________________
Authorized Signatory

(FORM OF REGISTRATION PANEL)

(NO WRITING HEREON EXCEPT BY THE TRUSTEE OR OTHER REGISTRAR)

TORONTO HYDRO CORPORATION
(Incorporated under the laws of Ontario)
4.95% SENIOR UNSECURED DEBENTURES DUE 2052 (SERIES 19)

ISIN CA89119ZAR43
CUSIP 89119ZAR4

DATE OF REGISTRATION	IN WHOSE NAME REGISTERED	AMOUNT OF DECREASE	AMOUNT OF INCREASE	AMOUNT OF SERIES 19 DEBENTURES OUTSTANDING FOLLOWING CHANGE	SIGNATURE OF TRUSTEE OR OTHER REGISTRAR

Schedule 2 – U.S. FORM OF DEFINITIVE DEBENTURE-SERIES 19

*THE SECURITIES REPRESENTED HEREBY HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "**U.S. SECURITIES ACT**") OR UNDER ANY STATE SECURITIES LAWS. THE HOLDER HEREOF, BY PURCHASING SUCH SECURITIES, AGREES FOR THE BENEFIT OF THE CORPORATION THAT SUCH SECURITIES MAY BE OFFERED, SOLD OR OTHERWISE TRANSFERRED ONLY (A) TO THE CORPORATION, (B) OUTSIDE THE UNITED STATES IN ACCORDANCE WITH RULE 904 OF REGULATION S UNDER THE U.S. SECURITIES ACT, OR (C) INSIDE THE UNITED STATES IN ACCORDANCE WITH (1) RULE 144A UNDER THE U.S. SECURITIES ACT OR (2) RULE 144 UNDER THE U.S. SECURITIES ACT, IF AVAILABLE, OR (3) IN COMPLIANCE WITH CERTAIN OTHER PROCEDURES SATISFACTORY TO THE CORPORATION. A NEW CERTIFICATE, BEARING NO LEGEND, DELIVERY OF WHICH WILL CONSTITUTE "GOOD DELIVERY", MAY BE OBTAINED FROM BNY TRUST COMPANY OF CANADA UPON DELIVERY OF THIS CERTIFICATE AND A DULY EXECUTED DECLARATION, IN A FORM SATISFACTORY TO BNY TRUST COMPANY OF CANADA AND THE CORPORATION, TO THE EFFECT THAT THE SALE OF THE SECURITIES REPRESENTED HEREBY IS BEING MADE IN COMPLIANCE WITH RULE 904 OF REGULATION S UNDER THE U.S. SECURITIES ACT.*

[No. 19-000]

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TORONTO HYDRO CORPORATION
(Incorporated under the laws of Ontario)
4.95% SENIOR UNSECURED DEBENTURES DUE 2052 (SERIES 19)

Issue Date	October 13, 2022
Stated Maturity	October 13, 2052
Interest Rate Per Annum	4.95%
Interest Payment Dates	April 13 and October 13 in each year
Initial Interest Payment Date	April 13, 2023
Principal Amount	$●

TORONTO HYDRO CORPORATION (the "**Corporation**") for value received hereby promises to pay to the registered holder hereof on the Stated Maturity, or on such earlier date as the Principal Amount (or a portion thereof) may become due in accordance with the provisions of the Trust Indenture (as defined below), on presentation and surrender of this 4.95% Senior Unsecured Debenture due October 13, 2052 (Series 19) (the "**Series 19 Debenture**"), the Principal Amount in lawful money of Canada at the office of the Trustee (as defined below) at One York Street, 6th Floor, Toronto, Ontario M5J 0B6, and to pay interest on the Principal Amount at the Interest Rate Per Annum from and including the later of the Issue Date and the last Interest Payment Date on which interest has at that time most recently been paid on this Series 19 Debenture, at the address of the registered holder hereof appearing on the register of Series 19 Debentures maintained by or at the direction of the Trustee (the "**Register**"), in like money semi-annually in arrears, in equal instalments on the Interest Payment Dates in each year, and if the Corporation at any time defaults in the payment of any principal or interest, to pay interest on the amount in default at the same rate, in like money, on demand, at the address of the registered holder hereof appearing on the Register. The Corporation, on the day that is two

Business Days before each Interest Payment Date, will forward or cause to be forwarded by same day delivery to the address of the registered holder hereof appearing on the Register a cheque for interest due and payable to such holder on such Interest Payment Date, less any taxes required by law to be deducted or withheld, made payable to the order of such holder; provided, however that in case of payment of interest at maturity or redemption or as otherwise provided in the Trust Indenture, the time for payment of interest, less any such taxes, may at the option of the Corporation be determined based on the time that the certificate representing this Series 19 Debenture is presented and surrendered to the Trustee. The forwarding of such cheque will satisfy and discharge the liability for interest upon such Series 19 Debenture to the extent of the sum represented thereby (plus the amount of any taxes deducted or withheld as aforesaid) unless such cheque is not paid on presentation.

This Series 19 Debenture is one of an authorized issue of debentures designated as 4.95% Senior Unsecured Debentures due October 13, 2052 (Series 19) and forming the series of debentures created and issued under a twentieth supplemental trust indenture made as of October 13, 2022 (the “**Twentieth Supplemental Trust Indenture**") to a trust indenture (the "**Indenture**") made as of May 7, 2003, between the Corporation and BNY Trust Company of Canada (successor trustee of CIBC Mellon Trust Company) (the "**Trustee**"), as Trustee (the first supplemental trust indenture to the Indenture made as of May 7, 2003 between the Corporation and the Trustee, the second supplemental trust indenture to the Indenture made as of November 14, 2007 between the Corporation and the Trustee, the third supplemental trust indenture to the Indenture made as of November 12, 2009 between the Corporation and the Trustee, the fourth supplemental trust indenture to the Indenture made as of April 1, 2010 between the Corporation and the Trustee, the fifth supplemental trust indenture to the Indenture made as of April 1, 2010 between the Corporation and the Trustee, the sixth supplemental trust indenture to the Indenture made as of May 20, 2010 between the Corporation and the Trustee, the seventh supplemental trust indenture to the Indenture made as of September 20, 2011 between the Corporation and the Trustee, the eighth supplemental trust indenture to the Indenture made as of November 18, 2011 between the Corporation and the Trustee, the ninth supplemental trust indenture to the Indenture made as of April 9, 2013 between the Corporation and the Trustee, the tenth supplemental trust indenture to the Indenture made as of April 9, 2013 between the Corporation and the Trustee, the amended and restated tenth supplemental trust indenture to the Indenture made as of September 2, 2015 between the Corporation and the Trustee, the eleventh supplemental trust indenture to the Indenture made as of September 16, 2014 between the Corporation and the Trustee, the twelfth supplemental trust indenture to the Indenture made as of March 16, 2015 between the Corporation and the Trustee, the thirteenth supplemental trust indenture to the Indenture made as of June 14, 2016 between the Corporation and the Trustee, the fourteenth supplemental trust indenture to the Indenture made as of November 14, 2017 between the Corporation and the Trustee, the fifteenth supplemental trust indenture to the Indenture made as of November 12, 2019 between the Corporation and the Trustee, the sixteenth supplemental trust indenture to the Indenture made as of November 12, 2019 between the Corporation and the Trustee, the seventeenth supplemental trust indenture to the Indenture made as of October 15, 2020 between the Corporation and the Trustee, the eighteenth supplemental trust indenture to the Indenture made as of October 18, 2021 between the Corporation and the Trustee, the nineteenth supplemental trust indenture to the Indenture made as of October 18, 2021 between the Corporation and the Trustee, and the Twentieth Supplemental Trust Indenture to the Indenture (as amended, supplemented or restated from time to time) are collectively referred to herein as the "**Trust Indenture**"). The Trust Indenture specifies the terms and conditions upon which the Series 19 Debentures are created and issued or may be created, issued and held and the rights of the registered holders of the Series 19 Debentures, the Corporation and the Trustee, all of which terms and conditions are incorporated by reference in this Series 19 Debenture and to each of which the registered holder of this Series 19 Debenture, by acceptance hereof, agrees.

The aggregate principal amount of Series 19 Debentures that may be created and issued under the Trust Indenture is unlimited. Series 19 Debentures are issuable as fully registered debentures in denominations of $1,000 and integral multiples thereof.

The Series 19 Debentures are direct unsecured obligations of the Corporation and will rank equally with each other and with all other debentures of every other series from time to time issued and outstanding pursuant to the Trust Indenture and, except to the extent prescribed by law, with all other unsecured and unsubordinated Indebtedness of the Corporation.

This Series 19 Debenture is redeemable, at the option of the Corporation when not in default under the Trust Indenture, in whole at any time or in part from time to time, prior to April 13, 2052, subject to the terms and conditions set forth in the Trust Indenture, at a price equal to the greater of the Canada Yield Price (as defined in the Trust Indenture) and par, together with accrued and unpaid interest to (but excluding) the date fixed for redemption.

This Series 19 Debenture is redeemable, at the option of the Corporation when not in default under the Trust Indenture, in whole at any time or in part from time to time, on or after April 13, 2052, subject to the terms and conditions set forth in the Trust Indenture, at a price equal to 100% of the Principal Amount of the Series 19 Debentures outstanding, together with accrued and unpaid interest to (but excluding) the date fixed for redemption.

At any time when the Corporation is not in default under the Trust Indenture, the Corporation may, subject to the terms and conditions set forth in the Trust Indenture, purchase Series 19 Debentures in the open market, by tender or by private contract, at any price. Series 19 Debentures purchased by the Corporation shall be cancelled and not reissued.

The Principal Amount may become or be declared due before the Stated Maturity on the conditions, in the manner, with the effect and at the times set forth in the Trust Indenture.

The Trust Indenture contains provisions for the holding of meetings of registered holders of debentures issued by the Corporation pursuant to the Trust Indenture and the making of resolutions at such meetings and the creation of instruments in writing signed by the registered holders of a specified majority of debentures issued and outstanding pursuant to the Trust Indenture. Such resolutions and instruments will be binding on and may affect the rights and entitlements of all holders of debentures issued by the Corporation pursuant to the Trust Indenture, subject to the provisions of the Trust Indenture.

This Series 19 Debenture may be transferred only upon compliance with the conditions prescribed in the Trust Indenture by the registered holder hereof or the holder's legal representative or attorney duly appointed by an instrument in form and execution satisfactory to the Trustee, and upon compliance with such reasonable requirements as the Trustee or other registrar may prescribe, and such transfer shall be duly noted hereon by the Trustee or other registrar.

This Series 19 Debenture shall not become obligatory for any purpose until it shall have been certified by the manual signature of the Trustee in accordance with the Trust Indenture.

IN WITNESS WHEREOF TORONTO HYDRO CORPORATION has caused this Series 19 Debenture to be signed by its ● and its ●.

TORONTO HYDRO CORPORATION

By: ______________________________

Name: ●

Title: ●

By: ______________________________

Name: ●

Title: ●

(FORM OF TRUSTEE'S CERTIFICATE)

This Debenture is one of the Series 19 Debentures referred to in the Trust Indenture referred to above.

BNY TRUST COMPANY OF CANADA
Trustee

By: ______________________________
Authorized Signatory

(FORM OF REGISTRATION PANEL)

(NO WRITING HEREON EXCEPT BY THE TRUSTEE OR OTHER REGISTRAR)

TORONTO HYDRO CORPORATION
(Incorporated under the laws of Ontario)
4.95% SENIOR UNSECURED DEBENTURES DUE 2052 (SERIES 19)

DATE OF REGISTRATION	IN WHOSE NAME REGISTERED	SIGNATURE OF TRUSTEE OR OTHER REGISTRAR

TWENTY-FIRST SUPPLEMENTAL TRUST INDENTURE

Made as of June 14, 2023

Between

TORONTO HYDRO CORPORATION
as issuer

and

BNY TRUST COMPANY OF CANADA
as trustee

Supplementing the Trust Indenture

made as of May 7, 2003

and

providing for the issue of

4.61% Senior Unsecured Debentures
due 2033 (Series 20)

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Schedule 2 – U.S. FORM OF DEFINITIVE DEBENTURE-SERIES 20

TWENTY-FIRST SUPPLEMENTAL TRUST INDENTURE

THIS TWENTY-FIRST SUPPLEMENTAL TRUST INDENTURE made as of June 14, 2023,

BETWEEN:

TORONTO HYDRO CORPORATION
a corporation incorporated under the laws of Ontario (the "**Corporation**")

and

BNY TRUST COMPANY OF CANADA
a trust company existing under the laws of Canada (the "**Trustee**")

RECITALS

(A) BNY Trust Company of Canada is the successor trustee of CIBC Mellon Trust Company;

(B) The Corporation has entered into a trust indenture with the Trustee made as of May 7, 2003, as amended, supplemented or restated from time to time (the "**Trust Indenture**") which provides for the issuance of one or more series of unsecured Debentures of the Corporation by way of Supplemental Indentures;

(C) The Corporation entered into a first supplemental trust indenture made as of May 7, 2003 for the purpose of providing for the issue of $225,000,000 aggregate principal amount of Series 1 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 1 Debentures;

(D) The Corporation entered into a second supplemental trust indenture made as of November 14, 2007 for the purpose of providing for the issue of $250,000,000 aggregate principal amount of Series 2 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 2 Debentures;

(E) The Corporation entered into a third supplemental trust indenture made as of November 12, 2009 for the purpose of providing for the issue of $250,000,000 aggregate principal amount of Series 3 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 3 Debentures;

(F) The City Note has been converted, in accordance with its terms, into the Series 4 Debentures and the Series 5 Debentures;

(G) The Corporation entered into a fourth supplemental trust indenture made as of April 1, 2010 for the purpose of providing for the issue of $245,057,000 aggregate principal amount of Series 4 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 4 Debentures;

(H) The Corporation entered into a fifth supplemental trust indenture made as of April 1, 2010 for the purpose of providing for the issue of $245,057,000 aggregate principal amount of Series 5 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 5 Debentures;

(I) The Corporation entered into a sixth supplemental trust indenture made as of May 20, 2010 for the purpose of providing for the issue of $200,000,000 aggregate principal amount of Series 6 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 6 Debentures;

