London Hydro

2020 REPORT ON FINANCE

DEAR STAKEHOLDERS,

The year 2020 will be remembered as the time of COVID. A time of loss. A time of grief. A time of sorrow. And yet, 2020 will also be remembered as a time of heroines and heroes, of frontline caregivers and essential workers. A time when we gained a new respect for science and for researchers and scientists world-wide with the discovery, delivery and application of vaccines.

As an essential service provider in the time of COVID, London Hydro has not only kept the lights on but has embraced the opportunity to do business in a different way – lessons that will see us well into the future. Thanks to the resiliency, adaptability and hard work of our employees, London Hydro is building a newer and more robust distribution network, restoring outages promptly and providing full service to our customers. True to our Purpose, we have operated with the goal to distribute safe, reliable electricity and to be the trusted energy service provider for our community.

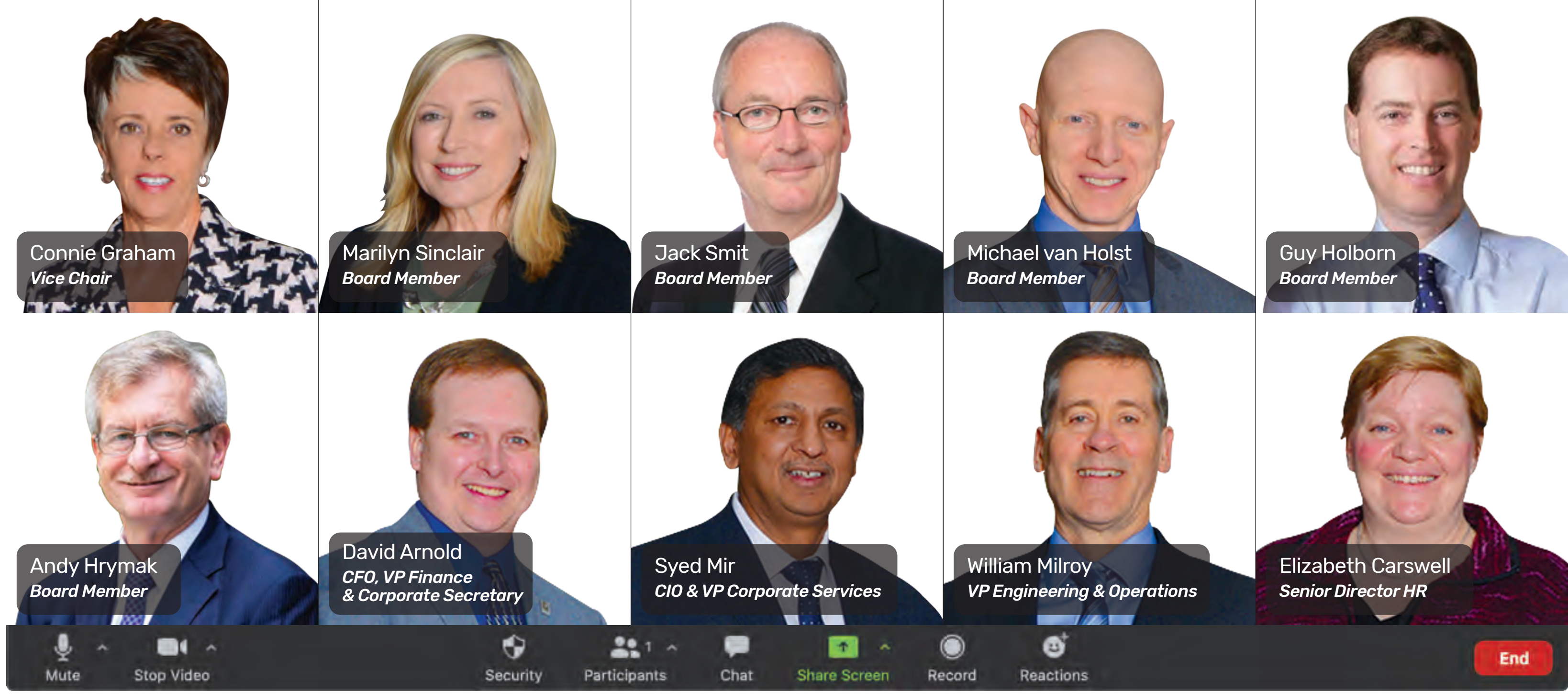
Our community, our customers, our employees and all of our stakeholders remain the focus of our plans and undertakings. During the pandemic, when businesses were shut down, London Hydro stood up to provide assistance; we were the first to offer a fund of $400,000 to provide utility bill payment assistance to the most vulnerable members of our community. London Hydro was also the first utility in the province to provide our surplus N95 masks to frontline healthcare workers. We increased our efforts to provide a safe working environment for our employees whose commitment and integrity manifest every day in the security and high reliability of our electrical grid to light up the city.

Our continued success is a result of our strategic journey of pursuing innovation with a focus on our customers and operational excellence. In 2020 we embarked upon two innovative initiatives – the first, funded by Natural Resources Canada – to define a new marketplace to facilitate sharing of locally generated renewable energy; and the second, "funded privately", to provide automated energy management solutions for smart homes. These initiatives provide London Hydro with new tools and applications to offer advanced solutions for our customers to optimize their electricity needs, which makes our grid more robust and efficient.

A safe and reliable electricity distribution network is predicated on a well designed and engineered infrastructure. In 2020 we continued to build and refurbish our vast infrastructure by investing approximately $44 million in the electrical distribution network and to enhance security, contingency and automation. These investments were mainly focused on replacing the aging network, building the underground systems to provide protection against storms and build a flexible electricity network with back-up redundancies. We continued to replace the old 4 kV network with a newer underground 27 kV network.

Gabe Valente,
Chair

Vinay Sharma,
CEO



In 2020 the Oakridge neighbourhood was enhanced with a new 27 kV network, which provided significantly improved reliability of service. With the completion of the Oakridge area we have now successfully replaced 70% of the old 4 kV network in our community. We look forward to making the same improvements in the remaining neighbourhoods in London.

In our fiduciary and financial responsibilities to our Shareholder (the City of London, the People of London) London Hydro achieved its Purpose and realized its Vision in 2020 with a Net Income of $10.3 million, excluding non-cash impact of the Mark-to-Market adjustment, on total revenue of about $517 million resulting in a return on shareholder's equity of 6%. London Hydro's rate base, made up of net assets and working capital, increased to about $370 million, an annualized increase of nearly 7%. London Hydro's customer base is about 162,000 and its distribution revenue is about $70 million. London Hydro purchased approximately $433 million worth of electricity and transmission services from the wholesale market on behalf of our community. Additionally, nearly 104,000 customers used our online tools and smart applications and nearly 71,000 customers have subscribed to paperless billing. These are excellent performance benchmarks and together with a 95% customer satisfaction level, as measured by an independent polling company, is evidence that London Hydro is a strong, customer-focused "hometown" utility.

The pandemic and economic lockdown of 2020 was the largest disruption in the Company's history, yet London Hydro managed these challenges successfully, continued to provide full service to our customers, and achieved a healthy balance sheet and respectable financial performance in 2020. London Hydro also reaffirmed its A/Stable credit rating by Standard & Poor's while maintaining a debt-to-equity ratio of 53%. London Hydro is an asset of the City of London. Its fortunes are reflective of, and accrue to, our community.

As an essential service provider in the time of COVID, we knew we had to pivot flawlessly. Our employees rose to the challenge; our staff adapted readily to working from home and our outside workers quickly adapted to modified work processes without sacrificing quality and quantity of work. Our sincere gratitude goes to our employees and their supportive families and to all who met the challenges of London Hydro in the time of COVID.

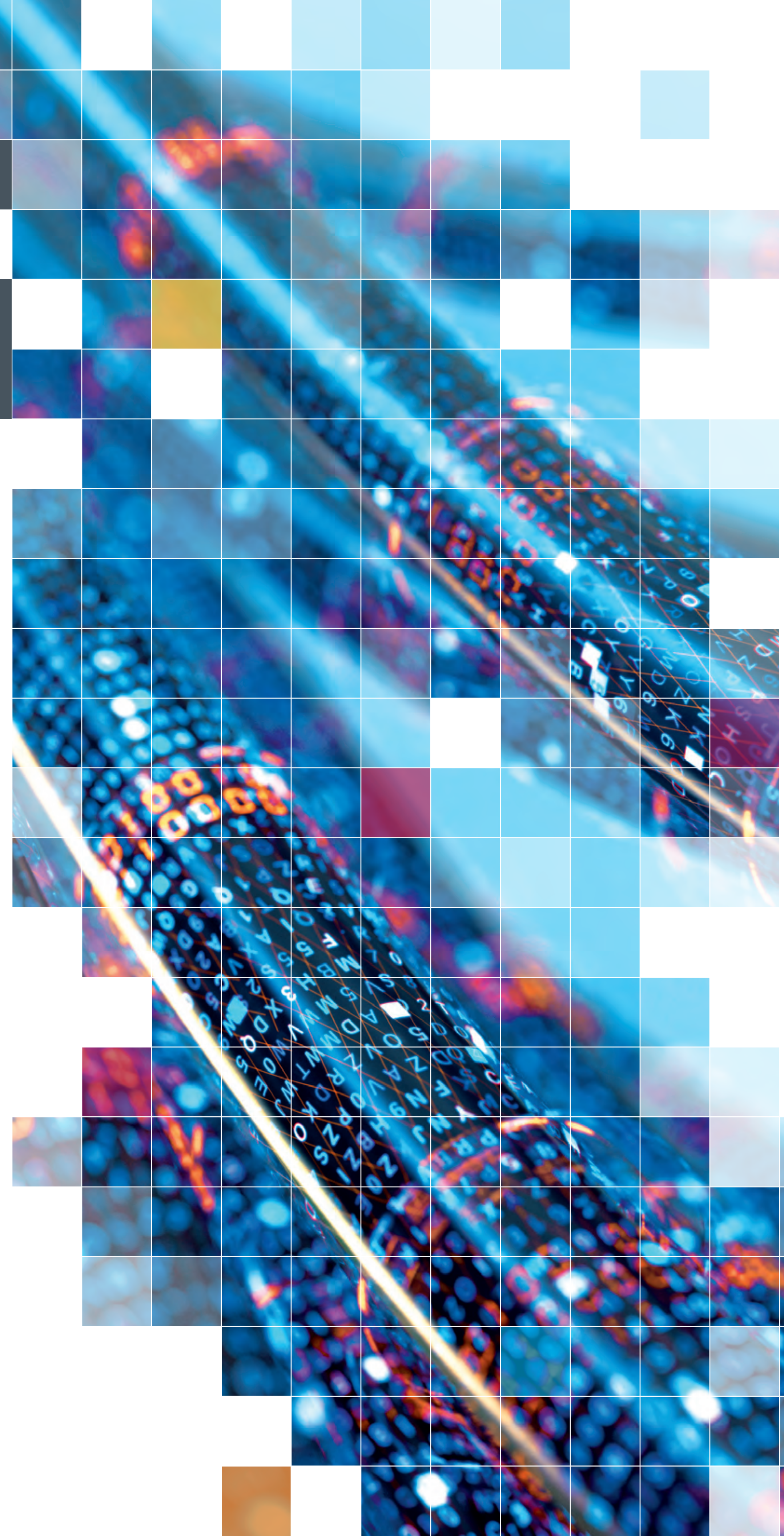
Given such a commitment by the employees of London Hydro as well as the guidance and governance by our qualified and experienced Board of Directors, London Hydro is and will remain a strong, community-owned organization serving Londoners with all of their electricity service needs.