(J) The Corporation entered into a seventh supplemental trust indenture made as of September 20, 2011 for the purpose of amending the definition of "GAAP" under the Trust Indenture;

(K) The Corporation entered into an eighth supplemental trust indenture made as of November 18, 2011 for the purpose of providing for the issue of $300,000,000 aggregate principal amount of Series 7 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 7 Debentures;

(L) The Corporation entered into a ninth supplemental trust indenture made as of April 9, 2013 for the purpose of providing for the issue of $250,000,000 aggregate principal amount of Series 8 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 8 Debentures;

(M) The Corporation entered into a tenth supplemental trust indenture made as of April 9, 2013 for the purpose of providing for the issue of $200,000,000 aggregate principal amount of Series 9 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 9 Debentures;

(N) The Corporation entered into an eleventh supplemental trust indenture made as of September 16, 2014 for the purpose of providing for the issue of $200,000,000 aggregate principal amount of Series 10 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 10 Debentures;

(O) The Corporation entered into a twelfth supplemental trust indenture made as of March 16, 2015 for the purpose of providing for the issue of $200,000,000 aggregate principal amount of Series 11 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 11 Debentures;

(P) The Corporation entered into an amended and restated tenth supplemental trust indenture made as of September 2, 2015 for the purpose of making changes and corrections which were required for curing and correcting certain ambiguities and omissions in connection with an issue of $45,000,000 additional aggregate principal amount of the Series 9 Debentures;

(Q) The Corporation entered into a thirteenth supplemental trust indenture made as of June 14, 2016 for the purpose of providing for the issue of $200,000,000 aggregate principal amount of Series 12 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 12 Debentures;

(R) The Corporation entered into a fourteenth supplemental trust indenture made as of November 14, 2017 for the purpose of providing for the issue of $200,000,000 aggregate principal amount of Series 13 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 13 Debentures;

(S) The Corporation entered into a fifteenth supplemental trust indenture made as of November 12, 2019 for the purpose of providing for the issue of $200,000,000 aggregate principal amount of Series 14 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 14 Debentures;

(T) The Corporation entered into a sixteenth supplemental trust indenture made as of November 12, 2019 for the purpose of providing for the issue of $200,000,000 aggregate principal amount of Series 15 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 15 Debentures;

(U) The Corporation entered into a seventeenth supplemental trust indenture made as of October 15, 2020 for the purpose of providing for the issue of $200,000,000 aggregate principal amount of Series 16 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 16 Debentures;

(V) The Corporation entered into an eighteenth supplemental trust indenture made as of October 18, 2021 for the purpose of providing for the issue of $150,000,000 aggregate principal amount of Series 17 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 17 Debentures;

(W) The Corporation entered into a nineteenth supplemental trust indenture made as of October 18, 2021 for the purpose of providing for the issue of $200,000,000 aggregate principal amount of Series 18 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 18 Debentures;

(X) The Corporation entered into a twentieth supplemental trust indenture made as of October 13, 2022 for the purpose of providing for the issue of $300,000,000 aggregate principal amount of Series 19 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 19 Debentures; and

(Y) This Twenty-First Supplemental Trust Indenture is entered into for the purpose of providing for the issue of $250,000,000 aggregate principal amount of Series 20 Debentures pursuant to the Trust Indenture and establishing the terms, provisions and conditions of the Series 20 Debentures.

NOW THEREFORE THIS TWENTY-FIRST SUPPLEMENTAL TRUST INDENTURE WITNESSES and it is hereby covenanted, agreed and declared as follows:

Section 1 INTERPRETATION

1.1 To Be Read With Trust Indenture

This Twenty-First Supplemental Trust Indenture is a Supplemental Indenture as that term is used in the Trust Indenture. The Trust Indenture and this Twenty-First Supplemental Trust Indenture shall be read together and shall have effect as though all the provisions of both indentures were contained in one instrument.

1.2 Headings etc.

The division of this Twenty-First Supplemental Trust Indenture into Sections and clauses, the provision of a table of contents and the insertion of headings are for convenience of reference only and shall not affect the interpretation thereof. Unless the context otherwise requires, the expression "Section" and "Schedule" followed by a number, letter or combination of numbers and letters refer to the specified Section of or Schedule to this Twenty-First Supplemental Trust Indenture.

1.3 Definitions

All terms which are defined in the Trust Indenture and used but not defined in this Twenty-First Supplemental Trust Indenture shall have the meanings ascribed to them in the Trust Indenture, as such meanings may be amended or supplemented with respect to Series 20 Debentures by this Twenty-First Supplemental Trust Indenture. In the event of any inconsistency between the meaning given to a term in the Trust Indenture and the meaning given to the same term in this Twenty-First Supplemental Trust Indenture, the meaning given to the term in this Twenty-First Supplemental Trust Indenture shall prevail to the extent of the inconsistency. Subject to the foregoing, in this Twenty-First Supplemental Trust Indenture and in the Series 20 Debentures, the following terms have the following meanings:

(a) ***Canada Yield*** on any date means the yield to maturity on that date, compounded semi-annually, that a non-callable Government of Canada bond would carry if issued, in Canadian dollars in Canada, at 100% of its principal amount on that date with a term to maturity approximately equal to the remaining term to March 14, 2033 of the Series 20 Debentures, such yield to maturity being the average of the yields provided by two major Canadian investment dealers specified by the Corporation.

(b) ***Canada Yield Price*** means the amount equal to the net present value of all scheduled payments of interest (other than accrued and unpaid interest) and principal on the Series 20 Debentures that would have been payable to March 14, 2033 if redemption had not been made, using a discount rate equal to the sum of the Canada Yield and 31 basis points, calculated at 10:00 a.m. (Toronto, Ontario time) three Business Days prior to the Redemption Date of the Series 20 Debentures.

(c) ***Series 20 Debentures*** means the 4.61% Senior Unsecured Debentures due 2033 (Series 20) referred to in Section 2.1.

(d) ***Series 20 Debentures Debt Account*** means the deposit account established in respect of the Series 20 Debentures pursuant to Section 8.2 of the Trust Indenture that is designated in writing by the Corporation to the Trustee as the "Series 20 Debentures Debt Account".

(e) ***Series 20 Debentures Interest Payment Date*** means December 14 and June 14 in each year that the Series 20 Debentures are outstanding, beginning December 14, 2023.

(f) ***Series 20 Debentures Interest Period*** means the period commencing on and including the later of the date of issue of the Series 20 Debentures and the immediately preceding Series 20 Debentures Interest Payment Date and ending on and including the day immediately preceding the next Series 20 Debentures Interest Payment Date to occur in respect of which interest is payable.

(g) ***Trust Indenture*** means the trust indenture made as of May 7, 2003 between the Corporation and the Trustee, as amended, supplemented or restated from time to time.

Section 2 SERIES 20 DEBENTURES

2.1 Creation and Designation

The Corporation is authorized in accordance with the Trust Indenture to issue under this Twenty-First Supplemental Trust Indenture, and hereby creates and issues, a series of debentures designated "4.61% Senior Unsecured Debentures due 2033 (Series 20)", having the terms set out in this Twenty-First Supplemental Trust Indenture.

2.2 No Limitation on Issue

The aggregate principal amount of Series 20 Debentures which may be issued under this Twenty-First Supplemental Trust Indenture including any supplement hereto is unlimited.

2.3 Date of Issue and Maturity

The Series 20 Debentures shall be dated June 14, 2023 (being the applicable date of issue) and will become due and payable, together with all accrued interest and unpaid interest thereon, on June 14, 2033 (being the applicable Stated Maturity).

2.4 Concerning Interest

(a) The Series 20 Debentures shall be issued in $1,000 principal amount denominations or integral multiples thereof and shall bear interest on the unpaid principal amount thereof at a rate of 4.61% per annum from and including their date of issue, payable semi-annually in arrears, in equal instalments, on each Series 20 Debentures Interest Payment Date.

(b) Interest shall be payable in respect of each Series 20 Debentures Interest Period (after as well as before maturity, default and judgment, with interest on overdue interest at the same rate) on each Series 20 Debentures Interest Payment Date in accordance with Section 2.8 of the Trust Indenture.

2.5 Interest Payments

The Corporation shall make payments of interest on the Series 20 Debentures in accordance with the provisions of Section 2.8 of the Trust Indenture.

2.6 Payment of Amounts Due on Maturity

In accordance with Section 8.2 of the Trust Indenture, the Corporation will deposit to the Series 20 Debentures Debt Account all amounts required to be paid to the order of Holders of Series 20 Debentures on maturity, prior to 9:00 a.m. (Toronto, Ontario time), on the Stated Maturity of the Series 20 Debentures. The deposit of such funds will satisfy and discharge the liability of the Corporation for principal of, and any accrued and unpaid interest on, the Series 20 Debentures to the extent of the sum represented thereby (plus the amount of any taxes deducted or withheld).

2.7 Redemption and Purchase of Series 20 Debentures

(a) The Series 20 Debentures may be redeemed, at the Corporation's option when not in default under the Trust Indenture, in whole at any time or in part from time to time, prior to March 14, 2033, on not more than 60 calendar days and not less than 10 calendar days prior notice, at a price equal to the greater of the Canada Yield Price and par, together in each case with accrued and unpaid interest to (but excluding) the Redemption Date and in each case otherwise in accordance with Sections 5.1, 5.2, 5.3 and 5.4 of the Trust Indenture.

(b) The Series 20 Debentures may be redeemed, at the Corporation's option when not in default under the Trust Indenture, in whole at any time or in part from time to time, on or after March 14, 2033, on not more than 60 calendar days and not less than 10 calendar days prior notice, at a price equal to 100% of the principal amount of the Series 20 Debentures outstanding, together with accrued and unpaid interest to (but excluding) the Redemption Date and otherwise in accordance with Sections 5.1, 5.2, 5.3 and 5.4 of the Trust Indenture.

(c) The Corporation will be entitled at any time when not in default under the Trust Indenture to purchase for cancellation all or any of the Series 20 Debentures in accordance with Section 5.5 of the Trust Indenture.

(d) The Series 20 Debentures will not be subject to repurchase pursuant to any sinking fund provisions.

(e) Notice of redemption of any Series 20 Debentures given to the holders of the Series 20 Debentures may be conditional and, in such case, such notice of redemption shall specify the details and terms of any event (e.g., a financing, asset disposition or other transaction) on which such redemption is conditional.

2.8 Form of Series 20 Debentures

(a) Except as set out in 2.8(b) below, the Series 20 Debentures and the registration panel and the certificate of the Trustee endorsed thereon shall be issuable initially as one Global Debenture to be held by, or on behalf of, CDS as depository for its participants and registered in the name of CDS or its nominee. The Global Debenture shall be substantially in the form set out in Schedule 1 hereto with such appropriate additions, deletions, substitutions and variations as the Directors shall by resolution determine prior to the time of issue thereof and as the Trustee may approve and with such distinguishing letters and numbers as the Trustee may approve, with such approval in each case to be conclusively evidenced by the Trustee's certification of such Global Debenture.

(b) The Trustee understands and acknowledges that the Series 20 Debentures have not been and will not be registered under the United States Securities Act of 1933, as amended (the "U.S. Securities Act"). Each Series 20 Debenture originally issued in the United States or to a U.S. Person will be represented by a definitive certificate in the form set out in Schedule 2 hereto which definitive certificate, and each Series 20 Debenture certificate issued in exchange therefor or in substitution thereof, shall bear the following legend:

"THE SECURITIES REPRESENTED HEREBY HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE **"U.S. SECURITIES ACT**") OR UNDER ANY STATE SECURITIES LAWS. THE HOLDER HEREOF, BY PURCHASING SUCH SECURITIES, AGREES FOR THE BENEFIT OF THE CORPORATION THAT SUCH SECURITIES MAY BE OFFERED, SOLD OR OTHERWISE TRANSFERRED ONLY (A) TO THE CORPORATION, (B) OUTSIDE THE UNITED STATES IN ACCORDANCE WITH RULE 904 OF REGULATION S UNDER THE U.S. SECURITIES ACT, OR (C) INSIDE THE UNITED STATES IN ACCORDANCE WITH (1) RULE 144A UNDER THE U.S. SECURITIES ACT OR (2) RULE 144 UNDER THE U.S. SECURITIES ACT, IF AVAILABLE, OR (3) IN COMPLIANCE WITH CERTAIN OTHER PROCEDURES SATISFACTORY TO THE CORPORATION. A NEW CERTIFICATE, BEARING NO LEGEND, DELIVERY OF WHICH WILL CONSTITUTE "GOOD DELIVERY", MAY BE OBTAINED FROM BNY TRUST COMPANY OF CANADA UPON DELIVERY OF THIS CERTIFICATE AND A DULY EXECUTED DECLARATION, IN A FORM SATISFACTORY TO BNY TRUST COMPANY OF CANADA AND THE CORPORATION, TO THE EFFECT THAT THE SALE OF THE SECURITIES REPRESENTED HEREBY IS BEING MADE IN COMPLIANCE WITH RULE 904 OF REGULATION S UNDER THE U.S. SECURITIES ACT."

If any Series 20 Debentures are being sold or transferred outside the United States in compliance with the requirements of Rule 904 of Regulation S under the U.S Securities Act, the legend may be removed by providing a declaration to the Trustee to the following effect (or as the Corporation may prescribe from time to time),

"The undersigned (A) acknowledges that the sale of the ________________ Debentures, represented by certificate numbers _______________ to which this declaration relates is being made in reliance on Rule 904 of Regulation S under the United States Securities Act of 1933, as amended (the "**U.S. Securities Act**") and (B) certifies that (1) it is not an "affiliate" (as defined in Rule 405 under the U.S. Securities Act) of Toronto Hydro Corporation, (2) the offer of such Debentures was not made to a person in the United States and at the time the buy order was originated, the buyer was outside the United States, or the seller and any person acting on its behalf reasonably believe that the buyer was outside the United States and (3) neither the seller, nor any affiliate of the seller, nor any person acting on its or their behalf engaged in any directed selling efforts in connection with the offer and sale of such Debentures. Terms used herein have the meanings given to them by Regulation S under the U.S. Securities Act."