MANAGEMENT DISCUSSION
AND ANALYSIS

The following discussion and analysis are of London Hydro's (also referred to as the Company) financial position, results from operations and cashflow. It should be read in conjunction with the Statement of Financial Position for the period ended December 31, 2020.

The results reported herein have been prepared in accordance with International Financial Reporting Standards (IFRS) and are expressed in Canadian dollars. As a rate-regulated entity, the Company has elected to adopt the IFRS14 standard that allows for reporting of certain transactions as regulatory assets and liabilities, which would otherwise not be allowed under IFRS. Such transactions, and the resulting impacts, are described in notes 2, 3 and 11 to the Statement of Financial Position for the period ended December 31, 2020.

The analysis contains some forward-looking observations and statements reflecting management's expectations concerning future performance. Such observations and expectations of future performance are subject to uncertainties arising from future general economic conditions, regulatory changes and government decisions. Thus, the forward-looking observations and statements shall not be considered as guarantees of future performance; and the future results may differ materially from the anticipated results expressed by these statements.



THE COMPANY OVERVIEW

London Hydro Inc. is a wholly-owned subsidiary of the Corporation of the City of London, established pursuant to Section 141 (1) of the Electricity Act, 1998 Ontario. The Company has been issued operating license ED-2002-0557 by the Ontario Energy Board (OEB) to distribute electricity within the service territory of the City of London. The Company owns and maintains a distribution grid to distribute electricity to about 162,000 residential and commercial customers in the City of London with a population base of approximately 430,000. As one of the larger electrical distribution companies, London Hydro Inc. employs 303 hardworking men and women who help to deliver a highly reliable and safe distribution of electricity to its customers.

London Hydro procures electricity (MW) from the Independent Electricity System Operator (IESO) operated market. In 2020, London Hydro drew a peak demand of 694MW during the summer season and about 458MW during the winter season. London Hydro also procures wholesale market services from the IESO and transmission services from Hydro One at regulated prices. The price for electricity (MW) comprises the Hourly Ontario Energy Price (HOEP) and Global Adjustment. Also, the number of customers serviced by London Hydro grew by 1.0% from December 31, 2019 to December 31, 2020.

STRATEGIC PRIORITIES

The Company continues to focus on six major priorities in order to fulfil its purpose and vision. These priorities include business opportunities, developing leading technologies, becoming a trusted energy consultant and partner of the customer, enhancing internal team capacity, protecting revenue and seeking strategic partnerships. The Company continues to develop and leverage technology for increasing distribution grid automation, interconnecting an increasing number of embedded renewable energy resources, energy management, and technology and apps for customer service and convenience.

The Company also continues to advance the application of Green Button standards and technologies for managing and analysing customers' energy consumption data, customer care and customer billing. The OEB has granted special approval to the Company, pursuant to Section 71(4) of the amended OEB Act, to market its Green Button related technology to other Ontario utilities and customers. As such, the Company has achieved initial success in marketing Green Button related technologies and services to three hydro utilities and one water utility.

OPERATIONS OVERVIEW

The financial performance of the Company for the twelve-month period ended December 31, 2020 is summarized in the following table. For the purpose of comparison to budgeted performance, and to provide a historical perspective, the Company's actual results are presented alongside the budgeted performance for December 31, 2020 and the performance for the period ending December 31, 2019.

YTD RESULTS FOR THE PERIOD ENDED

FINANCIAL HIGHLIGHTS	*ACTUAL* 31-Dec-20	*ACTUAL* 31-Dec-19	CHANGE	*PLAN* 31-Dec-20	% OF PLAN
Energy Distributed - Gigawatt Hrs	3,162.2	3,208.5	(46.3)	3,263.0	(3.1)%
(in thousands of $'s)					
Sale of Energy	$436,237	$366,746	$69,491	$472,365	(7.6)%
Distribution revenue	70,239	69,726	513	69,957	0.4 %
Other revenue	11,228	11,778	(550)	10,642	5.5 %
Cost of power	433,635	368,249	65,386	472,358	(8.2)%
Operating expenses	44,910	44,229	681	47,167	(4.8)%
Amortization expenses	21,432	20,180	1,252	21,242	0.9 %
Net finance costs	11,027	4,905	6,122	6,010	83.5 %
Income taxes	1,206	2,781	(1,575)	(579)	(308.3)%
Net earnings before regulatory adjustments	5,494	7,906	(2,412)	6,766	(18.8)%
Regulatory adjustment	196	4,064	(3,868)	1,398	(86.0)%
Net earnings after regulatory adjustments	5,690	11,970	(6,280)	8,164	(30.3)%
Operating Expenses as a % of Distribution Revenue	63.9%	63.4%			
Annualized Return on Equity	3.3%	7.0%			
Energy distributed - gigawatt hrs	3,162.2	3,208.5	(1.4)%		
Number of customers	162,140	160,599	1.0%		
(in thousands of $'s)					
Operating Cash flow	19,140	31,808			
Investing Cash flow	(39,238)	(38,120)			
Financing Cash flow	44,968	8,446			
Cash flow	24,870	2,134			
Cash - end of period	28,298	3,428			

THE COMPANY'S PURPOSE

To provide safe, reliable electricity & energy related value-added services to its customers.

THE COMPANY'S VISION

London Hydro's vision is to be the customers' trusted energy service provider through innovation, customer focus & operational excellence.

ENERGY QUANTITIES DISTRIBUTED

Total energy distributed to our customers decreased from 3,208.5 gigawatt hours (GWh) throughout the year in 2019 to 3,162.2 GWh for the same period in 2020, an overall reduction of 1.4%. This reduction in energy consumption is usually attributed to factors such as conservation and demand management programs as well as weather; however, the emergence of COVID-19 had a large impact on energy quantities distributed late in the first quarter of 2020 and has continued to have an impact to a lesser extent for the second and third quarters with an increased impact again in the fourth quarter.

DISTRIBUTION REVENUES

London Hydro is compensated by regulated distribution rates as approved by the OEB. The annual revenue requirement of London Hydro is established as per the regulated rate making mechanism. Thus, the distribution rates for various classes of customers are determined by considering factors such as the number of customers, their energy (KWh) consumption and power demand (KW). In both 2019 and 2020, London Hydro applied a mechanistic adjustment under the Incentive Rate Making (IRM) method to apply an inflationary increase to the Company's distribution rates, which are made up of a fixed monthly charge and a per kWh energy or per kW demand volumetric charge.

Approximately 77% of annual revenues for fiscal 2020 are derived from a monthly fixed charge, as compared to 74% for 2019, while the remaining is derived on the basis of a volumetric rate for energy consumption (KWh) and power demand (KW). Beginning in 2016, fixed revenues represent a greater percentage of the distribution revenues from residential and small commercial customers as the OEB began moving towards 100% fixed charges for these customers. The change in rate structure was completed on May 1, 2019 and represents the most significant factor contributing to the larger percentage of fixed revenues in 2020 as compared to 2019.

As of December 31, 2020, London Hydro served 162,140 customers compared to 160,599 as of December 31, 2019. While the number of customers increased by 1.0%, the composition of distribution revenue remained relatively unchanged from 2019 to 2020 at 64% from residential customers (2019 – 63%), 32% from general service customers (2019 – 33%) and 4% from large users and other customers (2019 – 4%).

Total distribution revenues for the period ending December 31, 2020 remained relatively consistent with the same period in 2019 at $70.2 million (2019 - $69.7 million).

OTHER REVENUE

Other revenue earned by the Company decreased from $11.8 million in 2019 to $11.2 million in 2020. There were four factors that primarily impacted the change in 2020 as compared to 2019. Both late payment charges and sundry revenues decreased by approximately $0.2 million and IT service revenues decreased by approximately $0.3 million, while the amortization of deferred revenue increased by approximately $0.2 million. The decrease from late payment charges is due to the fact that the Company waived all late payment charges in the second quarter and part of the third quarter to provide relief as many customers were struggling financially from the impacts of COVID-19. The lost revenue associated with the late payment charges has been recorded in the COVID-19 deferral account for future recovery.

COST OF SERVICE RATE MAKING PROCESS

The Company goes through a thorough cost of service process, every five years, where both the detailed operating and capital expenditures are reviewed by the OEB. The end result of the process is the basis upon which upcoming distribution rates are determined. The costs of capital expenditures and associated capital assets plus the Company's operating expenditures are the prime consideration for determining the rates.

In the case where any capital expenditures are denied, the Company would have a corresponding amount of impaired assets, which could result in a write-off and, thus, negatively impact annual net income. In the case where an increase in operating expenses is denied, the Company might not earn the required revenue to achieve the regulated net income. The Company's last cost of service was in 2017. The Company's next cost of service application will be for the year 2022. In the intervening periods from 2018 through 2021, London Hydro implements a rate adjustment as per the IRM rules aforementioned, which are usually effective on May 1st; however, due to the extraordinary COVID-19 situation, the Company elected to defer the implementation of the rate increase until November 1, 2020. All of the forgone revenues as a result of this decision have been recorded in a deferral account for future recovery.

COVID-19 RELATED DEFERRAL ACCOUNT

On March 25, 2020, the OEB authorized the use of deferral accounts in order to track the additional costs associated with billing system changes as well as other incremental costs resulting from COVID-19. Moreover, the OEB also authorized the use of a variance account to track lost revenues. As of December 31, 2020, the total amounts incurred, for which recovery will be sought, is $3.1 million, which is made up of incremental costs of approximately $1.0 million and $2.1 million of lost revenues. $1.0 million of the lost revenues were unable to be included for financial statement purposes due to the rules surrounding revenue recognition. In addition, there is some uncertainty regarding the full recovery of these balances, so an additional allowance of $0.6 million has also been recognized. This results in a net asset for financial statement purposes of $1.5 million, while the recovery sought from the OEB will be $3.1 million. Any differences between the amount recorded and the amounts ultimately awarded by the OEB will be recorded in the statement of comprehensive income in a future year.

Included in the $1.5 million are lost revenues due to the deferred rate implementation. The OEB has given London Hydro approval to begin recovery of these lost revenues over a six-month period beginning November 1, 2020. The remaining amount to be collected is $0.5 million. It is not yet known when or how the other amounts within the deferral account will be recovered.

OPERATING EXPENSES AND AMORTIZATION

Total operating expenses increased slightly to $44.9 million by the end of the fourth quarter of 2020 from $44.2 million for the same period in 2019, representing an increase of approximately $0.7 million or 1.5%, which is mostly the result of increased payroll costs.

Amortization expenses increased by approximately $1.2 million from $20.2 million in 2019 to $21.4 million in 2020. This increase is the result of the Company's ongoing commitment to invest in its aging infrastructure and leading information technology to enhance the distribution grid and deliver increasing convenience to our customers.

In October 2017, the provincial government announced that all local distribution companies are banned from disconnecting residential customers due to non-payment between October and April each year. As a result of COVID-19, the OEB extended the disconnection ban for 2020 until the end of July. London Hydro has not had a significant change in bad debt expense related to this directive, although the additional bad debts of $0.4 million due to COVID-19 have been included for recovery in the regulatory asset deferral account. The Company has been proactively monitoring its overdue accounts and has programs in place to offer customers flexible payment options as needed.

NET FINANCE COSTS

The Company's interest expense in 2020 has increased significantly to $11.0 million, compared to $4.9 million in 2019.