If any Series 20 Debentures are being sold or transferred pursuant to Rule 144 of the U.S. Securities Act, the legend may be removed by delivery to the Trustee of a written opinion of Trustee Counsel (or counsel to the transferor satisfactory to the Trustee) to the effect that such legend is no longer required under applicable requirements of the U.S. Securities Act or state securities laws.

Prior to the issuance of Series 20 Debentures, the Corporation shall notify the Trustee, in writing, concerning which Series 20 Debentures are to be certificated and are to bear the legend described above. The Trustee will thereafter maintain a list of all registered holders from time to time of legended Series 20 Debentures.

2.9 Signatures on Series 20 Debentures

The Series 20 Debentures shall be signed in accordance with the provisions of Section 2.6 of the Trust Indenture.

2.10 Certification

(a) No Series 20 Debenture issued shall be obligatory or shall entitle the Holder of such Series 20 Debenture to the benefits of this Twenty-First Supplemental Trust Indenture until it has been certified by manual, facsimile or electronic signature by or on behalf of the Trustee by execution of the certificate of the Trustee appended thereto substantially in the form set out in Schedule 1 hereto, or in some other form approved by the Trustee, whose approval shall be conclusively evidenced by the Trustee's execution of the certificate. Such certificate on any Series 20 Debenture shall be conclusive evidence that such Series 20 Debenture is duly issued and is a valid and binding obligation of the Corporation and that the Holder of such Series 20 Debenture is entitled to the benefits of the Trust Indenture, as supplemented by this Twenty-First Supplemental Trust Indenture, and such Series 20 Debenture.

(b) The certificate of the Trustee on any Series 20 Debenture shall not be construed as a representation or warranty by the Trustee as to the validity of this Twenty-First Supplemental Trust Indenture or of the Series 20 Debentures (except the due certification thereof and any other warranties implied by law) and the Trustee shall in no respect be liable or answerable for the use made of the Series 20 Debentures or any of them or the proceeds thereof.

2.11 Location of Register

With respect to the Series 20 Debentures, initially the Register referred to in Section 3.1 of the Trust Indenture shall be kept by the Trustee at the Corporate Trust Office and may thereafter be kept by the Trustee in such other place as the Corporation, with the approval of the Trustee, may designate.

2.12 Additional Amounts

The Corporation will not be required to pay an additional amount on the Series 20 Debentures in respect of any tax, assessment or government charge that is required by law to be withheld or deducted by it.

2.13 Trustees, etc.

The Trustee will be the Paying Agent and the Registrar for the Series 20 Debentures.

Section 3 MISCELLANEOUS

3.1 Acceptance of Trust

The Trustee accepts the trusts in this Twenty-First Supplemental Trust Indenture and agrees to carry out and discharge the same upon the terms and conditions set out in this Twenty-First Supplemental Trust Indenture and in accordance with the Trust Indenture.

3.2 Confirmation of Trust Indenture

The Trust Indenture as amended and supplemented by this Twenty-First Supplemental Trust Indenture is in all respects confirmed.

3.3 Counterparts

This Twenty-First Supplemental Trust Indenture may be executed in counterparts, each of which so executed shall be deemed to be original and such counterparts together shall constitute one and the same instrument.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF the parties hereto have executed this Twenty-First Supplemental Trust Indenture under the hands of their proper signatories in that behalf:

TORONTO HYDRO CORPORATION

By: ______________________________

Name: Anthony Haines

Title: President and Chief Executive Officer

By: ______________________________

Name: Céline Arsenault

Title: Executive Vice-President and Chief Financial Officer

[Trustee Signature Page Follows]

IN WITNESS WHEREOF the parties hereto have executed this Twenty-First Supplemental Trust Indenture under the hands of their proper signatories in that behalf:

BNY TRUST COMPANY OF CANADA

By: ________________________________

Name: Ismail Bawa

Title: Authorized Signatory

Schedule 1 – FORM OF GLOBAL DEBENTURE-SERIES 20

This Debenture is a Global Debenture within the meaning of the Trust Indenture hereinafter referred to and is registered in the name of a Depository or a nominee thereof. Unless this Certificate is presented by an authorized representative of CDS Clearing and Depository Services Inc. ("CDS") to Toronto Hydro Corporation or its agent for registration of transfer, exchange or payment, and any certificate issued in respect thereof is registered in the name of CDS & CO., or in such other name as is requested by an authorized representative of CDS (and any payment is made to CDS & CO., or to such other entity as is requested by an authorized representative of CDS), ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL since the registered holder hereof, CDS & CO., has a property interest in the securities represented by this certificate herein and it is a violation of its rights for another person to hold, transfer or deal with this certificate.

[No. 20-000]

$●

TORONTO HYDRO CORPORATION
(Incorporated under the laws of Ontario)
4.61% SENIOR UNSECURED DEBENTURES DUE 2033 (SERIES 20)

ISIN CA89119ZAS26
CUSIP 89119ZAS2

Issue Date	June 14, 2023
Stated Maturity	June 14, 2033
Interest Rate Per Annum	4.61%
Interest Payment Dates	December 14 and June 14 in each year
Initial Interest Payment Date	December 14, 2023
Principal Amount	$●

TORONTO HYDRO CORPORATION (the "**Corporation**") for value received hereby promises to pay to the registered holder hereof on the Stated Maturity, or on such earlier date as the Principal Amount (or a portion thereof) may become due in accordance with the provisions of the Trust Indenture (as defined below), on presentation and surrender of this 4.61% Senior Unsecured Debenture due June 14, 2033 (Series 20) (the "**Series 20 Debenture**"), the Principal Amount in lawful money of Canada at the office of the Trustee (as defined below) at One York Street, 6th Floor, Toronto, Ontario M5J 0B6, and to pay interest on the Principal Amount at the Interest Rate Per Annum from and including the later of the Issue Date and the last Interest Payment Date on which interest has at that time most recently been paid on this Series 20 Debenture, at the address of the registered holder hereof appearing on the register of Series 20 Debentures maintained by or at the direction of the Trustee (the "**Register**"), in like money semi-annually in arrears, in equal instalments on the Interest Payment Dates in each year, and if the Corporation at any time defaults in the payment of any principal or interest, to pay interest on the amount in default at the same rate, in like money, on demand, at the address of the registered holder hereof appearing on the Register. The Corporation will (i) on the day that is each Interest Payment Date, make payment by a wire transfer, or (ii) on the day that is two Business Days before each Interest Payment Date, forward or cause to be forwarded a cheque by same day delivery, to the address of the registered holder hereof appearing on the Register for interest due and payable to such holder on such Interest Payment Date, less any taxes required by law to be deducted or withheld, made payable to the order of such holder; provided, however that in case of payment of interest at maturity or redemption or as otherwise provided in the Trust Indenture, the time for payment of interest, less any such taxes, may at the option of the Corporation be determined based on the time that the certificate representing this Series 20 Debenture is presented and surrendered to the Trustee. The payment by such wire transfer or forwarding of such cheque (provided such cheque is paid on presentation) will satisfy and discharge the liability for interest upon such Series 20 Debenture to the extent of the sum represented thereby (plus the amount of any taxes deducted or withheld as aforesaid).

This Series 20 Debenture is one of an authorized issue of debentures designated as 4.61% Senior Unsecured Debentures due June 14, 2033 (Series 20) and forming the series of debentures created and issued under a twenty-first supplemental trust indenture made as of June 14, 2023 (the "**Twenty-First Supplemental Trust Indenture**") to a trust indenture (the "**Indenture**") made as of May 7, 2003, between the Corporation and BNY Trust Company of Canada (successor trustee of CIBC Mellon Trust Company) (the "**Trustee**"), as Trustee (the first supplemental trust indenture to the Indenture made as of May 7, 2003 between the Corporation and the Trustee, the second supplemental trust indenture to the Indenture made as of November 14, 2007 between the Corporation and the Trustee, the third supplemental trust indenture to the Indenture made as of November 12, 2009 between the Corporation and the Trustee, the fourth supplemental trust indenture to the Indenture made as of April 1, 2010 between the Corporation and the Trustee, the fifth supplemental trust indenture to the Indenture made as of April 1, 2010 between the Corporation and the Trustee, the sixth supplemental trust indenture to the Indenture made as of May 20, 2010 between the Corporation and the Trustee, the seventh supplemental trust indenture to the Indenture made as of September 20, 2011 between the Corporation and the Trustee, the eighth supplemental trust indenture to the Indenture made as of November 18, 2011 between the Corporation and the Trustee, the ninth supplemental trust indenture to the Indenture made as of April 9, 2013 between the Corporation and the Trustee, the tenth supplemental trust indenture to the Indenture made as of April 9, 2013 between the Corporation and the Trustee, the amended and restated tenth supplemental trust indenture to the Indenture made as of September 2, 2015 between the Corporation and the Trustee, the eleventh supplemental trust indenture to the Indenture made as of September 16, 2014 between the Corporation and the Trustee, the twelfth supplemental trust indenture to the Indenture made as of March 16, 2015 between the Corporation and the Trustee, the thirteenth supplemental trust indenture to the Indenture made as of June 14, 2016 between the Corporation and the Trustee, the fourteenth supplemental trust indenture to the Indenture made as of November 14, 2017 between the Corporation and the Trustee, the fifteenth supplemental trust indenture to the Indenture made as of November 12, 2019 between the Corporation and the Trustee, the sixteenth supplemental trust indenture to the Indenture made as of November 12, 2019 between the Corporation and the Trustee, the seventeenth supplemental trust indenture to the Indenture made as of October 15, 2020 between the Corporation and the Trustee, the eighteenth supplemental trust indenture to the Indenture made as of October 18, 2021 between the Corporation and the Trustee, the nineteenth supplemental trust indenture to the Indenture made as of October 18, 2021 between the Corporation and the Trustee, the twentieth supplemental trust indenture to the Indenture made as of October 13, 2022 between the Corporation and the Trustee, and the Twenty-First Supplemental Trust Indenture to the Indenture (as amended, supplemented or restated from time to time) are collectively referred to herein as the "**Trust Indenture**"). The Trust Indenture specifies the terms and conditions upon which the Series 20 Debentures are created and issued or may be created, issued and held and the rights of the registered holders of the Series 20 Debentures, the Corporation and the Trustee, all of which terms and conditions are incorporated by reference in this Series 20 Debenture and to each of which the registered holder of this Series 20 Debenture, by acceptance hereof, agrees.

The aggregate principal amount of Series 20 Debentures that may be created and issued under the Trust Indenture is unlimited. Series 20 Debentures are issuable as fully registered debentures in denominations of $1,000 and integral multiples thereof and, subject to the terms and conditions set forth in the Trust Indenture, are issued as book entry only debentures.

The Series 20 Debentures are direct unsecured obligations of the Corporation and will rank equally with each other and with all other debentures of every other series from time to time issued and outstanding pursuant to the Trust Indenture and, except to the extent prescribed by law, with all other unsecured and unsubordinated Indebtedness of the Corporation.

This Series 20 Debenture is redeemable, at the option of the Corporation when not in default under the Trust Indenture, in whole at any time or in part from time to time, prior to March 14, 2033, subject to the terms and conditions set forth in the Trust Indenture, at a price equal to the greater of the Canada Yield Price (as defined in the Trust Indenture) and par, together with accrued and unpaid interest to (but excluding) the date fixed for redemption.

This Series 20 Debenture is redeemable, at the option of the Corporation when not in default under the Trust Indenture, in whole at any time or in part from time to time, on or after March 14, 2033, subject to the terms and conditions set forth in the Trust Indenture, at a price equal to 100% of the Principal Amount of the Series 20 Debentures outstanding, together with accrued and unpaid interest to (but excluding) the date fixed for redemption.

At any time when the Corporation is not in default under the Trust Indenture, the Corporation may, subject to the terms and conditions set forth in the Trust Indenture, purchase Series 20 Debentures in the open market, by tender or by private contract, at any price. Series 20 Debentures purchased by the Corporation shall be cancelled and not reissued.

The Principal Amount may become or be declared due before the Stated Maturity on the conditions, in the manner, with the effect and at the times set forth in the Trust Indenture.

The Trust Indenture contains provisions for the holding of meetings of registered holders of debentures issued by the Corporation pursuant to the Trust Indenture and the making of resolutions at such meetings and the creation of instruments in writing signed by the registered holders of a specified majority of debentures issued and outstanding pursuant to the Trust Indenture. Such resolutions and instruments will be binding on and may affect the rights and entitlements of all holders of debentures issued by the Corporation pursuant to the Trust Indenture, subject to the provisions of the Trust Indenture.

This Series 20 Debenture may be transferred only upon compliance with the conditions prescribed in the Trust Indenture relating to the transfer of a Global Debenture (as defined in the Trust Indenture), and upon compliance with such reasonable requirements as the Trustee or other registrar may prescribe, and such transfer shall be duly noted hereon by the Trustee or other registrar.

This Series 20 Debenture shall not become obligatory for any purpose until it shall have been certified by the manual signature of the Trustee in accordance with the Trust Indenture.

IN WITNESS WHEREOF TORONTO HYDRO CORPORATION has caused this Series 20 Debenture to be signed by its ● and its ●.

TORONTO HYDRO CORPORATION

By: ______________________________

Name: ●

Title: ●

By: ______________________________

Name: ●

Title: ●

(FORM OF TRUSTEE'S CERTIFICATE)

This Debenture is one of the Series 20 Debentures referred to in the Trust Indenture referred to above.

BNY TRUST COMPANY OF CANADA
Trustee

By: ________________________________
Authorized Signatory

(FORM OF REGISTRATION PANEL)

(NO WRITING HEREON EXCEPT BY THE TRUSTEE OR OTHER REGISTRAR)

TORONTO HYDRO CORPORATION
(Incorporated under the laws of Ontario)
4.61% SENIOR UNSECURED DEBENTURES DUE 2033 (SERIES 20)

ISIN CA89119ZAS26
CUSIP 89119ZAS2

DATE OF REGISTRATION	IN WHOSE NAME REGISTERED	AMOUNT OF DECREASE	AMOUNT OF INCREASE	AMOUNT OF SERIES 20 DEBENTURES OUTSTANDING FOLLOWING CHANGE	SIGNATURE OF TRUSTEE OR OTHER REGISTRAR

Schedule 2 – U.S. FORM OF DEFINITIVE DEBENTURE-SERIES 20

*THE SECURITIES REPRESENTED HEREBY HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "**U.S. SECURITIES ACT**") OR UNDER ANY STATE SECURITIES LAWS. THE HOLDER HEREOF, BY PURCHASING SUCH SECURITIES, AGREES FOR THE BENEFIT OF THE CORPORATION THAT SUCH SECURITIES MAY BE OFFERED, SOLD OR OTHERWISE TRANSFERRED ONLY (A) TO THE CORPORATION, (B) OUTSIDE THE UNITED STATES IN ACCORDANCE WITH RULE 904 OF REGULATION S UNDER THE U.S. SECURITIES ACT, OR (C) INSIDE THE UNITED STATES IN ACCORDANCE WITH (1) RULE 144A UNDER THE U.S. SECURITIES ACT OR (2) RULE 144 UNDER THE U.S. SECURITIES ACT, IF AVAILABLE, OR (3) IN COMPLIANCE WITH CERTAIN OTHER PROCEDURES SATISFACTORY TO THE CORPORATION. A NEW CERTIFICATE, BEARING NO LEGEND, DELIVERY OF WHICH WILL CONSTITUTE "GOOD DELIVERY", MAY BE OBTAINED FROM BNY TRUST COMPANY OF CANADA UPON DELIVERY OF THIS CERTIFICATE AND A DULY EXECUTED DECLARATION, IN A FORM SATISFACTORY TO BNY TRUST COMPANY OF CANADA AND THE CORPORATION, TO THE EFFECT THAT THE SALE OF THE SECURITIES REPRESENTED HEREBY IS BEING MADE IN COMPLIANCE WITH RULE 904 OF REGULATION S UNDER THE U.S. SECURITIES ACT.*

[No. 20-000]

$●

TORONTO HYDRO CORPORATION
(Incorporated under the laws of Ontario)
4.61% SENIOR UNSECURED DEBENTURES DUE 2033 (SERIES 20)

Issue Date	June 14, 2023
Stated Maturity	June 14, 2033
Interest Rate Per Annum	4.61%
Interest Payment Dates	December 14 and June 14 in each year
Initial Interest Payment Date	December 14, 2023
Principal Amount	$●

TORONTO HYDRO CORPORATION (the "**Corporation**") for value received hereby promises to pay to the registered holder hereof on the Stated Maturity, or on such earlier date as the Principal Amount (or a portion thereof) may become due in accordance with the provisions of the Trust Indenture (as defined below), on presentation and surrender of this 4.61% Senior Unsecured Debenture due June 14, 2033 (Series 20) (the "**Series 20 Debenture**"), the Principal Amount in lawful money of Canada at the office of the Trustee (as defined below) at One York Street, 6th Floor, Toronto, Ontario M5J 0B6, and to pay interest on the Principal Amount at the Interest Rate Per Annum from and including the later of the Issue Date and the last Interest Payment Date on which interest has at that time most recently been paid on this Series 20 Debenture, at the address of the registered holder hereof appearing on the register of Series 20 Debentures maintained by or at the direction of the Trustee (the "**Register**"), in like money semi-annually in arrears, in equal instalments on the Interest Payment Dates in each year, and if the Corporation at any time defaults in the payment of any principal or interest, to pay interest on the amount in default at the same rate, in like money, on demand, at the address of the registered holder hereof appearing on the Register. The Corporation, on the day that is two

Business Days before each Interest Payment Date, will forward or cause to be forwarded by same day delivery to the address of the registered holder hereof appearing on the Register a cheque for interest due and payable to such holder on such Interest Payment Date, less any taxes required by law to be deducted or withheld, made payable to the order of such holder; provided, however that in case of payment of interest at maturity or redemption or as otherwise provided in the Trust Indenture, the time for payment of interest, less any such taxes, may at the option of the Corporation be determined based on the time that the certificate representing this Series 20 Debenture is presented and surrendered to the Trustee. The forwarding of such cheque will satisfy and discharge the liability for interest upon such Series 20 Debenture to the extent of the sum represented thereby (plus the amount of any taxes deducted or withheld as aforesaid) unless such cheque is not paid on presentation.

This Series 20 Debenture is one of an authorized issue of debentures designated as 4.61% Senior Unsecured Debentures due June 14, 2033 (Series 20) and forming the series of debentures created and issued under a twenty-first supplemental trust indenture made as of June 14, 2023 (the "**Twenty-First Supplemental Trust Indenture**") to a trust indenture (the "**Indenture**") made as of May 7, 2003, between the Corporation and BNY Trust Company of Canada (successor trustee of CIBC Mellon Trust Company) (the "**Trustee**"), as Trustee (the first supplemental trust indenture to the Indenture made as of May 7, 2003 between the Corporation and the Trustee, the second supplemental trust indenture to the Indenture made as of November 14, 2007 between the Corporation and the Trustee, the third supplemental trust indenture to the Indenture made as of November 12, 2009 between the Corporation and the Trustee, the fourth supplemental trust indenture to the Indenture made as of April 1, 2010 between the Corporation and the Trustee, the fifth supplemental trust indenture to the Indenture made as of April 1, 2010 between the Corporation and the Trustee, the sixth supplemental trust indenture to the Indenture made as of May 20, 2010 between the Corporation and the Trustee, the seventh supplemental trust indenture to the Indenture made as of September 20, 2011 between the Corporation and the Trustee, the eighth supplemental trust indenture to the Indenture made as of November 18, 2011 between the Corporation and the Trustee, the ninth supplemental trust indenture to the Indenture made as of April 9, 2013 between the Corporation and the Trustee, the tenth supplemental trust indenture to the Indenture made as of April 9, 2013 between the Corporation and the Trustee, the amended and restated tenth supplemental trust indenture to the Indenture made as of September 2, 2015 between the Corporation and the Trustee, the eleventh supplemental trust indenture to the Indenture made as of September 16, 2014 between the Corporation and the Trustee, the twelfth supplemental trust indenture to the Indenture made as of March 16, 2015 between the Corporation and the Trustee, the thirteenth supplemental trust indenture to the Indenture made as of June 14, 2016 between the Corporation and the Trustee, the fourteenth supplemental trust indenture to the Indenture made as of November 14, 2017 between the Corporation and the Trustee, the fifteenth supplemental trust indenture to the Indenture made as of November 12, 2019 between the Corporation and the Trustee, the sixteenth supplemental trust indenture to the Indenture made as of November 12, 2019 between the Corporation and the Trustee, the seventeenth supplemental trust indenture to the Indenture made as of October 15, 2020 between the Corporation and the Trustee, the eighteenth supplemental trust indenture to the Indenture made as of October 18, 2021 between the Corporation and the Trustee, the nineteenth supplemental trust indenture to the Indenture made as of October 18, 2021 between the Corporation and the Trustee, the twentieth supplemental trust indenture to the Indenture made as of October 13, 2022 between the Corporation and the Trustee, and the Twenty-First Supplemental Trust Indenture to the Indenture (as amended, supplemented or restated from time to time) are collectively referred to herein as the "**Trust Indenture**"). The Trust Indenture specifies the terms and conditions upon which the Series 20 Debentures are created and issued or may be created, issued and held and the rights of the registered holders of the Series 20 Debentures, the Corporation and the Trustee, all of which terms and conditions are incorporated by reference in this Series 20 Debenture and to each of which the registered holder of this Series 20 Debenture, by acceptance hereof, agrees.

The aggregate principal amount of Series 20 Debentures that may be created and issued under the Trust Indenture is unlimited. Series 20 Debentures are issuable as fully registered debentures in denominations of $1,000 and integral multiples thereof.

The Series 20 Debentures are direct unsecured obligations of the Corporation and will rank equally with each other and with all other debentures of every other series from time to time issued and outstanding pursuant to the Trust Indenture and, except to the extent prescribed by law, with all other unsecured and unsubordinated Indebtedness of the Corporation.

This Series 20 Debenture is redeemable, at the option of the Corporation when not in default under the Trust Indenture, in whole at any time or in part from time to time, prior to March 14, 2033, subject to the terms and conditions set forth in the Trust Indenture, at a price equal to the greater of the Canada Yield Price (as defined in the Trust Indenture) and par, together with accrued and unpaid interest to (but excluding) the date fixed for redemption.

This Series 20 Debenture is redeemable, at the option of the Corporation when not in default under the Trust Indenture, in whole at any time or in part from time to time, on or after March 14, 2033, subject to the terms and conditions set forth in the Trust Indenture, at a price equal to 100% of the Principal Amount of the Series 20 Debentures outstanding, together with accrued and unpaid interest to (but excluding) the date fixed for redemption.

At any time when the Corporation is not in default under the Trust Indenture, the Corporation may, subject to the terms and conditions set forth in the Trust Indenture, purchase Series 20 Debentures in the open market, by tender or by private contract, at any price. Series 20 Debentures purchased by the Corporation shall be cancelled and not reissued.

The Principal Amount may become or be declared due before the Stated Maturity on the conditions, in the manner, with the effect and at the times set forth in the Trust Indenture.

The Trust Indenture contains provisions for the holding of meetings of registered holders of debentures issued by the Corporation pursuant to the Trust Indenture and the making of resolutions at such meetings and the creation of instruments in writing signed by the registered holders of a specified majority of debentures issued and outstanding pursuant to the Trust Indenture. Such resolutions and instruments will be binding on and may affect the rights and entitlements of all holders of debentures issued by the Corporation pursuant to the Trust Indenture, subject to the provisions of the Trust Indenture.

This Series 20 Debenture may be transferred only upon compliance with the conditions prescribed in the Trust Indenture by the registered holder hereof or the holder's legal representative or attorney duly appointed by an instrument in form and execution satisfactory to the Trustee, and upon compliance with such reasonable requirements as the Trustee or other registrar may prescribe, and such transfer shall be duly noted hereon by the Trustee or other registrar.

This Series 20 Debenture shall not become obligatory for any purpose until it shall have been certified by the manual signature of the Trustee in accordance with the Trust Indenture.

IN WITNESS WHEREOF TORONTO HYDRO CORPORATION has caused this Series 20 Debenture to be signed by its ● and its ●.

TORONTO HYDRO CORPORATION

By: ______________________________

Name: ●

Title: ●

By: ______________________________

Name: ●

Title: ●

(FORM OF TRUSTEE'S CERTIFICATE)

This Debenture is one of the Series 20 Debentures referred to in the Trust Indenture referred to above.

BNY TRUST COMPANY OF CANADA
Trustee

By: ________________________________
Authorized Signatory

(FORM OF REGISTRATION PANEL)

(NO WRITING HEREON EXCEPT BY THE TRUSTEE OR OTHER REGISTRAR)

TORONTO HYDRO CORPORATION
(Incorporated under the laws of Ontario)
4.61% SENIOR UNSECURED DEBENTURES DUE 2033 (SERIES 20)

DATE OF REGISTRATION	IN WHOSE NAME REGISTERED	SIGNATURE OF TRUSTEE OR OTHER REGISTRAR

RATING AGENCY REPORTS

In accordance with s. 2.1.8 of the OEB's Filing Requirements,[1] this schedule provides Toronto Hydro-Electric System Limited's rating agency reports, as follows:

- Appendix A: Standard and Poor's, 11 May 2023
- Appendix B: DBRS, 01 May 2023

[1] Ontario Energy Board, Filing Requirements for Electricity Distributor Rate Applications, Chapter 2 (December 15, 2022).

S&P Global
Ratings

RatingsDirect®

Research Update:

Toronto Hydro Corp. Outlook Revised To Developing From Positive Due To Heightened Regulatory Lag; Ratings Affirmed

May 11, 2023

Rating Action Overview

- The financial performance of the Ontario local distribution companies (LDC), regulated by the Ontario Energy Board (OEB), has gradually weakened, primarily reflecting regulatory lag. We view this development as negative for credit quality, which could lead to our reassessing Ontario's regulatory framework.
- We therefore affirmed our 'A' issuer credit rating and senior unsecured rating on Toronto Hydro Corp., and we revised the outlook to developing from positive.
- The developing outlook reflects the possibility that we could either affirm, raise, or lower Toronto Hydro Corp. (THC) over the next 12 months. This will depend on THC's financial measures, our view of the Ontario regulatory framework, and if we upgrade the city of Toronto.

PRIMARY CREDIT ANALYST

Omar El Gamal, CFA
Toronto
+1 4165072523
omar.elgamal
@spglobal.com

SECONDARY CONTACTS

Matthew L O'Neill
New York
+ 1 (212) 438 4295
matthew.oneill
@spglobal.com

Mayur Deval
Toronto
(1) 416-507-3271
mayur.deval
@spglobal.com

Rating Action Rationale

We revised THC's outlook to developing. THC's prior outlook reflected the positive outlook on the city of Toronto because there is a moderate likelihood that the city of Toronto will provide timely and sufficient support in the event of financial distress. The cash injection by the city in 2017, demonstrating its willingness to provide financial support to THC when needed, supports this view. We expect to see ongoing support from the city, as necessary, because the utility provides essential infrastructure services to the population of Toronto.

The developing outlook on THC reflects the possibility that we could reassess our view of the Ontario regulatory framework because of regulatory lag that has weakened financial performance, increased cash flow volatility, and weakened financial predictability.

We have historically assessed the Ontario regulatory framework as one of the most credit-supportive regulatory jurisdictions. Despite the OEB only authorizing its LDCs an average return on equity (ROE) and a significantly below average capital structure, reflecting a 40% equity ratio, we have consistently assessed the Ontario regulatory framework as one of the most credit-supportive regulatory jurisdictions for LDCs because they have consistently been able to earn at or close to their authorized ROE. However, more recently financial measures have gradually weakened because of rising regulatory lag, which is the timing difference between when costs are incurred and when regulators allow those costs to be fully recovered from ratepayers. During the past two years, transmission costs and wholesale market charges have significantly increased. Although we expect the LDCs to recover these costs from ratepayers, it has taken them as long as 24 months to fully recover these costs, which has eroded financial performance. In general, regulatory jurisdictions that we assess as most credit supportive have a regulatory construct in place that consistently minimizes regulatory lag.

THC's historical financial measures have weakened. THC's financial performance materially weakened in 2022, reflecting high capital spending and regulatory lag. In 2022, funds from operations (FFO) to debt was 10.3%, significantly below our ratings trigger of 13%.