This increase is the result of the unrealized loss associated with the Company's swap agreements[1] being $0.4 million in 2019 as compared to an unrealized loss of $6.6 million in 2020. It should be noted that these unrealized losses are adjustments reported for the purpose of the financial statements only and, so long as the debt agreements are not cancelled early, these losses are not realized. Thus, excluding these adjustments related to the swap agreements, the real interest expense should be adjusted to $4.4 million for the period ending December 31, 2020 as compared to $4.5 million for the same period in 2019.

The Company also pays interest on regulatory liabilities at an interest rate that is prescribed by the OEB. As interest rates have decreased in 2020 as compared to 2019, the Company paid $0.0 million in 2020 compared to $0.2 million in 2019.

Once the unrealized loss amounts are normalized, the difference in the net finance costs between 2019 and 2020 is reduced to $0.1 million as a result of the reduction in interest paid on the variable debt instruments including regulatory balances, despite the Company having a slightly higher average debt balance.

INCOME TAX EXPENSE

London Hydro is a private, taxable corporation and as such, is required to make payments in lieu of tax (PILs) to the Ontario Electricity Financial Corporation. The PILs required to be paid are equivalent to the income taxes that would have been paid if London Hydro was taxable under the Income Tax Act of Canada.

The PILs expense for the period ended December 31, 2020 amounted to $1.2 million, as compared to $2.8 million due for the same 2019 period. The decrease is a result of lower net income in 2020 as compared to the previous year.

London Hydro also has Deferred Tax Liabilities of $9.5 million. It represents the temporary net difference between financial reporting carrying amounts for Property, Plant, Equipment, and Intangibles, which are in excess of their tax values, and the Deferred Taxes Receivable for employee future benefits expenses that have not yet been deducted for income tax purposes.

As a rate-regulated corporation, Deferred Tax Liabilities, which will be paid on behalf of customers, will be recovered as they are paid. Therefore, increases or decreases in Future Income Tax Liabilities are offset by regulatory assets.

1 A swap agreement allows London Hydro to "swap" interest rates, so that it can have a stable and fixed rate loan at a lower interest rate. London Hydro currently has four separate swap agreements.

REGULATORY ASSETS/LIABILITIES

The regulatory framework requires that all energy commodity and non-commodity costs be billed at the regulated rates to customers who are on the Regulated Price Plan (RPP).

As a regulated distributor of electricity, London Hydro is obligated to supply electricity (energy), also referred to as commodity, to small residential and small commercial customers at the RPP rate and to other customers at the HOEP rates plus an added charge for Global Adjustment. The only exception to this requirement is if customers elect to purchase their electricity from an energy retailer; even then, a Global Adjustment charge is added to such customers. All other non-commodity charges are billed at regulated rates established from time to time by the OEB.

Therefore, the Company distributes electricity at a fixed rate to a larger section of its customers, though a small number of customers pay a variable HOEP plus Global Adjustment rate for electricity based on their customer class. Differences between the cost paid for power purchased and the cost of power charged to customers are referred to as variances, which are recorded in Retail Settlement Variance Accounts (RSVA). The variances that accumulate in the RSVA are either returned to or recovered from customers, depending upon the nature of the difference in accordance with regulatory directives.

As of December 31, 2020, the Company had regulatory assets of $23.0 million, compared to $21.0 million at 2019 yearend. The increase of $2.0 million is attributed to increased RSVA balances, deferred taxes and the accumulated costs associated with COVID-19. These increases were offset against the approved recovery of some previous balances.

The Company also had regulatory liabilities in the amount of $4.2 million as of December 31, 2020, compared to $2.3 million as of December 31, 2019. The $1.9 million increase is the result of the OEB's decision that the tax savings from accelerated amortization are to be paid back to the customers at a future time, in accordance with new tax rules enacted in 2019.

CAPITAL RESOURCES

London Hydro has five debt agreements that total $200.0 million as of December 31, 2020, compared to $155.0 million as of December 31, 2019. Additionally, the Company has a letter of credit.

The unsecured, committed extendible revolving loan in the amount of $30.0 million outstanding at December 31, 2019 was subsequently repaid with additional borrowing in the amount of $75.0 million obtained December 4, 2020. The additional borrowing is with the Toronto Dominion Bank and is under an interest rate swap agreement for an unsecured loan. Interest only payments are due monthly and commenced December 2020, while the principal is due at maturity. The agreement is a fixed rate swap and matures June 2032, which effectively converts variable interest rates on unsecured Bankers' Acceptances to an effective interest rate of 1.53%, plus a stamping fee of 0.44%, for an all-in rate of 1.97%.

The Company entered into a futures contract with Toronto Dominion Bank on December 4, 2020 for $125.0 million. The future contract will be converted into a swap agreement on June 30, 2022 to repay the $40.0 million and $85.0 million Royal Bank of Canada fixed rate swaps maturing June 2022. The swap agreement is a fixed rate swap and matures June 2032, which effectively converts variable interest rates on unsecured Bankers' Acceptances to an effective interest rate of 1.69%, plus a stamping fee of 0.44%, for an all-in rate of 2.13%.

Also, the Company has an uncommitted revolving bank credit facility of $20.0 million and $4.3 million (2019 – $6.6 million) in Standby Letters of Credit issued to the IESO as security. In the event that the maturity date of the committed bank loan facility is not extended, payment of this loan must be made within one year from the date of maturity.

The amount drawn by the Company on the uncommitted facility as of December 31, 2020 was $nil (December 31, 2019 – $nil).

DIVIDEND POLICY

The Company's dividend policy provides for an annual dividend, subject to satisfactory cashflow. Due to the short-term financial implications of COVID-19, the Board of Directors declared a $5.0 million special payment to its Shareholder on March 31, 2020, to be paid over two years or by the end of 2021.

As a wholly-owned subsidiary of the Corporation of the City of London, the City of London is London Hydro Inc.'s sole shareholder and, as such, the entire dividend amount is paid to the City of London.

CREDIT RATING

London Hydro maintains an "A/Stable" long-term corporate credit rating, which was reaffirmed by Standard & Poor's in May 2020. This rating reflects the Company's low risk as a distribution company with regulated cash flows.

LIQUIDITY AND CASHFLOW

Cash generated from operating activities decreased to $19.1 million as of December 31, 2020, as compared to $31.8 million as of December 31, 2019. Cashflows primarily relate to amounts of:

- $5.7 million in net income
- $21.4 million non-cash adjustment from amortization expenses,
- ($15.9) million as a result of changes in non-cash working capital and
- $6.6 million non-cash adjustment from the mark to market adjustment.

Cash used in investing activities increased to $39.2 million as of December 31, 2020, as compared to the $38.1 million for 2019, which primarily represents the net purchase of capital assets and intangible assets.

As of December 31, 2020, cash generated from financing activities increased to $45.0 million, as compared to $8.4 million in 2019, due to the proceeds of long-term debt in the amount of $75.0 million and repayment of debt in the amount of $30.0 million. The Company declared a dividend of $5.0 million on March 31, 2020, but due to the uncertainty associated with COVID-19, deferred the payment of the dividend until 2021.

The year-to-date change in cash is an increase of $24.9 million.

COVID-19

The COVID-19 outbreak was declared a pandemic by the World Health Organization. This has resulted in governments worldwide, including the Canadian and Ontario governments, enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused material disruption to businesses globally and in Ontario resulting in an economic slowdown. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions; however, the success of these interventions is not currently determinable.

The OEB has directed the Company to track any COVID-19 related expenses, including bad debt expenses, through a deferral account. A deferral account is also to be used to track lost revenues. The current challenging economic climate may lead to adverse changes in cashflows, working capital levels and/or debt balances, which may also have a direct impact on the Company's operating results and financial position in the future. The situation is dynamic and the ultimate duration and magnitude of the impact on the economy and London Hydro's business are not known at this time.

Financial Table of Contents

KPMG

140 Fullarton Street, Suite 1400
London ON N6A 5P2
Canada
Tel 519 672-4880
Fax 519 672-5684

INDEPENDENT AUDITORS' REPORT

To the Shareholder of London Hydro Inc.

Opinion

We have audited the financial statements of London Hydro Inc. (the Entity), which comprise:

- the statement of financial position as at December 31, 2020
- 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.

Other Information

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

- the information included in Management’s Discussion and Analysis.

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

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

We obtained the information, other than the financial statements and the auditors’ report thereon, included in Management’s Discussion and Analysis as at the date of this auditors’ report.

If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors’ report.

We have nothing to report in this.

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.

London Hydro Inc. / Statement of Financial Position / IN THOUSANDS OF DOLLARS

- 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

London, Canada

March 30, 2021

December 31, 2020, with comparative amounts at December 31, 2019

	Note		2020		2019
ASSETS					
Current assets					
Cash	5	$	28,298	$	3,428
Accounts receivable	6		84,709		71,369
Income tax receivable			-		1,171
Materials and supplies	7		458		418
Prepaid expenses			1,752		2,338
Total current assets			115,217		78,724
Non-current assets					
Property, plant and equipment	8,16		352,992		330,641
Intangible assets	9		23,443		23,514
Total non-current assets			376,435		354,155
Total assets			491,652		432,879
Regulatory balances	11		22,993		21,019
Total assets and regulatory balances		$	514,645	$	453,898
LIABILITIES					
Current liabilities					
Accounts payable and accrued liabilities	12	$	46,004	$	48,440
Due to shareholder	22		5,749		6,952
Income tax payable			100		-
Dividends payable	17		5,000		-
Current portion of lease liability	16		34		33
Current portion of customer and other deposits			2,923		1,082
Current portion of deferred revenue	13		3,092		2,771
Total current liabilities			62,902		59,278
Non-current liabilities					
Long-term debt	14,25		200,000		155,000
Post-employment benefits	15		16,100		15,535
Customer and other deposits			2,025		3,324
Deferred revenue	13		34,327		30,880
Deferred tax liability	10		9,506		8,982
Lease liability	16		2,190		2,223
Unrealized loss on interest rate swap	14,25		8,277		1,647
Total non-current liabilities			272,425		217,591
Total liabilities			335,327		276,869
Equity					
Share capital	17		96,116		96,116
Retained earnings			80,466		79,776
Accumulated other comprehensive loss			(1,446)		(1,202)
Total equity			175,136		174,690
Total liabilities and equity			510,463		451,559
Regulatory balances	11		4,182		2,339
Commitments and contingencies (Note 23), Impact of COVID-19 (Note 26), Subsequent events (Note 27)					
Total liabilities, equity and regulatory balances		$	514,645	$	453,898

On behalf of the Board:

_______________________ Director

_______________________ Director

The accompanying notes are an integral part of these financial statements

London Hydro Inc. / Statement of Comprehensive Income / IN THOUSANDS OF DOLLARS
London Hydro Inc. / Statement of Changes in Equity / IN THOUSANDS OF DOLLARS

December 31, 2020, with comparative amounts for December 31, 2019

	Note	2020	2019
Revenues			
Electricity sales	18	$ 436,237	$ 366,746
Distribution revenue	18	70,239	69,726
Other	19	11,228	11,778
		517,704	448,250
Operating expenses			
Electricity purchased		433,635	368,249
Operating expenses	20	44,910	44,229
Depreciation and amortization	8,9	21,432	20,180
		499,977	432,658
Income from operating activities		17,727	15,592
Net finance expense	14,21	11,027	4,905
Income before income taxes		6,700	10,687
Income tax expense	10	1,206	2,781
Income for the year		5,494	7,906
Movement of regulatory balances			
Net movement of regulatory balances		(2,150)	142
Income taxes	10	2,346	3,922
	11	196	4,064
Net income for year and net movement in regulatory balances		5,690	11,970
Other comprehensive loss			
Items that will not be reclassified to profit or loss:			
Remeasurements of post-employment benefits	15	(244)	(1,582)
Tax on remeasurements	10	65	419
Net movement in regulatory balances, net of tax	11	(65)	(419)
Other comprehensive loss		(244)	(1,582)
Total comprehensive income for the year		$ 5,446	$ 10,388