We currently expect THC's financial measures will remain weak in 2023 and 2024, reflecting FFO to debt of 11%-14%. This is driven by high capital expenditures (capex) of about C$800 million per year, refunds to rate payers, and regulatory lag. We currently expect financial measures to improve starting 2025 as the company will enter a new five-year rate period. We expect the company to file a multiyear rate case with the OEB sometime in late 2023.

We assess THC's business risk profile as excellent. We assess the utility's business risk profile as excellent because of the company's lower-risk regulated electric LDC business that serves a large customer base (about 790,000 customers), consisting of mostly residential customers that provide a degree of cash flow stability, and our high assessment of the Ontario regulatory construct. However, should we reassess Ontario's regulatory construct downward, it would likely weaken our relative assessment of THC's business risk profile within its current business risk profile category.

Outlook

The developing outlook reflects the possibility that we could either affirm, raise, or lower the ratings on THC over the next 12 months. This will depend on THC's financial measures, our view of the Ontario regulatory framework, and if we upgrade the city of Toronto. We could affirm our rating on THC and revise the outlook to stable if we revise downward our assessment of Ontario's regulatory construct and THC's FFO to debt is consistently greater than 14%. We could also revise the outlook to stable if we maintain our current assessment of Ontario's regulatory construct and THC's FFO to debt is consistently greater than 11%.

Downside scenario

We could lower the ratings on THC if we revise downward our assessment of Ontario's regulatory construct and THC's FFO to debt is consistently below 14%. We could also lower the rating if we maintain our current assessment of Ontario's regulatory construct and THC's FFO to debt is consistently below 11%.

Upside scenario

We could raise the ratings on THC if we upgrade the city of Toronto, we maintain our current assessment of Ontario's regulatory construct, and THC's FFO to debt is consistently greater than

13%.

Company Description

Toronto Hydro Corp. (THC) is a utility holding company that owns Toronto Hydro-Electric System Ltd., the electricity distribution utility delivering electricity in Toronto.

Our Base-Case Scenario

- Continued rate increases driven by annual rate increases, recovery of energy costs, and anticipated 2025 rate case.
- Recovery of large energy cost variance of 2021 and 2022 in 2023 and 2024.
- We forecast energy sales variance would be between C$50 million to C$70 million in 2023.
- Net refunds of about C$100 million to rate payers through 2024.
- Capex averaging about C$800 million per year through 2025.

Liquidity

As of Dec. 31, 2022, we assess THC's liquidity as adequate, which reflects our expectation that sources will cover uses by 1.1x over the coming 12 months. Additionally, we anticipate its net sources will remain positive even if consolidated EBITDA declines 10%. We believe the predictable regulatory framework for THC provides cash flow stability even in times of economic stress. This supports our use of slightly lower thresholds than for a typical corporate issuer to assess the company's liquidity. In addition, THC has the ability to absorb high-impact, low-probability events, given that it maintains about $1 billion in committed credit facilities that mature beyond 12 months. We also believe the company can significantly lower its robust capital spending during stress, which would reduce the need for refinancing under such conditions. Furthermore, our assessment reflects the company's generally prudent risk management, sound relationships with its banks, and satisfactory standing in the credit markets. Overall, we believe the company could withstand adverse market circumstances over the next 12 months with sufficient liquidity to meet its obligations.

Principal liquidity sources

- Committed credit facilities availability of C$1 billion; and
- Cash FFO of about C$550 million.

Principal liquidity uses

- Debt maturities of about C$600 million;
- Assumed maintenance capex of about C$630 million; and
- Dividend payments of about C$100 million.

Ratings Score Snapshot

Issuer credit rating: A/Developing/--

Business risk: Excellent

- Country risk: Very low
- Industry risk: Very low
- Competitive position: Strong

Financial risk: Intermediate

- Cash flow/leverage: Intermediate

Anchor: a

- Diversification/portfolio effect: Neutral (no impact)
- Capital structure: Neutral (no impact)
- Financial policy: Neutral (no impact)
- Liquidity: Adequate (no impact)
- Management and governance: Satisfactory (no impact)
- Comparable rating analysis: Neutral (no impact)

Stand-alone credit profile: a

- Group credit profile: a
- Entity status within group: Core (no impact)
- Government Related-Entity: Moderate (no impact)

ESG credit indicators: E-2, S-2, G-2

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014

- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Criteria | Corporates | Utilities: Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings List

Ratings Affirmed; Outlook Action

	To	From
Toronto Hydro Corp.		
Issuer Credit Rating	A/Developing/--	A/Positive/--
Issue-Level Ratings Affirmed		
Toronto Hydro Corp.		
Senior Unsecured	A	

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

Toronto Hydro-Electric System Limited
EB-2023-0195
Exhibit 1C
Tab 3
Schedule 7
Appendix B
ORIGINAL
(14 Pages)

Rating Report
Toronto Hydro Corporation

DBRS Morningstar
May 1, 2023

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Tom Li
+1 416 597-7378
tom.li@dbrsmorningstar.com

Steven Lin
+1 416 597-7569
steven.lin@dbrsmorningstar.com

Ratings

Debt	Rating	Rating Action	Trend
Issuer Rating	A	Confirmed	Stable
Senior Unsecured Debentures & MTNs	A	Confirmed	Stable
Commercial Paper	R-1 (low)	Confirmed	Stable

Rating Update

On April 28, 2023, DBRS Limited (DBRS Morningstar) confirmed the Issuer Rating and Senior Unsecured Debentures & MTNs rating of Toronto Hydro Corporation (Toronto Hydro or the Company) at "A," and the Commercial Paper (CP) rating at R-1 (low). All trends are Stable. The ratings of Toronto Hydro are based on the Company's stable regulated electricity distribution business, which operates under a reasonable regulatory environment under the Ontario Energy Board (OEB).

There have been no material changes to Toronto Hydro's business risk assessment since the last rating confirmations. The Company continues to operate under the Custom Incentive Rate-setting (IR) framework as approved for 2020–24. DBRS Morningstar notes Toronto Hydro has begun preparation work for its next distribution rates application for the 2025–29 period. DBRS Morningstar will monitor progress on the application for any implications on the Company's credit profile.

Toronto Hydro's financial risk assessment has been supportive of the "A" ratings, with all key credit metrics in line with the current rating category. DBRS Morningstar notes, however, the Company's metrics weakened in 2022 because of the significant capital expenditures (capex) program (gross capex of $675 million for the year) to maintain safety and reliability, support a growing city, enable clean energy, and prepare for and respond to extreme weather. Toronto Hydro's financial ratios may continue to weaken over the next few years as the ongoing capex program will likely require substantial debt financing. DBRS Morningstar expects the Company to be prudent in managing its debt load in order to maintain leverage in line with the regulatory capital structure of 60% debt. However, should the Company's key credit metrics weaken to a level no longer commensurate with the "A" rating category for a sustained period of time (cash flow-to-debt less than 12.5%, debt-to-capital more than 65.0%, and EBIT-interest coverage less than 1.80 times (x)), a negative rating action may occur. Conversely, a positive rating action is considered unlikely at this time given the capex program in place and the current business risk assessment.

Financial Information

	For the year ended December 31				
	2022	**2021**	**2020**	**2019**	**2018**
Cash flow/total debt (%)	14.1	16.3	14.5	17.6	17.9
Total debt in capital structure (%)	60.0	57.8	57.1	55.1	54.1
EBIT gross interest coverage (x)	2.70	2.80	2.64	3.10	3.27

Issuer Description

Toronto Hydro is a holding company with the following subsidiaries: Toronto Hydro-Electric System Limited (THESL), the regulated electricity distributor, and Toronto Hydro Energy Services Inc., which provides street lighting services. The Company's sole shareholder is the City of Toronto (the City; rated AA with a Stable trend by DBRS Morningstar).

Rating Considerations

Strengths

1. Reasonable regulatory environment

Nearly all of Toronto Hydro's earnings are contributed by its low-risk distribution business that operates under a reasonable and supportive regulatory environment. The Company operates under a five-year Custom IR framework that preapproves capex for the term and allows Toronto Hydro to generate relatively stable earnings and cash flow. Toronto Hydro's deemed capital structure (deemed equity of 40%) has remained unchanged for several years.

2. Strong and growing franchise area

Toronto Hydro operates in Toronto, which is one of the largest metropolitan cities in North America and has reasonable growth in population. The Company is one of the largest municipally owned local distribution companies (LDCs) in Canada, providing approximately 18% of the electricity consumed in Ontario, and serves a customer base of approximately 790,000 customers. Toronto Hydro's electricity throughput is predominantly distributed to residential and general service customers who account for approximately 95% of the Company's distribution revenue, reducing its exposure to cyclicality.

3. Reasonable financial profile

Toronto Hydro's credit metrics, including cash flow-to-total debt of 14.1%, total debt-to-capital of 60.0%, and EBIT interest coverage of 2.70x for 2022, have remained reasonable for the "A" ratings.

Challenges

1. Balance sheet pressure as a result of high capex

The Company is executing a substantial capex program of approximately $2.9 billion for the 2020–24 period to replace its aging electricity infrastructure, which is expected to result in consistent free cash flow deficits for the medium term. Historically, Toronto Hydro has depended entirely on debt to fund its cash flow deficits, causing leverage to peak at 62.8% for 2015. Although an equity injection from the City alleviated this pressure in 2017, leverage will likely rise over the next few years after factoring in the higher dividend policy implemented in 2017. While DBRS Morningstar expects the Company's key credit metrics to remain supportive of the current ratings, should they weaken to a level no longer in line with the "A" rating category, a negative rating action may occur.

2. Limited access to equity market

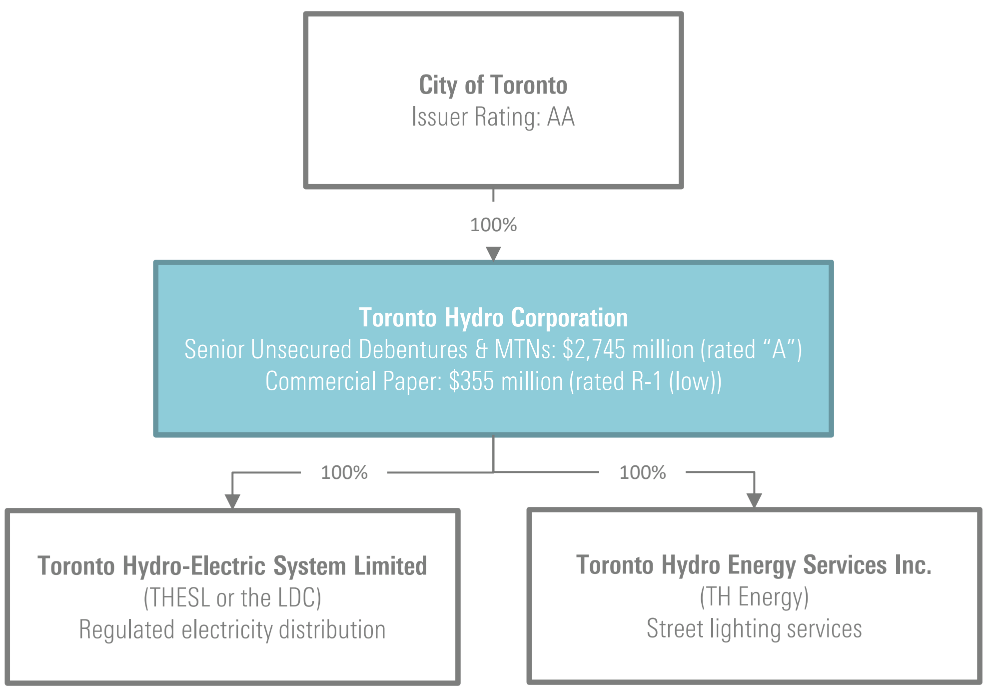
The Company's ownership structure (100% owned by the City) limits its ability to access the equity markets. As a result, cash flow deficits from the large capex program are funded largely through debt.

3. Earnings sensitive to volume

Earnings and cash flow for LDCs are partially dependent on the volume of electricity sold, given that rates typically include a variable charge component. Seasonality, economic cyclicality, and weather variability have a direct impact on the volume of electricity sold and, therefore, on distribution revenue. While volume risk has been largely eliminated for residential customers through a fixed charge, distribution rates for commercial and industrial customers (71% of revenue in 2022) continue to be based on fixed and volumetric components.

Corporate Structure

Simplified Organizational Structure



As at December 31, 2022.
Source: Toronto Hydro.

- Toronto Hydro is a holding company with the following subsidiaries operating in the Toronto area:
    - THESL is one of the largest municipal electricity distribution utilities in Canada (99% of revenue); and

  - Toronto Hydro Energy Services Inc., which has a contractual relationship with the City, owns and operates street lighting services (1% of revenue).
- The Company serves approximately 790,000 customers and distributed 18% of electricity in Ontario for 2022.

Earnings and Outlook

	For the year ended December 31				
(CAD millions where applicable)	**2022**	**2021**	**2020**	**2019**	**2018**
Net revenue	892	846	798	831	820
EBITDA	569	528	493	522	513
EBIT	258	235	219	267	275
Gross interest expense	95	84	83	86	84
Net income before nonrecurring items	164	143	137	153	165
Reported net income	164	141	117	154	167
ROE (%)	8.1	7.3	7.2	8.2	9.2
Achieved regulated ROE (%)	7.44	7.08	5.90	8.44	9.33
Allowed ROE (%)	8.52	8.52	8.52	9.30	9.30
Rate base	4,907	4,675	4,534	4,380	4,123

ROE = return on equity.

2022 Summary

- Earnings for Toronto Hydro improved in 2022 mainly because of higher consumption and electricity distribution rates.
  - DBRS Morningstar notes earnings rebounded following the lower consumption during the past two years because of the Coronavirus Disease (COVID-19) pandemic.
  - The higher earnings were partly offset by higher depreciation from the growing rate base and higher interest expense.

2023 Outlook

- DBRS Morningstar expects Toronto Hydro's earnings to weaken in 2023.
  - The lower earnings will be primarily driven by higher financing costs from funding the significant capex program and higher expenses to operate the growing asset base. Earnings will also be pressured from the regulatory lag in passing through the impact of higher interest rates and inflation on operating expenses.
  - This will be partly offset by an increase in distribution revenue through the annual mechanisms of the Custom IR decision.
  - DBRS Morningstar expects revenues from residential customers should remain steady as distribution rates are decoupled.