The accompanying notes are an integral part of these financial statements

December 31, 2020, with comparative amounts for December 31, 2019

	Note	Share Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance at January 1, 2019		$ 96,116	$ 72,806	$ 380	$ 169,302
Net income and net movement in regulatory balances		-	11,970	-	11,970
Other comprehensive loss		-	-	(1,582)	(1,582)
Dividends	17	-	(5,000)	-	(5,000)
Balance at December 31, 2019		$ 96,116	$ 79,776	$ (1,202)	$ 174,690
Balance at January 1, 2020		$ 96,116	$ 79,776	$ (1,202)	$ 174,690
Net income and net movement in regulatory balances		-	5,690	-	5,690
Other comprehensive loss		-	-	(244)	(244)
Dividends	17	-	(5,000)	-	(5,000)
Balance at December 31, 2020		$ 96,116	$ 80,466	$ (1,446)	$ 175,136

The accompanying notes are an integral part of these financial statements

London Hydro Inc. / Statement of Cash Flows / IN THOUSANDS OF DOLLARS
London Hydro Inc. / Notes to the Financial Statements / IN THOUSANDS OF DOLLARS

	Note	2020	2019
Operating activities			
Net income and net movement in regulatory balances		$ 5,690	$ 11,970
Adjustments for:			
Depreciation and amortization	8,9	21,432	20,180
Amortization of deferred revenue	19	(678)	(525)
Post-employment benefits	15	321	58
Gain on disposal of property, plant and equipment	19	(28)	(31)
Net finance expense	21	11,027	4,905
Income tax expense	10	1,206	2,781
		38,970	39,338
Change in non-cash working capital:			
Accounts receivable		(13,340)	3,616
Materials and supplies		(40)	199
Prepaid expenses		586	329
Accounts payable and accrued liabilities		(2,436)	231
Due to shareholder		(1,203)	501
Customer and other deposits		542	(1,518)
		(15,891)	3,358
Other:			
Regulatory balances	11	(196)	(4,064)
Income tax paid		(210)	(2,972)
Income tax received		864	634
Interest paid	21	(4,502)	(4,626)
Interest received	21	105	140
		(3,939)	(10,888)
Net cash from operating activities		19,140	31,808
Investing activities			
Purchase of property, plant and equipment	8	(38,061)	(37,000)
Purchase of intangible assets	9	(5,708)	(6,018)
Proceeds on disposal of property, plant and equipment		85	250
Contributions received from customers		4,446	4,648
Net cash used in investing activities		(39,238)	(38,120)
Financing activities			
Dividends paid	17	-	(5,000)
Proceeds from long-term debt	14	75,000	15,000
Lease liability	16	(32)	(32)
Repayment of long-term debt	14	(30,000)	(1,522)
Net cash from financing activities		44,968	8,446
Change in cash		24,870	2,134
Cash, beginning of year		3,428	1,294
Cash, end of year		$ 28,298	$ 3,428

The accompanying notes are an integral part of these financial statements

1. Reporting entity

London Hydro Inc. ("the Company") is a rate regulated, municipally-owned hydro distribution company located in the City of London. The Company is a wholly-owned subsidiary company of the Corporation of the City of London and was incorporated on April 26, 2000 under the laws of the Province of Ontario, Canada.

The Company delivers electricity and related energy services to inhabitants of the City of London. The address of the Company's registered office is 111 Horton Street, London, Ontario, Canada.

2. Basis of presentation

a) Statement of compliance

The Company's financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

b) Approval of financial statements

These financial statements were approved by the Board of Directors on March 30, 2021.

c) Basis of measurement

These financial statements have been prepared on the historical cost basis, unless otherwise stated.

d) Functional and presentation currency

These financial statements are presented in Canadian dollars, which is the Company's functional currency.

e) Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses and disclosure of contingent assets and liabilities. Actual results may differ from those estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future years affected.

2. Basis of presentation (continued)

e) Use of estimates and judgments (continued)

Information about judgements and estimation uncertainties made in applying accounting policies that have the most significant effects on the amounts recognized in the financial statements is included in the following notes:

(i) 3(b) – measurement of unbilled revenue
(ii) 3(b) – determination of the performance obligation for contributions from customers and the related amortization period
(iii) 3(d), 3(e), 8, 9 – estimation of useful lives of its property, plant and equipment and intangible assets
(iv) 6 – estimation for allowance for doubtful accounts
(v) 8, 16 – leases: whether an arrangement contains a lease
(vi) 11 – recognition and measurement of regulatory balances
(vii) 15 – measurement of defined benefit obligations: key actuarial assumptions
(viii) 23 – recognition and measurement of provisions and contingencies

Critical accounting estimates and judgments for leases:

Judgments made in relation to accounting policies applied - Management exercises judgment in determining the appropriate lease term on a lease by lease basis. Management considers all facts and circumstances that create an economic incentive to exercise a renewal option or to not exercise a termination option. The periods covered by renewal options are only included in the lease term if management is reasonably certain to renew. Changes in the economic environment or changes in the industry may impact management's assessment of the lease term. Any changes in management's estimate of lease terms may have a material impact on the Company's balance sheet and statement of earnings.

Key sources of estimation - In determining the carrying amount of right-of-use assets and lease liabilities, the Company is required to estimate the incremental borrowing rate specific to each leased asset if the interest rate implicit in the lease is not readily determined. Management determines the incremental borrowing rate of each leased asset by incorporating the Company's creditworthiness, the security, term and value of the underlying leased asset, and the economic environment in which the leased asset operates in. The incremental borrowing rates are subject to change mainly due to macroeconomic changes in the environment.

2. Basis of presentation (continued)

f) Rate regulation

The Company is regulated by the Ontario Energy Board ("OEB"), under the authority granted by the *Ontario Energy Board Act, 1998*. Among other things, the OEB has the power and responsibility to approve or set rates for the transmission and distribution of electricity, providing continued rate protection for electricity consumers in Ontario, and ensuring that transmission and distribution companies fulfill obligations to connect and service customers. The OEB may also prescribe license requirements and conditions of service to local distribution companies ("LDCs"), such as the Company, which may include, among other things, record keeping, regulatory accounting principles, separation of accounts for distinct businesses, and filing and process requirements for rate setting purposes.

The Company was required to bill customers for the debt retirement charge set by the province. The Company may file to recover uncollected debt retirement charges from Ontario Electricity Financial Corporation ("OEFC"). The debt retirement charge ended effective April 1, 2018 as set out in section 85(4) of the Electricity Act, and the Company no longer bills it to its customers.

Rate setting

Distribution revenue

For the distribution revenue, the Company files a "Cost of Service" ("COS") rate application with the OEB where rates are determined through a review of the forecasted annual amount of operating and capital expenditures, debt and shareholder's equity required to support the Company's business. The COS is usually filed every five years. The Company estimates electricity usage and the costs to service each customer class to determine the appropriate rates to be charged to each customer class. The COS application is reviewed by the OEB and interveners and rates are approved based upon the review, including any resulting revisions.

In the intervening years an Incentive Regulation Mechanism ("IRM") rate application is filed. An IRM application results in a formulaic adjustment to distribution rates that were set under the last COS application. The previous year's rates are adjusted for the annual change in the Gross Domestic Product Implicit Price Inflator for Final Domestic Demand ("GDP IPI-FDD") net of a productivity factor and a "stretch factor" determined by the relative efficiency of an electricity distributor.

2. Basis of presentation (continued)

f) Rate regulation (continued)

Rate setting – Distribution revenue (continued)

In August 2016, the Company filed a COS application which has been approved by the OEB for rates effective May 1, 2017. The GDP IPI-FDD for 2018 was 1.2%, the OEB applied productivity factor was 0.0% and the OEB determined stretch factor was (0.15)%, resulting in a net adjustment of 1.05% to the previous year's rates effective May 1, 2018. The GDP IPI-FDD for 2019 was 1.5%, the OEB applied productivity factor was 0.0% and the OEB determined stretch factor was (0.30)%, resulting in a net adjustment of 1.2% to the previous year's rates effective May 1, 2019.

The net adjustment for the 2020 rates was approved by the OEB at 1.7% to be effective as of May 1, 2020 although due to COVID-19, the company has elected to defer the implementation of the new rate until November 1, 2020. The OEB has approved a deferral account for the Company to record the lost revenue associated with this deferred implementation date.

As a licensed distributor, the Company is responsible for billing customers for electricity generated by third parties and the related costs of providing electricity service, such as transmission services and other services provided by third parties. The Company is required, pursuant to regulation, to remit such amounts to these third parties, irrespective of whether the Company ultimately collects these amounts from customers.

Electricity rates

The OEB sets electricity prices for residential and small commercial consumers twice each year based on an estimate of how much it will cost to supply the province with electricity for the next year. All remaining consumers, other than consumers with retail contracts who pay a contracted rate plus a global adjustment rate adder, pay the market price for electricity. The Company is billed for the cost of the electricity that its customers use and passes this cost on to the customer at cost without a mark-up.

3. Significant accounting policies

The accounting policies set out below have been applied consistently in all years presented in these financial statements.

a) Financial instruments

Non-derivative

All financial assets are classified as loans and receivables and all financial liabilities are classified as other liabilities. These financial instruments are recognized initially at fair value plus any directly attributable transaction costs. Subsequently, they are measured at amortized cost using the effective interest method less any impairment for the financial assets as described in note 3(f).

Derivative

The Company holds derivative financial instruments to manage its interest rate risk exposures. Derivatives are initially recognized at fair value; any directly attributable transaction costs are recognized in the Statement of Comprehensive Income as incurred as a change in interest rate swap. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are recognized in the Statement of Comprehensive Income.

Hedge accounting has not been used in the preparation of these financial statements.

b) Revenue recognition

Sale and distribution of electricity

The performance obligations for the sale and distribution of electricity are recognized over time using an output method to measure the satisfaction of the performance obligation. The value of the electricity services transferred to the customer is determined on the basis of cyclical meter readings plus estimated customer usage since the last meter reading date to the end of the year and represents the amount that the Company has the right to bill. Revenue includes rates for electricity supplied, distribution, and any other regulatory charges. The related cost of power is recorded on the basis of power used.

For customer billings related to electricity generated by third parties and the related costs of providing electricity service, such as transmission services and other services provided by third parties, the Company has determined that it is acting as a principal for these electricity charges and, therefore, has presented electricity revenue on a gross basis.

Customer billings for debt retirement charges were recorded on a net basis as the Company is acting as an agent for this billing stream.

3. Significant accounting policies (continued)

b) Revenue recognition (continued)

Capital contributions

Developers are required to contribute towards the capital cost of construction of distribution assets in order to provide ongoing service. The developer is not a customer and therefore the contributions are scoped out of IFRS 15 Revenue from Contracts with Customers. Cash contributions received from developers are recorded as deferred revenue and amortized to income on a straight-line basis over the useful life of the related asset.

Certain customers are also required to contribute towards the capital cost of construction of distribution assets in order to provide ongoing service. These contributions fall within the scope of IFRS 15 Revenue from Contracts with Customers. The contributions are received to obtain a connection to the distribution system in order receive ongoing access to electricity. The Company has concluded that the performance obligation is the supply of electricity over the life of the relationship with the customer which is satisfied over time as the customer receives and consumes the electricity. Revenue is recognized on a straight-line basis over the useful life of the related asset.

Other revenue

Revenue earned from the provision of services is recognized as the service is rendered.

Government grants and the related performance incentive payments under CDM programs are recognized as revenue in the year when there is reasonable assurance that the program conditions have been satisfied and the payment will be received.

3. Significant accounting policies (continued)

c) Materials and supplies

Materials and supplies, the majority of which are consumed by the Company in the provision of its services, are valued at the lower of cost and net realizable value, with cost being determined on a weighted average basis, and includes expenditures incurred in acquiring the materials and supplies and other costs incurred in bringing them to their existing location and condition.

d) Property, plant and equipment

Items of property, plant and equipment ("PP&E") used in rate-regulated activities and acquired prior to January 1, 2014 are measured at deemed cost, less accumulated depreciation. All other items of PP&E are measured at cost, or, where the item is contributed by customers, its fair value, less accumulated depreciation.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes contracted services, materials and transportation costs, direct labour, overhead costs, borrowing costs and any other costs directly attributable to bringing the asset to a working condition for its intended use.

Borrowing costs on qualifying assets are capitalized as part of the cost of the asset based upon the lower of OEB prescribed rates and the weighted average cost of debt incurred on the Company's borrowings. Qualifying assets are considered to be those that take in excess of 12 months to construct.

When parts of an item of PP&E have different useful lives, they are accounted for as separate items (major components) of PP&E.

When items of PP&E are retired or otherwise disposed of, a gain or loss on disposal is determined by comparing the proceeds from disposal, if any, with the carrying amount of the item and is included in profit or loss.

Major spare parts and standby equipment are recognized as items of PP&E.

London Hydro Inc. / Notes to the Financial Statements / IN THOUSANDS OF DOLLARS

3. Significant accounting policies (continued)

d) Property, plant and equipment (continued)

The cost of replacing a part of an item of PP&E is recognized in the net book value of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. In this event, the replaced part of PP&E is written off, and the related gain or loss is included in the Statement of Comprehensive Income. The costs of the day-to-day servicing of PP&E are recognized in the Statement of Comprehensive Income as incurred.

The need to estimate the decommissioning costs at the end of the useful lives of certain assets is reviewed periodically. The Company has concluded it does not have any legal or constructive obligation to remove PP&E.

Depreciation is calculated to write off the cost of items of PP&E using the straight-line method over their estimated useful lives, and is generally recognized in the Statement of Comprehensive Income. Depreciation methods, useful lives, and residual values are reviewed at each reporting date and adjusted prospectively if appropriate. Land is not depreciated. Construction-in-progress assets are not depreciated until the project is complete and the asset is available for use.

The estimated useful lives are as follows:

	Years
Building structures and components	12 - 75
Distribution system and equipment	25 - 60
Substation equipment	15 - 45
Right-of-use land asset	40
System supervisory equipment	8 - 35
Metering devices	15 - 30
Renewable generation assets	20
Automotive equipment	8 - 12
Equipment, tools and furniture	5 - 8
Computer hardware	3 - 5

3. Significant accounting policies (continued)

e) Intangible assets

Intangible assets are measured at cost, less accumulated amortization. Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of intangible assets includes contracted services, materials and transportation costs, direct labour, overhead costs, borrowing costs and any other costs directly attributable to bringing the asset to a working condition for its intended use.

Borrowing costs on qualifying assets are capitalized as part of the cost of the asset based upon the lower of OEB prescribed rates and the weighted average cost of debt incurred on the Company's borrowings. Qualifying assets are considered to be those that take in excess of 12 months to complete.

Payments to obtain rights to access land ("land rights") are classified as intangible assets. These include payments made for easements, right of access and right of use over land for which the Company does not hold title. Land rights are measured at cost less accumulated amortization.

Computer software that is acquired or developed by the Company, including software that is not integral to the functionality of equipment purchased which has finite useful lives, is measured at cost less accumulated amortization.

Capital contributions represent costs incurred and associated with assets that are not owned by the Company. These contributions are incurred where the Company is charged with the responsibility of upgrading assets that the Company does not hold title to. Capital contributions include costs towards the refurbishment and upgrade of a transformer station and wholesale meters. These assets are measured at cost less accumulated amortization.

Intangible assets in progress consist of application software under development at December 31, 2020.

Amortization is recognized in the Statement of Comprehensive Income on a straight-line basis over the estimated useful lives of intangible assets, from the date that they are available for use. Amortization methods and useful lives of all intangible assets are reviewed at each reporting date and adjusted prospectively if appropriate. The estimated useful lives are:

	Years
Capital contributions	30 - 45
Land rights	25
Computer software	3 - 5

3. Significant accounting policies (continued)

f) Impairment

Financial assets measured at amortized cost

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows from that asset.

An impairment loss is calculated as the difference between an asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Interest on the impaired assets continues to be recognized through the unwinding of the discount. Losses are recognized in the Statement of Comprehensive Income. An impairment loss is reversed through the Statement of Comprehensive Income if the reversal can be related objectively to an event occurring after the impairment loss was recognized.

A loss allowance for expected credit losses on financial assets measured at amortized cost is recognized at the reporting date. The loss allowance is measured at an amount equal to the lifetime expected credit losses for the asset.

Non-financial assets

The carrying amounts of the Company's non-financial assets, other than materials and supplies and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit" or "CGU"). The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in the Statement of Comprehensive Income.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

3. Significant accounting policies (continued)

g) Customer and other deposits

Customer and other deposits include cash deposits from electricity distribution customers and retailers to guarantee the payment of energy bills. Interest is paid on customer deposits at the rate of prime less 2% per annum. Deposits from electricity distribution customers are refundable to customers who demonstrate an acceptable level of credit risk as determined by the Company in accordance with policies set out by the OEB, or upon termination of their electricity distribution service.

h) Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

i) Regulatory balances

Regulatory deferral account debit balances represent costs incurred in excess of amounts billed to the customer at OEB approved rates. Regulatory deferral account credit balances represent amounts billed to the customer at OEB approved rates in excess of costs incurred by the Company.

Regulatory deferral account debit balances are recognized if it is probable that future billings in an amount at least equal to the deferred cost will result from inclusion of that cost in allowable costs for rate-making purposes. The offsetting amount is recognized in net movement in regulatory balances in the Statement of Comprehensive Income or Other Comprehensive Income ("OCI"). When the customer is billed at rates approved by the OEB for the recovery of the deferred costs, the customer billings are recognized in revenue. The regulatory debit balance is reduced by the amount of these customer billings with the offset to net movement in regulatory balances in the Statement of Comprehensive Income or OCI.

The probability of recovery of the regulatory deferral account debit balances is assessed annually based upon the likelihood that the OEB will approve the change in rates to recover the balance. The assessment of likelihood of recovery is based upon previous decisions made by the OEB for similar circumstances, policies or guidelines issued by the OEB, etc. Any resulting impairment loss is recognized in the Statement of Comprehensive Income in the year incurred. When the Company is required to refund amounts to ratepayers in the future, the Company recognizes a regulatory deferral account credit balance. The offsetting amount is recognized in net movement in regulatory balances in the Statement of Comprehensive Income or OCI. The amounts returned to the customers are recognized as a reduction of revenue. The credit balance is reduced by the amount of these customer repayments with the offset to net movement in regulatory balances in the Statement of Comprehensive Income or OCI.

3. Significant accounting policies (continued)

j) Post-employment benefits

Pension plan

The Company provides a pension plan for all its full-time employees through Ontario Municipal Employees Retirement System ("OMERS"). OMERS is a multi-employer pension plan which operates as the Ontario Municipal Employees Retirement Fund ("the Fund"), and provides pensions for employees of Ontario municipalities, local boards and public utilities. The Fund is a contributory defined benefit pension plan, which is financed by equal contributions from participating employers and employees, and by the investment earnings of the Fund. To the extent that the Fund finds itself in an under-funded position, additional contribution rates may be assessed to participating employers and members.

OMERS is a defined benefit plan. However, as OMERS does not segregate its pension asset and liability information by individual employers, there is insufficient information available to enable the Company to directly account for the plan. Consequently, the plan has been accounted for as a defined contribution plan. The Company is not responsible for any other contractual obligations other than the contributions. Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in the Statement of Comprehensive Income when they are due.

Post-employment benefits, other than pension

The Company provides some of its retired employees with life insurance and medical benefits beyond those provided by government sponsored plans.

The obligations for these post-employment benefit plans are actuarially determined by applying the projected unit credit method and reflect management's best estimate of certain underlying assumptions. Remeasurements of the net defined benefit obligations, including actuarial gains and losses and the return on plan assets (excluding interest), are recognized immediately in OCI. When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognized immediately in the Statement of Comprehensive Income.

k) Leases

The Company's accounting policy for leases is as follows:

At inception of a contract, the Company assesses whether a contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

3. Significant accounting policies (continued)

k) Leases (continued)

The Company has elected to apply the practical expedient to account for each lease component and any non-lease components as a single lease component.

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured based on the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received. The assets are depreciated to the earlier of the end of the useful life of the right-of-use asset or the lease term using the straight-line method as this most closely reflects the expected pattern of consumption of the future economic benefits. The lease term includes periods covered by an option to extend if the Company is reasonably certain to exercise that option. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Company has elected to apply the practical expedient not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The lease payments associated with these leases is recognized as an expense on a straight-line basis over the lease term.

3. Significant accounting policies (continued)

l) Finance income and finance expenses

Finance income is recognized as it accrues in the Statement of Comprehensive Income. Finance income comprises interest earned on cash.

Finance expenses comprise interest expense on borrowings and customer deposits. Finance expenses are recognized in the Statement of Comprehensive Income unless they are capitalized as part of the cost of qualifying assets.

m) Income taxes

The income tax expense comprises current and deferred tax. Income tax expense is recognized in the Statement of Comprehensive Income except to the extent that it relates to items recognized directly in equity, in which case, it is recognized in equity.

The Company is currently exempt from taxes under the Income Tax Act (Canada) and the Ontario Corporations Tax Act (collectively the “Tax Acts”). Under the Electricity Act, 1998, the Company makes payments in lieu of corporate taxes to the Ontario Electricity Financial Corporation (“OEFC”). These payments are calculated in accordance with the rules for computing taxable income and taxable capital and other relevant amounts contained in the Tax Acts as modified by the Electricity Act, 1998, and related regulations. Prior to October 1, 2001, the Company was not subject to income or capital taxes. Payments in lieu of taxes (“PILs”) are referred to as income taxes.

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the tax basis of assets and liabilities and their carrying amounts for accounting purposes. Deferred tax assets and liabilities are recognized for unused tax losses, unused tax credits and temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted, at the reporting date.

4. Standards issued not yet adopted

There are new standards, amendments to standards and interpretations which have not been applied in preparing these financial statements. These standards or amendments relate to the measurement and disclosure of financial assets and liabilities. The extent of the impact on adoption of these standards and amendments has not yet been determined.

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

ii. Property, Plant and Equipment — Proceeds before Intended Use (Amendments to IAS 16)

iii. Annual Improvements to IFRS Standards 2018–2020

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

On January 23, 2020, the IASB issued amendments to IAS 1 Presentation of Financial Statements, to clarify the classification of liabilities as current or non-current. On July 15, 2020 the IASB issued an amendment to defer the effective date by one year. The amendments are effective for annual periods beginning on or after January 1, 2023. Early adoption is permitted.

For the purposes of non-current classification, the amendments removed the requirement for a right to defer settlement or roll over of a liability for at least twelve months to be unconditional. Instead, such a right must have substance and exist at the end of the reporting period. The amendments also clarify how a company classifies a liability that includes a counterparty conversion option.