Financial Profile

	For the year ended December 31				
(CAD millions where applicable)	**2022**	**2021**	**2020**	**2019**	**2018**
Net income before nonrecurring items	164	143	137	153	165
Depreciation and amortization	311	293	274	256	238
Deferred income taxes and other	(39)	6	(41)	1	(16)
Cash flow from operations	**436**	**442**	**370**	**409**	**387**
Dividends paid	(85)	(70)	(93)	(100)	(94)
Capex	(589)	(492)	(529)	(444)	(388)
Free cash flow (bef. working cap. changes)	**(238)**	**(121)**	**(251)**	**(135)**	**(94)**
Changes in noncash work. cap. items	(6)	(2)	46	(77)	(1)
Changes in regulatory assets and liabilities	(137)	(54)	(19)	62	3
Net free cash flow	**(380)**	**(177)**	**(224)**	**(149)**	**(92)**
Acquisitions and long-term investments	0	0	0	0	0
Proceeds on asset sales	0	3	1	2	117
Net equity change	0	0	0	0	0
Net debt change	384	167	229	161	(47)
Other	(5)	7	(6)	(14)	22
Change in cash	**(0)**	**0**	**0**	**(0)**	**0**
Total debt	3,097	2,715	2,548	2,320	2,161
Total debt in capital structure (%)	60.0	57.8	57.1	55.1	54.1
Cash flow/total debt (%)	14.1	16.3	14.5	17.6	17.9
EBIT gross interest coverage (x)	2.70	2.80	2.64	3.10	3.27
DBRS Morningstar-adjusted dividend payout ratio (%)	51.6	49.2	67.5	65.7	56.8

2022 Summary

- While Toronto Hydro's key credit metrics weakened in 2022, they remained in line with the "A" ratings.
    - The weaker key credit metrics were largely because of the growing debt load to fund the substantial capex program.
- Cash flow from operations was steady with 2021 results.
- Gross capex of $675 million remained elevated as the Company continued to spend on infrastructure renewal projects, customer-initiated plant relocations (such as for public transit expansion projects), new customer connections, and overhead infrastructure.
- Toronto Hydro paid dividends of $85 million in 2022, in line with its distribution policy of 60% of consolidated net income after net movements in regulatory balances.
- The Company funded its net free cash flow deficit through CPs and a $300 million senior unsecured debentures issuance.

2023 Outlook

- DBRS Morningstar expects cash flow from operations to decrease modestly in 2023, in line with the expected lower earnings.
- The Company has planned gross capex of $742 million for the year.

- Dividends are expected to increase because of the higher net income in 2022.
- Combined with the high capex and dividend requirements, Toronto Hydro is expected to continue generating net cash flow deficits in the medium term that will likely be funded by debt.
    - As a result, DBRS Morningstar expects leverage for the Company will increase modestly and be more than the regulatory capital structure of 60% debt.
    - Additionally, DBRS Morningstar expects the cash flow-to-debt and EBIT-to-interest coverage ratios to weaken as well but remain commensurate with the "A" ratings.
    - Should Toronto Hydro's key credit metrics continue to weaken to lower than the "A" rating category, a negative rating action may occur.

Liquidity and Long-Term Debt Maturities

Long-Term Debt

Debentures

(CAD millions - as at December 31, 2022)	Maturity	Outstanding
Series 6 - 5.54%	May 21, 2040	200
Series 8 - 2.91%	Apr. 10, 2023	250
Series 9 - 3.96%	Apr. 9, 2063	245
Series 10 - 4.08%	Sep. 16, 2044	200
Series 11 - 3.55%	Jul. 28, 2045	200
Series 12 - 2.52%	Aug. 25, 2026	200
Series 13 - 3.485%	Feb. 28, 2048	200
Series 14 - 2.43%	Dec. 11, 2029	200
Series 15 - 2.99%	Dec. 10, 2049	200
Series 16 - 1.50%	Oct. 15, 2030	200
Series 17 - 2.47%	Oct. 20, 2031	150
Series 18 - 3.27%	Oct. 18, 2051	200
Series 19 - 4.95%	Oct. 13, 2052	300
Total debentures		**2,745**
Less: Unamortized debt issuance costs		(15)
Less: Unamortized discount/premium		(1)
Less: Current portion of debentures		(250)
Long-term portion of debentures		**2,479**

Long-Term Debt Maturities

(CAD millions - as at December 31, 2022)	2023	2024	2025	2026	2027	2028+	Total
Debentures	250	-	-	200	-	2,295	**2,745**
% of total	9	0	0	7	0	84	**100**

- Debt maturities are reasonably staggered and manageable, and Toronto Hydro continues to have adequate access to debt capital markets.
- In October 2022, the Company issued $300 million of senior unsecured debentures maturing in 2052.

Liquidity

(CAD millions - as at December 31, 2022)	Amount	Drawn/CPs/LOCs	Available	Expiry
Cash and cash equivalents	0	0	**0**	**-**
Revolving credit facility	800	355	**445**	Sep 17, 2027
Prudential facility	100	58	**42**	Demand
Working capital facility	20	13	**7**	Demand
Total	**920**	**426**	**494**	

- Toronto Hydro's liquidity profile remains adequate to cover near- to medium-term obligations, with approximately $494 million of available facilities.
- In March 2023, Toronto Hydro increased its CP program to $1 billion from $750 million. The program is backstopped by a $1 billion revolving credit facility (previously $800 million) with a maturity date of September 17, 2027.
- Toronto Hydro also has a $100 million Prudential Facility (demand facility) for the purpose of issuing letters of credit (LOCs) mainly to support prudential requirements with the Independent Electricity System Operator (IESO) and a $20 million Working Capital Facility.

Regulation

- THESL is regulated by the OEB under a Custom IR framework. The Company has a good track record of prudently managing its regulatory risk.
    - DBRS Morningstar considers the regulatory regime under the OEB as supportive.
- The five-year Custom IR framework approved by the OEB for THESL is a hybrid between cost of service (COS) and an incentive rate mechanism (IRM).
    - The rate setting for the term is based on THESL's forecasts and OEB's incentive rate analysis using productivity benchmarking.
    - Custom IR is suited to distributors with large, broad, multiyear investment needs over a five-year period or more, and to distributors that require certainty of funding several years in advance.
- On December 19, 2019, the OEB approved THESL's Custom IR application for rates effective January 1, 2020, to December 31, 2024.
    - The application was largely a continuation of the previous Custom IR regime, where rates will increase annually by a capital factor (based on the approved capex program), an inflation factor (as updated annually by the OEB), less the productivity and stretch factors, and a growth factor (based on changes in load and customer count).
    - The OEB approved a deemed capital structure of 60% debt (56% long-term and 4% short-term), 40% equity, and an allowed return on equity (ROE) of 8.52%.
    - Total approved capex of approximately $2.9 billion for the 2020–24 period.
    - THESL must file annual mechanistic IRM applications to finalize the rates approved on an interim basis as part of the application. The OEB has approved those annual rates consistent with the Company's applications and in accordance with the approved 2020–24 Custom IR framework.

  - THESL is required to share earnings in excess of 100 basis points (bps) over the allowed ROE equally between the Company and its customers.
  - A regulatory review may be initiated by THESL or the OEB (off-ramp), should actual ROE vary from the allowed ROE by 300 bps (either positive or negative).
- In December 2021, the OEB approved THESL's application for base rate increase of 1.49% effective January 1, 2022.
- In December 2022, the OEB approved THESL's application for base rate increase of 3.7% effective January 1, 2023.
- Preparatory work is under way for Toronto Hydro's next Custom IR application for rates effective January 1, 2025, to December 31, 2029.

Assessment of Regulatory Framework

Criteria	Score	Analysis
1. Deemed Equity	Excellent Good **Satisfactory** Below Average Poor	The OEB allows THESL to have a deemed equity of 40%, which is consistent with other electricity distribution companies in Ontario.
2. Allowed ROE	Excellent Good **Satisfactory** Below Average Poor	THESL has an allowed ROE of 8.52% for 2020–24, which is in line with the other distribution companies in Ontario. Any difference in ROE between the Company and other distribution companies is mainly because of the timing of the regulatory filings and the interest environment prevalent at that time.
3. Energy Cost Recovery	**Excellent** Good Satisfactory Below Average Poor	There is no power price risk for Toronto Hydro, as it is not responsible for purchasing power from generation facilities or the wholesale market. Power costs are passed on to ratepayers at rates set by the OEB, and the Company collects the payments from its customers on a monthly basis.
4. Capital and Operating Cost Recovery	Excellent **Good** Satisfactory Below Average Poor	Under Custom IR, the capex program for THESL is pre-approved for a five-year period by the OEB and recovered through distribution rates. Additionally, beginning in 2020, all residential customers are charged a fully fixed monthly fee for distribution services, significantly reducing volume risk.
5. COS versus IRM	Excellent Good **Satisfactory** Below Average Poor	THESL operates under Custom IR, which is a hybrid of COS and IRM. The Custom IR is for a five-year term from 2020–24. The productivity factor has been set at 0% and the stretch factor for operating expenses has been set at 0.6% for the current Custom IR term.
6. Political Interference	Excellent Good Satisfactory **Below Average** Poor	The Government of Ontario plays a significant role in the electricity sector in Ontario, given that most of the utilities are government owned (Toronto Hydro is owned by the City). Furthermore, stakeholders, such as the IESO, are also government owned. As a result, the government has direct and indirect influence on Ontario's electricity industry.
7. Stranded Cost Recovery	Excellent **Good** Satisfactory Below Average Poor	LDCs in Ontario have a limited history of stranded costs. Most prudently incurred or budgeted capex are approved by the OEB.
8. Rate Freeze	Excellent **Good** Satisfactory Below Average Poor	From 2002–05, as a result of rising rates during Ontario's utility deregulation phase, a provincewide distribution rate freeze was imposed. There have been no subsequent provincewide rate freezes.

Environmental, Social, and Governance (ESG) Credit Risk Considerations

Environmental

There were no Environmental factors that had a relevant or significant effect on the credit analysis. For more details about which Environmental factors could have an effect on the credit analysis, please refer to the following checklist. DBRS Morningstar notes regulated utilities may be exposed to severe weather events. DBRS Morningstar expects any costs associated with these events to be recovered through rates.

Social

There were no Social factors that had a relevant or significant effect on the credit analysis. For more details about which Social factors could have an effect on the credit, please refer to the following checklist.

Governance

There were no Governance factors that had a relevant or significant effect on the credit analysis. For more details about which Governance factors could have an effect on the credit analysis, please refer to the following checklist.

A description of how DBRS Morningstar considers ESG factors within the DBRS Morningstar analytical framework can be found in *DBRS Morningstar Criteria: Approach to Environmental, Social, and Governance Risk Factors in Credit Ratings* at https://www.dbrsmorningstar.com/research/396929.

ESG Factor		ESG Credit Consideration Applicable to the Credit Analysis: Y/N		Extent of the Effect on the ESG Factor on the Credit Analysis: Relevant (R) or Significant (S)*
Environmental		Overall:	N	N
	Emissions,Effluents, and Waste	Do we consider the costs or risks result, or could result in changes to an issuer's financial, operational, and/or reputational standing?	N	N
	Carbon and GHG Costs	Does the issuer face increased regulatory pressure relating to the carbon impact of its or its clients' operations resulting in additional costs?	N	N
	Resource and Energy Management	Does the scarcity of sourcing key resources hinder the production or operations of the issuer, resulting in lower productivity and therefore revenues?	N	N
	Land Impact and Biodiversity	Is there a financial risk to the issuer for failing to effectively manage land conversion, rehabilitation, land impact, or biodiversity activities?	N	N
	Climate and Weather Risks	Will climate change and adverse weather events potentially disrupt issuer or client operations, causing a negative financial impact?	N	N
Social		Overall:	N	N
	Social Impact of Products and Services	Do we consider that the social impact of the issuer's products and services could pose a financial or regulatory risk to the issuer?	N	N
	Human Capital and Human Rights	Is the issuer exposed to staffing risks, such as the scarcity of skilled labour, uncompetitive wages, or frequent labour relations conflicts that could result in a material financial or operational impact?	N	N
		Do violations of rights create a potential liability that can negatively affect the issue's financial wellbeing or reputation?	N	N
		Human Capital and Human Rights	N	N
	Product Governance	Does failure in delivering quality products and services cause damage to customers and expose the issuer to financial and legal liability?	N	N
	Data Privacy and Security	Has misuse or negligence in maintaining private client or stakeholder data resulted, or could result, in financial penalties or client attrition to the issuer?	N	N
	Occupational Health and Safety	Would the failure to address workplace hazards have a negative financial impact on the issuer?	N	N
	Community Relations	Does engagement, or lack of engagement, with local communities pose a financial or reputational risk to the issuer?	N	N
	Access to Basic Services	Does a failure to provide or protect with respect to essential products or services have the potential to result in any significant negative financial impact on the issuer?	N	N
Governance		Overall:	N	N
	Bribery, Corruption, and Political Risks	Do alleged or actual illicit payments pose a financial or reputational risk to the issuer?	N	N
		Are there any political risks that could impact the issuer's financial position or its reputation?	N	N
		Bribery, Corruption, and Political Risks	N	N
	Business Ethics	Do general professional ethics pose a financial or reputational risk to the issuer?	N	N
	Corporate / Transaction Governance	Does the issuer's corporate structure limit appropriate board and audit independence?	N	N
		Have there been significant governance failures that could negatively affect the issuer's financial wellbeing or reputation?	N	N
		Corporate / Transaction Governance	N	N
	Institutional Strength, Governance, and Transparency (Governments Only)s	Compared with other governments, do institutional arrangements provide a higher or lesser degree of accountability, transparency, and effectiveness?	N	N
		Are regulatory and oversight bodies insufficiently protected from inappropriate political influence?	N	N
		Are government officials insufficiently exposed to public scrutiny or held to insufficiently high ethical standards of conduct?	N	N
		Institutional Strength, Governance, and Transparency (Governments Only)s	N	N
		Consolidated ESG Criteria Output:	N	N

Balance Sheet

(CAD millions)	Dec. 31	Dec. 31	Dec. 31		Dec. 31	Dec. 31	Dec. 31
Assets	**2022**	**2021**	**2020**	**Liabilities and Equity**	**2022**	**2021**	**2020**
Cash and equivalents	0	0	0	Short-term debt	368	284	166
Accounts receivable	246	247	241	Accounts payable	463	425	406
Inventories	8	10	10	Current portion long-term debt	250	0	300
Unbilled revenue	255	212	229	Customer advanced deposits	55	62	45
Prepaid expenses and other	16	21	29	Other current liabilities	47	37	34
Total Current Assets	**526**	**490**	**508**	**Total Current Liabilities**	**1,183**	**808**	**951**
Net fixed assets	5,757	5,377	5,039	Long-term debt	2,479	2,431	2,082
Future income tax assets	87	64	48	Deferred income taxes	85	64	47
Goodwill and intangibles	387	358	343	Regulatory liabilities	150	151	183
Regulatory assets	176	118	123	Other long-term liabilities	989	977	893
Investments and others	14	7	8	Shareholders' equity	2,062	1,983	1,912
Total Assets	**6,947**	**6,414**	**6,069**	**Total Liabilities and Equity**	**6,947**	**6,414**	**6,069**

Ratios

	For the year ended December 31				
Balance Sheet, Liquidity, and Capital Ratios	**2022**	**2021**	**2020**	**2019**	**2018**
Current ratio	0.44	0.61	0.53	0.79	0.53
Total debt in capital structure (%)	60.0	57.8	57.1	55.1	54.1
Cash flow/total debt (%)	14.1	16.3	14.5	17.6	17.9
(Cash flow-dividends)/Capex (x)	0.60	0.75	0.53	0.70	0.76
DBRS Morningstar-adjusted dividend payout ratio (%)	51.6	49.2	67.5	65.7	56.8
Coverage Ratios (x)					
EBIT gross interest coverage	2.70	2.80	2.64	3.10	3.27
EBITDA gross interest coverage	5.97	6.28	5.96	6.07	6.11
Fixed-charges coverage	2.70	2.80	2.64	3.10	3.27
Profitability Ratios					
EBITDA margin (%)	63.8	62.4	61.8	62.8	62.5
EBIT margin (%)	28.9	27.8	27.4	32.1	33.5
Profit margin (%)	18.4	16.9	17.2	18.4	20.2
ROE (%)	8.1	7.3	7.2	8.2	9.2
Return on capital (%)	5.2	5.1	5.0	6.5	6.9

Rating History

	Current	2022	2021	2020	2019	2018
Issuer Rating	A	A	A	A	A	A
Senior Unsecured Debentures & MTNs	A	A	A	A	A	A
Commercial Paper	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)

Commercial Paper Limit

- $1 billion.

Previous Actions

- "DBRS Morningstar Notes Toronto Hydro Corporation's Commercial Paper Limit Increase," March 24, 2023.
- "DBRS Morningstar Assigns Rating of “A” with Stable Trend to Toronto Hydro Corporation’s 4.95% $300 Million Senior Unsecured Debentures," October 13, 2022.
- "DBRS Morningstar Confirms Ratings of Toronto Hydro Corporation With Stable Trends," April 29, 2022.

Previous Report

- Toronto Hydro Corporation: Rating Report, May 5, 2022.

Notes:
All figures are in Canadian dollars unless otherwise noted.

For the definition of Issuer Rating, please refer to Rating Definitions under Rating Policy on www.dbrsmorningstar.com.

Generally, Issuer Ratings apply to all senior unsecured obligations of an applicable issuer, except when an issuer has a significant or unique level of secured debt.

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DBRS Morningstar is a full-service global credit ratings business with approximately 700 employees around the world. We're a market leader in Canada, and in multiple asset classes across the U.S. and Europe.

We rate more than 4,000 issuers and nearly 60,000 securities worldwide, providing independent credit ratings for financial institutions, corporate and sovereign entities, and structured finance products and instruments. Market innovators choose to work with us because of our agility, transparency, and tech-forward approach.

DBRS Morningstar is empowering investor success as the go-to source for independent credit ratings. And we are bringing transparency, responsiveness, and leading-edge technology to the industry.

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EXISTING ACCOUNTING ORDERS AND DEPARTURES FROM USoA

Toronto Hydro confirms that it has, to the best of its knowledge, materially complied with the Uniform System of Accounts ("USoA") as set out in the OEB's Accounting Procedures Handbook ("APH"), and with the following utility-specific accounting orders:

- Sub-Accounts to Account 1508 – Other Regulatory Assets, to record the variance between actual and approved cumulative 2015 – 2019 and 2020 – 2024 capital in-service additions related revenue requirement included in rates;[1]
- Sub-Accounts to Account 1508 – Other Regulatory Assets, to record any excess expansion deposits to the variance account;[2]
- Sub-Accounts to Account 1508 – Other Regulatory Assets, to record the variance between actual and approved revenue requirement related to third party initiated relocation and expansion projects;[3]
- Sub-Accounts to Account 1508 – Other Regulatory Assets, to track the variance in actual gains on sale of utility property from the $1.0 million amount included in base rates as part of 2020 Revenue Offsets;[4]
- Impact for USGAAP Deferral Account, effective January 1, 2012, to record the financial impacts resulting from the transition to and implementation of USGAAP;[5]
- Sub-Accounts to Account 1508 – Other Regulatory Assets, to record the costs and revenues associated with wireless pole attachments;[6]

[1] EB-2014-0116, Decision and Rate Order (March 1, 2016).
[2] EB-2018-0165, Decision and Rate Order (February 20, 2020).
[3] EB-2014-0116, Decision and Rate Order (March 1, 2016).
[4] EB-2018-0165, Decision and Rate Order (February 20, 2020).
[5] EB-2012-0079, Decision and Order (June 7, 2012).
[6] EB-2013-0234, Decision and Accounting Order (June 5, 2014).

- Sub-Accounts to Account 1508 – Other Regulatory Assets, to record any revenue impact associated with the difference between the OEB-approved charge in effect in any given period and the charge embedded in their underlying rate structure for pole attachments;[7]
- Renewable Generation Connection Funding Adder Deferral Account, to track the difference between the revenue requirement associated with Renewable Enabling Improvements that is funded through Provincial Rate Protection and collected through payments from the IESO and revenue requirement based on actual REI investments;[8]
- Sub-Accounts to Account 1508 – Other Regulatory Assets, to record the variance between actual and forecasted gains net of tax with the gross up for the PILs tax savings related to the sale of 5800 Yonge and 28 Underwriters properties;[9]
- Sub-Accounts to Account 1508 – Other Regulatory Assets, to record the difference between the forecasted other post-employment benefit costs calculated using the accounting accrual method versus actual cash payments made;[10]
- Sub-Accounts to Account 1508 – Other Regulatory Assets, to record any earnings outside of Toronto Hydro's approved annual return on equity exceeding a +/- 100 basis-point dead band;[11]
- Sub-Accounts to Account 1508 – Other Regulatory Assets, to record the revenue requirement impact of a reduction to rate base associated with payments from Carillion to Toronto Hydro resulting from the ongoing insolvency litigation;[12] and

[7] Accounting Guidance for Wireline Pole Attachment Charges (December 16, 2021).
[8] EB-2014-0116, Decision and Order (December 29, 2015).
[9] EB-2014-0116, Decision and Rate Order (March 1, 2016).
[10] Ibid.
[11] EB-2018-0165, Decision and Rate Order (February 20, 2020).
[12] Ibid.

- Sub-Accounts to Account 1508 – Other Regulatory Assets, to track the difference in revenue requirement impacts of the existing and updated depreciation rates as a result of Toronto Hydro's comprehensive depreciation study on its assets over 2023 and 2024.[13]

[13] EB-2022-0065, Decision and Order (December 8, 2022).

Toronto Hydro-Electric System Limited
EB-2023-0195
Exhibit 1C
Tab 3
Schedule 9
ORIGINAL
(10 pages)

TORONTO HYDRO® Corporation

The Power of Action

2022 Annual Report

The Power of Action

MESSAGE FROM THE CHAIR OF THE BOARD, AND PRESIDENT AND CHIEF EXECUTIVE OFFICER

We're pleased to present Toronto Hydro's 2022 Annual Report: *The Power of Action*. This year's theme highlights our commitment to purposeful, strategic action, which in 2022 resulted in another successful year safely and reliably powering Canada's largest city. Through the power of action, we successfully navigated external challenges including the COVID-19 pandemic, global supply chain issues and climate change in order to deliver results for our customers and shareholder.

In 2022, we delivered the largest capital investment program in our company's history to renew and modernize our grid. We achieved this while maintaining our portion of the electricity bill below 2019 levels and delivering dividends that can help fund City services. We also maintained our unwavering commitment to employee health and safety throughout the year, achieving our best safety performance on record.

While we continue to be a utility that serves our customers and keeps the lights on, the way we do it is evolving. As we enter a future that will see continued city growth, increased electrification, more frequent extreme weather due to climate change, and changes in grid technology, we recognize that there are difficult challenges ahead, but we're committed to being part of the solution. We also know we can't do it alone, which is why we're committed to pursuing strategic partnerships to harness the power of collective action.

As we enter a future that will see continued city growth, increased electrification, more frequent extreme weather due to climate change, and changes in grid technology, we recognize that there are difficult challenges ahead, but we're committed to being part of the solution.

In 2022, we were proud to receive unanimous approval from Toronto City Council to begin implementing our Climate Action Plan, which we developed to support the City of Toronto's Net Zero 2040 Strategy. Our plan includes investing in the local grid to make increased electrification a possibility for all Torontonians and a new climate advisory services offering that will help mobilize climate action by making it easier, faster and more affordable for Toronto residents and businesses to adopt clean-energy technologies.

We also worked to further our role as a green city builder. Last year, we continued to work with the City of Toronto, City agencies and local start-up companies to support electrified transportation in the city, including by installing more on-street electric vehicle (EV) charging stations across Toronto and piloting an EV smart charging program for customers. We also continued to collaborate on climate change adaptation with the City and its agencies to help reduce the impacts of climate change on the residents of Toronto.

As we continue to invest in the upkeep of our grid, we're simultaneously modernizing and innovating to address system needs. In 2022, we developed a 10-year grid modernization roadmap to help enhance the value we provide to customers and prepare the grid for a decarbonized and electrified energy system. We also partnered to launch an innovative non-wires alternatives pilot project. With support from the Independent Electricity System Operator and the Ontario Energy Board, we're exploring how demand-side resources can be used to help defer or avoid costly distribution system and bulk system infrastructure upgrades, to the benefit of ratepayers.

To help ensure we're able to meet our customers' needs and expectations now and into the future, in 2022, we also began work on our next five-year investment plan for 2025 to 2029. We asked customers from across the city about their needs and priorities for electricity distribution service, and we used their feedback to guide the development of our plan.

On behalf of Toronto Hydro, we thank all of our employees for their hard work and commitment throughout the year. Together with our customers, partners and stakeholders, we look forward to powering transformative action across our city for years to come.

David McFadden
Chair

Anthony Haines
President and
Chief Executive Officer

The Power of Action

COMPANY OVERVIEW

Toronto Hydro Corporation is a holding company which wholly owns two subsidiaries:

- **Toronto Hydro-Electric System Limited** distributes electricity; and
- **Toronto Hydro Energy Services Inc.** provides streetlighting and expressway lighting services in the city of Toronto

To learn more about our company, including our leadership, governance and sustainability performance, visit **torontohydro.com/about-us**.

Did you know that Toronto Hydro serves both smaller and larger customers, including:

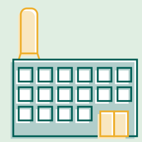
707,178
Residential Service customers (includes houses, apartments and condominiums)

82,820
General Service customers with monthly peak demand of less than 5,000 kW* (includes schools, restaurants and most shopping malls)

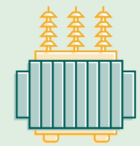
42
Large Users with monthly peak demand of 5,000 kW or greater[1] (includes hospitals, universities and large manufacturers)

[1] Averaged over a 12-month period.