The amendments state that settlement of a liability includes transferring a company’s own equity instruments to the counterparty, and when classifying liabilities as current or non-current, a company can ignore only those conversion options that are recognised as equity.

The Company intends to adopt this standard in its financial statements for the annual period beginning January 1, 2023. The extent of the impact of adoption of the standard has not yet been determined.

4. Standards issued not yet adopted (continued)

ii. Property, Plant and Equipment — Proceeds before Intended Use (Amendments to IAS 16):

On May 14, 2020, the IASB issued Property, Plant and Equipment — Proceeds before Intended Use (Amendments to IAS 16). The amendments are effective for annual periods beginning on or after January 1, 2022. Early adoption is permitted.

The amendments provide guidance on the accounting for sale proceeds and the related production costs for items a company produces and sells in the process of making an item of property, plant and equipment available for its intended use. Specifically, proceeds from selling items before the related item of property, plant and equipment is available for use should be recognized in profit or loss, together with the costs of producing those items.

The Company intends to adopt this standard in its financial statements for the annual period beginning January 1, 2022. The extent of the impact of adoption of the standard has not yet been determined.

iii. Annual Improvements to IFRS Standards 2018–2020:

On May 14, 2020, the IASB issued Annual Improvements to IFRS Standards 2018–2020.

The amendments are effective for annual periods beginning on or after January 1, 2022. Early adoption is permitted. The amendments relate to the following:

- *IFRS 9 Financial Instruments*: Clarifies which fees are included for the purpose of performing the '10 per cent test' for derecognition of financial liabilities.
- *IFRS 16 Leases*: Removes the illustration of payments from the lessor relating to leasehold improvements in the Illustrative Example 13.
- *IAS 41 Agriculture*: Removes the requirement to exclude cash flows for taxation when measuring fair value.

The Company intends to adopt these standards in its financial statements for the annual period beginning January 1, 2022. The Company does not expect these standards to have a material impact on the financial statements.

London Hydro Inc. / Notes to the Financial Statements / IN THOUSANDS OF DOLLARS
For the year ended December 31, 2020

5. Cash

	2020	2019
Bank balances	$ 28,298	$ 3,428

6. Accounts receivable

	2020	2019
Trade receivables	$ 41,125	$ 32,083
Unbilled revenue	38,018	36,468
Other	9,296	5,451
Allowance for doubtful accounts	(3,730)	(2,633)
	$ 84,709	$ 71,369

Included in accounts receivable is approximately $12.4 million (2019 - $9.4 million) of customer receivables for water consumption that the Company bills and collects on behalf of the Corporation of the City of London. As the Company does not assume liability for collection of these amounts, any amount relating to water consumption that is determined to be uncollectible is charged to the Corporation of the City of London.

Also, included in the accounts receivable is $1.4 million (2019 - $0.4 million) of energy, water, and sundry receivables due from the Corporation of the City of London.

7. Materials and supplies

Amounts written down due to obsolescence during the year ended December 31, 2020 was $0.1 million (2019 - $0.1 million).

London Hydro Inc. / Notes to the Financial Statements / IN THOUSANDS OF DOLLARS

8. Property, plant and equipment

a) Cost or deemed cost:

	Land and buildings	Distribution substation equipment	Other distribution equipment	Other fixed assets	Construction in progress	Total
Balance at January 1, 2019	$ 19,616	$ 10,183	$ 298,023	$ 25,495	$ 13,282	$ 366,599
Additions	1,759	265	31,184	2,740	1,052	37,000
Disposals / retirements	-	(237)	(878)	(968)	-	(2,083)
Balance at December 31, 2019	$ 21,375	$ 10,211	$ 328,329	$ 27,267	$ 14,334	$ 401,516
Balance at January 1, 2020	$ 21,375	$ 10,211	$ 328,329	$ 27,267	$ 14,334	$ 401,516
Additions	1,056	225	34,399	4,179	(1,798)	38,061
Disposals / retirements	(1,145)	-	(883)	(639)	-	(2,667)
Balance at December 31, 2020	$ 21,286	$ 10,436	$ 361,845	$ 30,807	$ 12,536	$ 436,910

b) Accumulated depreciation:

	Land and buildings	Distribution substation equipment	Other distribution equipment	Other fixed assets	Construction in progress	Total
Balance at January 1, 2019	$ 3,513	$ 1,418	$ 43,833	$ 9,135	$ -	$ 57,899
Depreciation	875	301	10,917	2,747	-	14,840
Disposals / retirements	-	(47)	(856)	(961)	-	(1,864)
Balance at December 31, 2019	$ 4,388	$ 1,672	$ 53,894	$ 10,921	$ -	$ 70,875
Balance at January 1, 2020	$ 4,388	$ 1,672	$ 53,894	$ 10,921	$ -	$ 70,875
Depreciation	908	378	11,525	2,842	-	15,653
Disposals / retirements	(1,139)	-	(865)	(606)	-	(2,610)
Balance at December 31, 2020	$ 4,157	$ 2,050	$ 64,554	$ 13,157	$ -	$ 83,918

c) Carrying amounts:

Balance at	Land and buildings	Distribution substation equipment	Other distribution equipment	Other fixed assets	Construction in progress	Total
December 31, 2019	$ 16,987	$ 8,539	$ 274,435	$ 16,346	$ 14,334	$ 330,641
December 31, 2020	$ 17,129	$ 8,386	$ 297,291	$ 17,650	$ 12,536	$ 352,992

Property, plant and equipment includes a right-of-use asset with a carrying value of $2.1 million (2019 - $2.2 million) associated with property rented from the City of London with an initial measurement of $2.3 million, amortized on a straight-line basis over 40 years commencing with the 2018 fiscal year (see Note 16).

9. Intangible assets

a) Cost or deemed cost:

	Land rights	Capital contributions	Computer software	Intangible work in progress	Total
Balance at January 1, 2019	$ 358	$ 8,343	$ 23,568	$ 918	$ 33,187
Additions	32	-	6,155	(169)	6,018
Disposals / retirements	-	-	(3,890)	-	(3,890)
Balance at December 31, 2019	$ 390	$ 8,343	$ 25,833	$ 749	$ 35,315
Balance at January 1, 2020	$ 390	$ 8,343	$ 25,833	$ 749	$ 35,315
Additions	116	-	5,410	182	5,708
Disposals / retirements	-	-	(5,216)	-	(5,216)
Balance at December 31, 2020	$ 506	$ 8,343	$ 26,027	$ 931	$ 35,807

b) Accumulated amortization:

	Land rights	Capital contributions	Computer software	Intangible work in progress	Total
Balance at January 1, 2019	$ 96	$ 221	$ 10,034	$ -	$ 10,351
Amortization	24	204	5,112	-	5,340
Disposals / retirements	-	-	(3,890)	-	(3,890)
Balance at December 31, 2019	$ 120	$ 425	$ 11,256	$ -	$ 11,801
Balance at January 1, 2020	$ 120	$ 425	$ 11,256	$ -	$ 11,801
Amortization	26	204	5,549	-	5,779
Disposals / retirements	-	-	(5,216)	-	(5,216)
Balance at December 31, 2020	$ 146	$ 629	$ 11,589	$ -	$ 12,364

c) Carrying amounts:

Balance at	Land rights	Capital contributions	Computer software	Intangible work in progress	Total
December 31, 2019	$ 270	$ 7,918	$ 14,577	$ 749	$ 23,514
December 31, 2020	$ 360	$ 7,714	$ 14,438	$ 931	$ 23,443

London Hydro Inc. / Notes to the Financial Statements / IN THOUSANDS OF DOLLARS

10. Income tax recovery

Income tax recovery is comprised of:

		2020		2019
Current income tax				
Current year income tax expense (recovery)	$	574	$	(384)
Amendment for prior period income tax credits		(10)		(311)
Adjustment for prior period income tax expense (recovery)		53		(335)
		617		(1,030)
Deferred tax				
Change in recognized deductible temporary differences:				
Loss on interest rate swap		(1,757)		(111)
Property, plant, equipment and intangible assets		3,085		4,760
Post-employment benefits		(85)		(16)
Deferred revenue		(654)		(822)
		589		3,811
Total current and deferred income tax in profit and loss, before movement of regulatory balance		1,206		2,781
Other comprehensive loss				
Post-employment benefits		(65)		(419)
Total current and deferred income tax, before movement of regulatory balances		1,141		2,362
Net movement in regulatory balances		(2,281)		(3,503)
Income tax recovery recognized in Statement of Comprehensive Income	$	(1,140)	$	(1,141)

Reconciliation of effective tax rate:

		2020		2019
Income before taxes	$	4,306	$	9,247
Canada and Ontario statutory income tax rates		26.5%		26.5%
Expected tax provision on income at statutory rates		1,141		2,450
Increase (decrease) in income taxes resulting from:				
Adjustment for prior years		43		-
Net movement in regulatory balances		(2,281)		(3,503)
Other items		(43)		(88)
	$	(1,140)	$	(1,141)

Significant components of the Company's deferred tax balances:

		2020		2019
Property, plant, equipment and intangible assets	$	(17,873)	$	(14,788)
Post-employment benefits		4,266		4,116
Deferred revenue		1,908		1,254
Future income taxes to be realized by customers		(11,699)		(9,418)
Loss on interest rate swap		2,193		436
	$	(9,506)	$	(8,982)

11. Regulatory balances

Reconciliation of the carrying amount for each class of regulatory balances:

Regulatory assets:

Regulatory deferral account debit balances		January 1, 2019		Changes		(Recovery)/ reversal		December 31, 2019	Remaining years
Group 1 deferred accounts	$	8,002	$	(4,526)	$	-	$	3,476	-
Regulatory settlement account		-		8,440		(3,443)		4,997	0.8
Other regulatory accounts		3,249		(121)		-		3,128	-
Income tax		5,915		3,503		-		9,418	-
	$	17,166	$	7,296	$	(3,443)	$	21,019	

Regulatory deferral account debit balances		January 1, 2020		Changes		(Recovery)/ reversal		December 31, 2020	Remaining years
Group 1 deferred accounts	$	3,476	$	1,924	$	-	$	5,400	-
Regulatory settlement account		4,997		(60)		(4,937)		-	-
Other regulatory accounts		3,128		2,858		(92)		5,894	0.7
Income tax		9,418		2,281		-		11,699	-
	$	21,019	$	7,003	$	(5,029)	$	22,993	

Regulatory liabilities:

Regulatory deferral account credit balances		January 1, 2019		Changes		Recovery/ (reversal)		December 31, 2019	Remaining years
Regulatory settlement account	$	1,719	$	(121)	$	(1,598)	$	-	-
Other regulatory accounts		412		1,080		847		2,339	2.3
	$	2,131	$	959	$	(751)	$	2,339	

Regulatory deferral account credit balances		January 1, 2020		Changes		Recovery/ (reversal)		December 31, 2020	Remaining years
Other regulatory accounts	$	2,339	$	998	$	845	$	4,182	1.3
	$	2,339	$	998	$	845	$	4,182	

11. Regulatory balances (continued)

The regulatory balances are recovered or settled through fixed and/or volumetric rate riders approved by the OEB. The volumetric rate riders are determined using estimates of future consumption of electricity by its customers. Future consumption is impacted by various factors including the economy and weather. The Company has received approval from the OEB to establish its regulatory balances. Regulatory balances attract interest at OEB prescribed rates, which are based on Bankers' Acceptances three-month rate plus a spread of 25 basis points. The rate was set at 2.18% in the first and second quarters of 2020 (March 31, 2019 – 2.45%, June 30, 2019 – 2.18%), and 0.57% in the third and fourth quarters of 2020 (September 30, 2019 and December 31, 2019 – 2.18%).

a) Group 1 deferral accounts

The Group 1 deferral accounts consist of purchased power cost variances including the Smart Metering Entity Charge Variances. As a regulated distributor of electricity, the Company is obligated to provide energy supply to all consumers at regulated or spot rates unless they elect to purchase their energy from an energy retailer. The regulatory framework requires that all energy commodity and non-commodity costs be billed at regulated rates to consumers who are on the Regulated Price Plan.