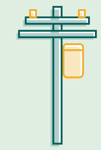
Our customers are serviced from:



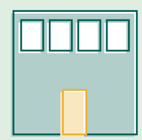
37
terminal stations



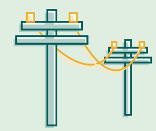
17,060*
primary switches



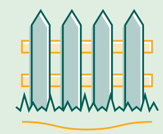
61,300*
distribution transformers



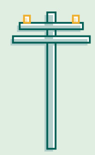
139
in-service municipal substations



15,393*
circuit kilometres of overhead wires



13,765*
circuit kilometres of underground wires



183,620*
poles

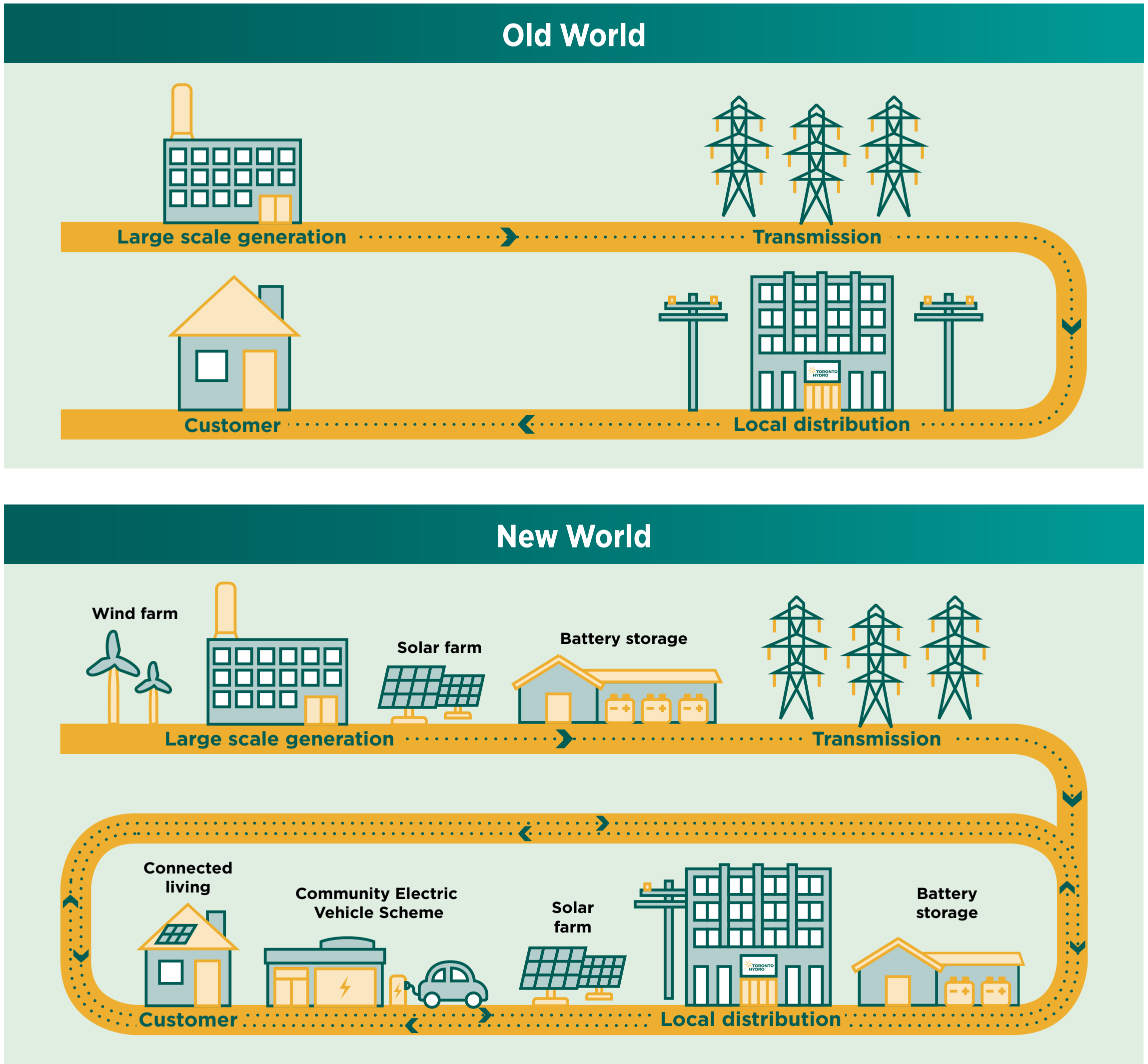
4
operation centres

1
control centre

*Figures are approximate.

THE CHANGING WORLD OF ELECTRICITY

For over 100 years, Toronto Hydro has owned and maintained a physical grid of poles and wires that delivers one-way power flow across the city: from the grid to customers. While we'll continue to fulfill our fundamental role of serving our customers and keeping the lights on, our role as the owner and operator of the local grid is also evolving, as it's now possible for electricity to flow both from the grid to customers and from customers back to the grid.



Adapted from UK Power Networks' "Changing world of electricity" (FutureSmart Consultation Report, 2019).

Our next five-year investment plan — for 2025 to 2029 — is focused in part on keeping pace with changes to the electricity system and evolving customer needs. To learn more, visit **torontohydro.com/investmentplan**.

Our Climate Action Plan

As a clean energy leader in the city and nationally, Toronto Hydro is committed to bold, practical and equitable climate action. To help do our part in building a greener city, we developed a Climate Action Plan that supports the City of Toronto's Net Zero 2040 vision. Together with our customers, local cleantech companies, governments and stakeholders, we're committed to:

1. **Delivering nationally significant emissions reductions.**

2. **Stimulating and facilitating the local cleantech economy.**

3. **Advancing social equity in Toronto.**

Our climate action focus areas

Expanded electricity distribution

To support customers through their energy transition — one in which they start to use electricity for more of their day-to-day energy needs — Toronto Hydro must first expand its existing, provincially regulated electricity distribution business to build a grid that's capable of supporting a net-zero future.

This is about building the backbone of the electricity grid to help ensure that electrification is an option for everyone in the city. This significant investment in the grid will enable increased electrification of major sectors, such as transportation and buildings, which is an essential step for getting Toronto to net zero.

Climate advisory services

The second part of our Climate Action Plan is building a new climate advisory services offering through which Toronto Hydro will work directly with customers — free of charge — to help them find personalized, sustainable energy solutions tailored to their needs.

Through this new service, Toronto Hydro will act as a trusted partner with customers, local cleantech companies, governments and other stakeholders to help make it easier, faster and more affordable for Toronto residents and businesses to adopt clean-energy technologies.

TECHNOLOGY	PROGRAM SIZE		IMPACT 2040
	2023–2040	UNITS	
Building electrification	60,000+	Air source heat pumps + electric hot water heaters	15% of all buildings
Electric vehicles	50,000	Chargers	Serving 1 million+ EVs
Renewables + energy storage	300	Megawatts (MW) of local generation	300,000 projects

To learn more about our Climate Action Plan, visit torontohydro.com/climateaction.

BUILDING A GREENER CITY THROUGH CLIMATE ACTION

2022 highlights

- Received a formal mandate from Toronto City Council to begin implementing our Climate Action Plan, including the establishment of a new climate advisory services offering that will help reduce greenhouse gas (GHG) emissions in the city by mobilizing increased climate action by Toronto residents and businesses
- Continued our commitment to achieving net-zero emissions in our own operations by 2040, including by establishing and exceeding internal targets for two new environmental performance metrics: Building Emissions Reduction and Fleet Electrification
- Certified to stringent, internationally recognized standards for environmental (ISO 14001:2015) and occupational safety (ISO 45001:2018) management systems by independent third-party auditors for the tenth consecutive year
- Ranked in the top 10 on Corporate Knights' list of the Best 50 Corporate Citizens in Canada and first overall among electricity transmission and distribution companies
- Continued to partner with Elocity (a start-up company associated with Toronto Metropolitan University's Centre for Urban Energy) on an EV charging pilot project offering smart charging monitoring and controls for participating customers, as well as a voluntary demand response program capable of helping reduce aggregate load on the grid
- Continued to support renewable generation in Toronto by connecting customers' renewable energy projects and through direct project investments in renewable generation and energy storage projects across the city
- Continued to invest in and learn from innovative battery energy storage projects, including our Bulwer Battery Energy Storage System in downtown Toronto, three energy management and energy storage projects at TTC facilities and the Eglinton Crosstown LRT battery energy storage system
- Continued to improve the system's resiliency to extreme weather events and collaborate on climate change adaptation with the City and its agencies to help reduce the impacts of climate change on the residents of Toronto

Additional highlights

Named a **5-Star Energy and Resource Company** by Canadian Occupational Safety for our strong Environmental, Social and Governance (ESG) program, measurable environmental and social impact, and consistent health and safety policy

Reduced our GHG emissions by **40%** over the last five years (i.e. since 2018)

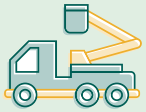
Enabled the planting of **5,000** trees through our tree planting eBills promotional program with Tree Canada

DRIVING STRONG UTILITY PERFORMANCE AND PRODUCTIVITY

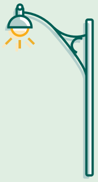
2022 highlights

- Completed the third year of our five-year investment plan for 2020–2024 by investing $722.7 million primarily in our grid to maintain safety and reliability, support a growing city, enable clean energy, and prepare for and respond to extreme weather
- Paid dividends totalling $84.6 million to our sole shareholder, the City of Toronto, which can be used to fund essential City services for the benefit of Toronto residents
- Connected new services to the grid on time more than 99% of the time
- Met our target for estimated times of restoration for power outages 94% of the time
- Developed a refreshed grid modernization roadmap to prepare the grid for a decarbonized and electrified energy system, and to help enable the transition towards a more integrated, intelligent and self-healing grid
- Launched a non-wires alternatives pilot project in partnership with Power Advisory LLC and Toronto Metropolitan University's Centre for Urban Energy to explore how demand-side resources can be used to help defer or avoid costly distribution system and bulk system infrastructure upgrades
- Continued to support Metrolinx's regional transit expansion and priority transit programs (including *Building Transit Faster Act* projects, the GO Expansion program and light rail transit lines)
- Continued to enhance our Disaster Preparedness Management program to help improve our disaster and emergency response outcomes
- Completed tree pruning on more than 70,000 trees that were adjacent to distribution lines in order to help protect the system against damage from inclement weather
- Responded safely and effectively to two extreme weather events throughout the year and provided mutual aid to Hydro Ottawa to help restore power following a major windstorm in May

Additional highlights



Completed nearly **300** planned capital projects as part of our grid investment initiatives and more than **6,000** reactive projects that supported our distribution system health



Achieved a **99%** response rate to nearly **20,000** service requests for streetlight outages

Achieved a Total Recordable Injury Frequency (TRIF) rate of **0.47**, our best record to date (and nearly **80%** better than the Electricity Canada composite average)[1]

[1] TRIF, which is sometimes termed "total recordable injury rate" or simply "total recordable rate," is the ratio of injuries of a certain severity (termed "recordable injuries") to hours worked. Toronto Hydro's 2022 result was compared to the latest available composite average for Electricity Canada member utilities (2021).

SUPPORTING OUR COMMUNITY

People are at the heart of what we do, and Toronto Hydro is proud to support a number of initiatives in our community.

2022 highlights

- Raised approximately $134,000 for the United Way Greater Toronto through our annual employee campaign
- Built on the success of our previous fundraising efforts for Sunnybrook's Ross Tilley Burn Centre by raising approximately $730,000 for the Canadian Ukrainian Immigrant Aid Society to help vulnerable families settle into our community
- Continued sponsoring several community groups and events to support local organizations, including: Tree Canada, Cavalcade of Lights, CycleTO, Kids' World of Energy, Plug'n Drive and the Centre for Urban Energy at Toronto Metropolitan University

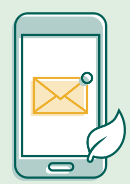
EMPOWERING OUR CUSTOMERS TO SERVE THEM BETTER

2022 highlights

- Launched a new Toronto Hydro mobile app to provide customers with convenient access to outage and construction maps, online account info, and other tools and services
- Continued to offer improved online engagement options for customers, including online chat tools for convenient, real-time customer support for outages and account-related inquiries
- Initiated the rollout of next-gen smart meters to help mitigate risks of end-of-life meters, improve operational performance and reliability, and create a modernized system to meet evolving customer expectations
- Launched a new Frequently Asked Questions web page with answers to our top customer questions, all in one place and organized into categories
- Continued to offer email and text (SMS) outage notifications, allowing customers to sign up to receive key outage updates, such as crew status and estimated restoration times
- Updated the electricity usage tracker in our customer self-serve portal to help customers better manage their electricity usage and costs
- Continued to support pricing optionality for customers on Time-of-Use and Tiered pricing, offering customers the option to choose the electricity price plan that works best for them
- Worked directly with customers to provide more flexible payment options and additional support through various financial assistance programs, including the Ontario Electricity Support Program, the Low-income Energy Assistance Program and the Energy Affordability Program
- Continued to drive increased customer and public safety awareness through education campaigns about electrical safety, fraud prevention and emergency preparedness

Additional highlights

Issued accurate bills more than **99%** of the time[1] and resolved customer inquiries on first contact **92%** of the time



Enrolled an additional **30,000** customers for paperless billing — a convenient, sustainable and cost-effective way for customers to receive their bills

Collected feedback from approximately **3,600** customers across the city to support the development of our draft 2025–2029 investment plan

[1] The remaining 1% represents both billing estimates (which are used in rare cases where we aren't able to obtain accurate meter readings) and billing adjustment corrections due to billing errors.

FINANCIAL PERFORMANCE

2022 highlights

- Throughout 2022, the Corporation continued with critical work in its grid investment plan to maintain safety and reliability, support a growing city, enable clean energy, and prepare for and respond to extreme weather
- Net income after net movements in regulatory balances for the year ended December 31, 2022, was $163.9 million, compared to $141.0 million for the comparable period in 2021
- Capital expenditures were primarily related to the renewal of the electricity infrastructure of Toronto Hydro-Electric System Limited and were $722.7 million for the year ended December 31, 2022, compared to $647.4 million for the comparable period in 2021

Selected annual consolidated financial information (in millions of Canadian dollars)[1]

YEAR ENDED DECEMBER 31	2022 $	2021 $
Total revenues	3,601.7	3,567.1
Net income after net movements in regulatory balances	163.9	141.0
AS AT DECEMBER 31		
Total assets and regulatory balances	6,947.0	6,413.8
Total debentures and other non-current financial liabilities[2]	2,750.7	2,458.2
Total equity	2,062.0	1,982.7
Dividends	84.6	70.3

[1] Derived from Toronto Hydro's consolidated financial statements based on extracts of selected information only and do not represent the full set of consolidated financial statements.

[2] Total debentures include current and long-term debentures. Other non-current financial liabilities include primarily non-current obligations under finance lease and non-current customer deposits. Under International Financial Reporting 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.

FINANCIAL PERFORMANCE

Consolidated statements of income — year ended December 31 (in millions of Canadian dollars)

REVENUES	2022 $	2021 $	CHANGE $
Energy sales	2,737.8	2,702.4	35.4
Distribution revenue	754.2	759.1	(4.9)
Other	109.7	105.6	4.1
	3,601.7	**3,567.1**	**34.6**
EXPENSES			
Energy purchases	2,846.7	2,775.2	71.5
Operating expenses	322.5	323.0	(0.5)
Depreciation and amortization	311.4	292.7	18.7
	3,480.6	**3,390.9**	**89.7**
Finance costs	(87.6)	(79.1)	(8.5)
Gain on disposals of property, plant and equipment	—	2.7	(2.7)
Income before income taxes	**33.5**	**99.8**	**(66.3)**
Income tax expense	(8.5)	(21.8)	13.3
Net income	25.0	78.0	(53.0)
Net movements in regulatory balances	136.5	54.1	82.4
Net movements in regulatory balances arising from deferred taxes	2.4	8.9	(6.5)
Net income after net movements in regulatory balances	**163.9**	**141.0**	**22.9**

Additional information with respect to the Corporation (including its 2022 Annual Information Form and 2022 Fourth Quarter Financial Report) is available on **torontohydro.com**.