Variances between purchase costs and amounts billed for electricity are required to be captured in the Retail Settlement Variance Accounts (“RSVA”) for disposition through future rate riders. The variance accounts have been further defined by the regulator into commodity and non-commodity accounts. Those accounts defined as commodity accounts are eligible for regulatory review on a quarterly basis. All other accounts are defined as non-commodity and are currently eligible for review on an annual basis.

The RSVA variances were debit balances in 2018. On October 4, 2017, the Company filed its 2018 IRM rate application in which it proposed the disposition of the Group 1 account balances as at December 31, 2016 via rate riders. The OEB authorized the recovery of these balances over a one-year period commencing May 1, 2018.

11. Regulatory balances (continued)

b) Regulatory settlement account

During 2018, the Company filed its 2019 IRM rate application in which it proposed the recovery of the LRAMVA balance accumulated between January 1, 2016 and December 31, 2016, as well as the recovery of the 2018 Retail Transmission Service Rates Revenue Shortfall of the Group 1 accounts accumulated between May 1, 2018 and November 30, 2018 via rate riders. The OEB authorized the recovery of the LRAMVA balances over a one-year period commencing May 1, 2019 and the recovery of the 2018 Retail Transmission Service Rates Revenue Shortfall balance over an 18-month period commencing May 1, 2019.

c) Other regulatory accounts

Other regulatory account debit balances include various deferred costs in connection with LRAMVA, OEB Cost Assessment Variance, non-cash OPEB adjustment, Impacts Arising from the COVID-19 Emergency and Retail Cost Variances. During 2020, the Company deferred the implementation of its approved rates effective May 1, 2020 until November 1, 2020 due to the COVID-19 emergency. The Company has been approved to recover the forgone revenues via rate riders during a six-month period commencing on November 1, 2020.

Other regulatory account credit balances include pole attachment revenue variances and advanced funding for capital projects. The Company filed its 2017 COS rate application in 2016 which included a request for funding capital projects under the Advanced Capital Module and received an approval. During 2017, the Company filed its 2018 IRM rate application, which included a request for the recovery of such costs via rate riders. The OEB authorized the recovery of these costs via rate riders until the effective date of the next cost of service-based rate order. Distribution revenue repayable to customers representing tax savings as a result of increased capital cost allowance provided for through the Accelerated Investment Incentive introduced in Bill C-97 effective November 2018 is also included in other regulatory account credit balances.

d) Income tax

As a result, the Company has recognized a regulatory deferral account for the amount of deferred taxes that will ultimately be recovered from/paid back to its customers. This balance will fluctuate as the Company's deferred tax balance fluctuates.

London Hydro Inc. / Notes to the Financial Statements / IN THOUSANDS OF DOLLARS

12. Accounts payable and accrued liabilities

		2020		2019
Due to Independent Electricity System Operator	$	29,319	$	31,973
Harmonized sales tax		-		167
Payroll and benefits payable		4,016		3,382
Other		12,669		12,918
	$	46,004	$	48,440

13. Deferred revenue

		2020		2019
Capital contributions for completed projects	$	28,005	$	21,845
Deposits held		9,414		11,806
		37,419		33,651
Less: Current portion		3,092		2,771
	$	34,327	$	30,880

Capital contributions for completed projects are recognized as revenue on a straight-line basis over the life of the asset for which the contribution was received.

Included in deposits held is $1.8 million (2019 - $3.6 million) received from the Corporation of the City of London as contributions for the construction of capital assets.

14. Long-term debt

		2020		2019
Unsecured, committed extendible revolving loan bearing interest at prime, minus 0.5%, interest only payments	$	-	$	30,000
Unsecured, non-revolving term instalment loan bearing interest at the 4.4 year Bankers' Acceptance rate of 2.7% plus a stamping fee of 0.28%, interest only payments due June 2022		40,000		40,000
Unsecured, non-revolving term instalment loan bearing interest at the 7.6 year Bankers' Acceptance rate of 2.46% plus a stamping fee of 0.30%, interest only payments due June 2022		85,000		85,000
Unsecured, non-revolving term instalment loan bearing interest at the 11.6 year Bankers' Acceptance rate of 1.53% plus a stamping fee of 0.44%, interest only payments due June 2032		75,000		-
	$	200,000	$	155,000

The unsecured, committed extendible revolving loan in the amount of $30 million outstanding at December 31, 2019 was subsequently repaid with additional borrowing in the amount of $75 million obtained December 4, 2020. The additional borrowing is with the Toronto Dominion Bank and is under an interest rate swap agreement for an unsecured loan. Interest only payments are due monthly and commenced December 2020. The principal is due at maturity. The agreement is a fixed rate swap and matures June 2032, which effectively converts variable interest rates on unsecured Bankers' Acceptances to an effective interest rate of 1.53%, plus a stamping fee of 0.44%, for an all-in rate of 1.97%.

The company entered into a futures contract with Toronto Dominion Bank on December 4, 2020 for $125 million. The future contract will be converted into a swap agreement on June 30, 2022 to repay the $40 million and $85 million Royal Bank of Canada fixed rate swaps maturing June 2022. The swap agreement is a fixed rate swap and matures June 2032, which effectively converts variable interest rates on unsecured Bankers' Acceptances to an effective interest rate of 1.69%, plus a stamping fee of 0.44%, for an all-in rate of 2.13%.

London Hydro Inc. / Notes to the Financial Statements / IN THOUSANDS OF DOLLARS

14. Long-term debt (continued)

The Company has an interest rate swap agreement with the Royal Bank of Canada for an unsecured loan in the amount of $40 million. Interest only payments are due quarterly and commenced March 2018. The principal is due at maturity. The agreement is a fixed rate swap and matures June 2022, which effectively converts variable interest rates on unsecured Bankers' Acceptances to an effective interest rate of 2.7%, plus a stamping fee of 0.28%, for an all-in rate of 2.98%.

The Company has an interest rate swap agreement with the Royal Bank of Canada for an unsecured loan in the amount of $85 million. Interest only payments are due quarterly and commenced December 2014. The principal is due at maturity. The agreement is a fixed rate swap and matures June 2022, which effectively converts variable interest rates on unsecured Bankers' Acceptances to an effective interest rate of 2.46%, plus a stamping fee of 0.30%, for an all-in rate of 2.76%.

The swap agreements entered into with Royal Bank of Canada and Toronto Dominion Bank do not meet the standard to apply hedge accounting. Accordingly, the interest rate swap contracts are recorded at their fair value at the end of the period with the unrealized gain or loss recorded in the Statements of Comprehensive Income as finance expenses. The unrealized loss for the year ended December 31, 2020 was $6.6 million (2019 – $0.4 million).

At December 31, 2020, the Company would be required to pay $8.3 million (2019 - $1.6 million) if it wished to cancel the swap agreements.

During the year ended December 31, 2020, interest on long-term debt was incurred in the amount of $4.3 million (2019 - $4.2 million).

Reconciliation of opening and closing balances for liabilities from financing activities:

	2020	2019
Balance, beginning of year	$ 155,000	$ 141,522
Add: Advances	75,000	15,000
Less: Repayments	30,000	1,522
	$ 200,000	$ 155,000

15. Post-employment benefits

a) OMERS pension plan

The Company provides a pension plan for its employees through OMERS. The plan is a multi-employer, contributory defined pension plan with equal contributions by the employer and its employees. During the year ended December 31, 2020, the Company made employer contributions of $3.2 million to OMERS (2019 - $3.1 million), of which $0.8 million (2019 - $0.8 million) has been capitalized as part of PP&E and the remaining amount of $2.4 million (2019 - $2.3 million) has been recognized in the Statement of Comprehensive Income. The Company estimates that a contribution of $3.3 million to OMERS will be made during the next fiscal year.

As at December 31, 2020, OMERS had approximately 525,981 members, of whom 324 are employees of the Company. The most recently available OMERS annual report is for the year ended December 31, 2020, which reported that the plan was 97% funded, with an unfunded liability of $3.2 billion. This unfunded liability is likely to result in future payments by participating employers and members.

b) Post-employment benefits other than pension

The Company pays certain medical and life insurance benefits on behalf of some of its retired employees. The Company recognizes these post-employment benefits in the year in which employees' services were rendered. The Company is recovering its post-employment benefits in rates based on the expense and remeasurements recognized for post-employment benefit plans. The information that follows was obtained from the most recent actuarial valuation as at December 31, 2020.

London Hydro Inc. / Notes to the Financial Statements / IN THOUSANDS OF DOLLARS

15. Post-employment benefits (continued)

b) Post-employment benefits other than pension (continued)

Reconciliation of the obligation:

		2020		2019
Defined benefit obligation, beginning of year	$	15,535	$	13,895
Included in profit or loss:				
Current service costs		493		393
Past service costs		90		-
Interest cost		462		518
Other benefits		52		11
		1,097		922
Benefits paid		(776)		(864)
		321		58
Actuarial (gains) / losses included in OCI:				
Changes in demographic assumptions		(1,257)		-
Changes in financial assumptions		1,465		1,540
Effect of experience adjustments		36		42
		244		1,582
Defined benefit obligation, end of year	$	16,100	$	15,535

Actuarial assumptions:

	2020	2019
Discount (interest) rate	2.5%	3.1%
Salary levels	4.0%	4.0%
Immediate medical costs	5.0%	5.3%
Ultimate medical costs	4.0%	4.0%
Dental cost rate	4.0%	4.0%
Year ultimate rate reached	2040	2040

A 1% increase in the assumed discount rate would result in the defined benefit obligation decreasing by $2.4 million. A 1% decrease in the assumed discount rate would result in the defined benefits obligation increasing by $2.6 million.

16. Lease liability

The Company has a lease liability in connection with a right-of-use asset associated with property rented from the City of London included in property, plant and equipment with an initial measurement of $2.3 million, amortized on a straight-line basis over 40 years commencing with the 2018 fiscal year.

Right-of-use-asset:

		2020		2019
Cost:				
Balance, beginning of year	$	2,319	$	2,319
Balance, end of year	$	2,319	$	2,319
Accumulated depreciation:				
Balance, beginning of year	$	116	$	58
Depreciation		58		58
Balance, end of year	$	174	$	116
Carrying amount	$	2,145	$	2,203

Lease liability:

		Future minimum lease payments		Interest		Present value of minimum lease payments
Less than one year	$	100	$	66	$	34
Between one and five years		400		255		145
More than five years		3,200		1,155		2,045
	$	3,700	$	1,476	$	2,224

London Hydro Inc. / Notes to the Financial Statements / IN THOUSANDS OF DOLLARS

17. Share capital

		2020		2019
Authorized:				
An unlimited number of common shares				
An unlimited number of non-voting, non-cumulative preference shares, redeemable at the paid-up amount				
Issued:				
1,001 common shares	$	96,116	$	96,116

Dividends

The holders of the common shares are entitled to receive dividends as declared from time to time. On March 31, 2020, the Board of Directors declared a $5.0 million special dividend payable to the sole shareholder, the Corporation of the City of London, to be paid by the end of 2021. On March 27, 2019 the Board of Directors declared a $5.0 million dividend payable to the sole shareholder, the Corporation of the City of London, in quarterly installments in 2019.

18. Revenue from contracts with customers

The Company generates revenue primarily from electricity rates and the distribution of electricity to its customers. These revenues disaggregated by type of customer are illustrated below:

Electricity rates:

		2020		2019
Residential	$	173,899	$	122,925
Commercial		245,290		230,628
Large users		13,817		10,301
Other		3,231		2,892
	$	436,237	$	366,746

Distribution revenue:

		2020		2019
Residential	$	45,535	$	44,312
Commercial		22,608		23,279
Large users		697		749
Other		1,399		1,386
	$	70,239	$	69,726

19. Other revenue

		2020		2019
City of London services	$	4,027	$	4,009
Late payment charges		1,471		1,699
Customer billing service fees		937		864
Pole and other rental income		928		885
Other services, recoveries and sundry revenues		893		1,401
Sale of scrap		803		834
Amortization of deferred revenue		678		525
Occupancy charges		578		596
Income tax incentive credits		495		480
Renewable generation revenue		348		322
Collection charges		42		132
Gain on disposal of property, plant and equipment		28		31
	$	11,228	$	11,778

20. Operating expenses

		2020		2019
Labour and benefits	$	27,695	$	27,133
Professional services		5,811		5,998
Computer hardware and software		3,217		2,815
Rental, regulatory and other expenses		2,274		1,943
Facilities maintenance and repair		1,528		1,668
Property tax and insurance		1,263		1,208
Postage		1,090		1,258
Corporate training and employee expenses		994		1,233
Materials and supplies		973		995
Fleet operations and maintenance		943		897
Bad debts		800		737
Office equipment services and maintenance		418		417
Allocations to capital and billable activities		(2,096)		(2,073)
	$	44,910	$	44,229

London Hydro Inc. / Notes to the Financial Statements / IN THOUSANDS OF DOLLARS

21. Finance (income) and expenses

		2020		2019
Finance income				
Interest income on bank deposits	$	(105)	$	(140)
Finance expenses				
Interest on long-term debt		4,332		4,216
Interest on short-term debt		29		118
Lease liability interest		67		68
Other		74		224
		4,502		4,626
Change in interest rate swap				
Unrealized loss on interest rate swap		6,630		419
Net finance expense	$	11,027	$	4,905

22. Due to shareholder

Trade balances due to shareholder:

		2020		2019
Water consumption	$	5,349	$	6,550
Non-interest bearing trade balance due to shareholder, without stated repayment terms		400		402
	$	5,749	$	6,952

The Company delivers electricity to the City of London throughout the year for the electricity needs of the City of London and its related organizations. Electricity delivery charges are at prices and under terms approved by the OEB. The Company also provides additional services to the City of London, including water and waste water billing, customer care services and water meter replacement administrative services.

During the year ended December 31, 2020, the Company billed customers for water related service on behalf of the shareholder and remitted funds to the shareholder in the amount of $187.6 million (2019 – $174.4 million). The shareholder paid $3.9 million (2019 - $3.9 million) for this service.

During the year ended December 31, 2020, the Company performed water meter replacement administrative services on behalf of the shareholder. The shareholder paid $0.1 million (2019 – $0.1 million) for this service.

23. Commitments and contingencies

General

From time to time, the Company is involved in various litigation matters arising in the ordinary course of its business. The Company has no reason to believe that the outcome of any of these matters could reasonably be expected to have a materially adverse impact on the Company's financial position, results of operations or its ability to carry on any of its business activities.

General Liability Insurance

The Company is a member of the Municipal Electric Association Reciprocal Insurance Exchange ("MEARIE"). MEARIE is a pooling of public liability insurance risks of many of the LDCs in Ontario. All members of the pool are subjected to assessment for losses experienced by the pool for the years in which they were members, on a pro-rata basis based on the total of their respective service revenues. As at December 31, 2020, no assessments have been made.

Letters of credit

At December 31, 2020, the Company had provided $4.3 million (2019 – $6.6 million) in bank standby letters of credit to the IESO.

Vendor commitments

The Company has commitments in connection with Infrastructure projects of nil (2019 – $0.2 million), new vehicle acquisitions of $0.5 million (2019 - $1.1 million) and Information Systems projects of nil (2019 - $0.3 million).

Operating leases

The Company is committed to lease agreements for various vehicles, equipment and property rights. The future minimum non-cancellable annual lease payments are as follows:

		2020		2019
Less than one year	$	309	$	319
Between one and five years		587		868
More than five years		20		61
	$	**916**	**$**	**1,248**

The Company does not recognize right-of-use assets and lease liabilities for leases of low-value assets or leases with lease terms that are less than 12 months. Lease payments associated with these arrangements are instead recognized as an expense over the term on either a straight-line basis, or another systematic basis if more representative of the pattern of benefit. Operating leases expensed during the year ended December 31, 2020 was of $0.3 million (2019 - $0.4 million).

24. Joint venture agreement

On January 1, 2013, The Company entered into an agreement with London District Renewable Energy Co-Operative Inc. ("LDREC") to create a joint venture with the legal name "London Renewable Energy Initiative" for the intention of identifying, applying for and constructing solar projects that have been approved under the Feed-in Tariff ("FIT") government program. The Company has a 49% equity interest in LDREC while appointing 60% of the members of the Executive Committee resulting in controlling interest. To date no significant work has been completed and no amounts have been recorded in these financial statements in connection with this venture.

25. Financial instruments and risk management

Fair value disclosure

The carrying values of cash, accounts receivable, due to shareholder and accounts payable and accrued liabilities approximate fair value because of the short maturity of these instruments. The carrying value of the customer deposits approximates fair value because the amounts are payable on demand.

The fair value of the long-term debt at December 31, 2020 is $205 million (2019 - $156 million). The fair value is calculated based on the present value of future principal and interest cash flows, discounted at the current rate of interest at the reporting date. The interest rate used to calculate fair value at December 31, 2020 was 1.15% (2019 – 2.58%).

Financial risks

The Company understands the risks inherent in its business and defines them broadly as anything that could impact its ability to achieve its strategic objectives. The Company's exposure to a variety of risks such as credit risk, interest rate risk, and liquidity risk, as well as related mitigation strategies are discussed below.

a) Credit risk

Financial assets carry credit risk that a counter-party will fail to discharge an obligation which would result in a financial loss. Financial assets held by the Company, such as accounts receivable, expose it to credit risk. The Company primarily assesses credit risk exposure by customer segment. Concentrations of consumption by segment or individual customer, may impact risk due to varying energy consumption patterns and allowable security deposit requirements associated with each segment. The Company is not exposed to a significant concentration of credit risk within any customer segment or individual customer. No single customer accounts for revenue in excess of 10% of total revenue.

25. Financial instruments and risk management (continued)

a) Credit risk (continued)

The carrying amount of accounts receivable is reduced through the use of an allowance for impairment and the amount of the related impairment loss is recognized in the Statement of Comprehensive Income as bad debt expense. Subsequent recoveries of receivables previously provisioned are credited to the Statement of Comprehensive Income. The balance of the allowance for impairment loss at December 31, 2020 is $3.7 million (2019 - $2.6 million). During the year ended December 31, 2020, bad debt expense was $0.8 million (2019 - $0.7 million).

At December 31, 2020, approximately $1.4 million (2019 - $1.0 million) is included in the allowance for doubtful accounts for uncollectible amounts relating to water consumption. No bad debt expense has been realized in the Statement of Comprehensive Income in connection with water consumption as these amounts are fully recovered from the City of London.

The carrying amount of Regulatory asset balances is reduced by use of an allowance of impairment and the amount of the related impairment is recognized in the Statement of Comprehensive Income. The balance of the impairment as at December 31, 2020 is $0.8 million (2019 – nil). The impairment is associated with the potential of unrecoverable amounts within the COVID deferral account.

The Company's credit risk associated with accounts receivable is primarily related to payments from distribution customers. At December 31, 2020, approximately $3.2 million (2019 - $2.2 million) is considered 60 days past due. The Company has approximately 162 thousand customers, the majority of whom are residential.

By regulation, the Company is responsible for collecting both the distribution and energy portions of the electricity bill. On average, the Company earns 23% of amounts billed to customers with the remaining 77% being collected for other parties. The Company is therefore exposed to a credit risk substantially greater than the income that it regularly earns.

Credit risk is managed through collection of security deposits from customers in accordance with directions provided by the OEB. At December 31, 2020, the Company held deposits in the amount of $4.9 million (2019 - $4.4 million). If presented with substantial credit losses, the Company has the ability to make an application to the regulator for recovery of those losses through distribution rate adjustments in future years.

25. Financial instruments and risk management (continued)

b) Market risk

Market risks primarily refer to the risk of loss that result from changes in commodity prices, foreign exchange rates, and interest rates. The Company currently does not have significant commodity or foreign exchange risk. The Company is exposed to fluctuations in interest rates as the regulated rate of return for the Company's distribution business is derived using a complex formulaic approach which is in part based on the forecast for long-term Government of Canada bond yields. This rate of return is approved by the OEB as part of the approval of distribution rates.

A 1% increase or decrease in the interest rate at December 31, 2020 would have no impact on interest expense on the long-term debt as all debt instruments are fixed. A 1% increase in the interest rate at December 31, 2019 would have increased interest expense on the long-term debt by $0.3 million, assuming all other variables remained constant. A 1% decrease in the interest rate at December 31, 2019 would have had an equal but opposite effect.

c) Liquidity risk

The Company monitors its liquidity risk to ensure access to sufficient funds to meet operational and investing requirements. The Company's objective is to ensure that sufficient liquidity is on hand to meet obligations as they fall due while minimizing interest exposure. The Company monitors cash balances to ensure that sufficient levels of liquidity are on hand to meet financial commitments as they come due. The majority of accounts payable, as reported on the Statement of Financial Position, are due within 30 days.

The Company has an uncommitted operating revolving line of credit facility of $20.0 million with the Toronto Dominion Bank. At December 31, 2020 the amount drawn by the Company under this line of credit was nil (2019 - nil). The line of credit is unsecured and interest is at bank prime rate on prime based borrowings minus 0.5%, or at Bankers' Acceptances ("B/A") rates plus a 0.75% stamping fee on B/A based borrowings.

At December 31, 2020 the Company had repaid a committed 364 day extendable operating revolving loan facility with the Toronto Dominion Bank (2019 - $30.0 million).

The Company also has a bilateral facility for $4.3 million for the purpose of issuing letters of credit mainly to support the prudential requirements of the IESO, of which nil has been drawn and posted with the IESO (2019 - nil).

London Hydro Inc. / Notes to the Financial Statements / IN THOUSANDS OF DOLLARS
For the year ended December 31, 2020

25. Financial instruments and risk management (continued)

d) Capital disclosures

The main objectives of the Company, when managing capital, are to ensure ongoing access to funding to maintain and improve the electricity distribution system, compliance with covenants related to its credit facilities, prudent management of its capital structure with regard for recoveries of financing charges permitted by the OEB on its regulated electricity distribution business, and to deliver the appropriate financial returns.

The Company's definition of capital includes shareholder's equity and long-term debt.

	2020	2019
Long-term debt	$ 200,000	$ 155,000
Shareholder's equity	175,136	174,690
	$ 375,136	$ 329,690

26. Impact of COVID-19

The COVID-19 outbreak was declared a pandemic by the World Health Organization on March 11, 2020. This has resulted in governments worldwide, including the Canadian and Ontario governments, enacting emergency measures to combat the spread of the virus. The Government of Ontario originally announced a state of emergency on March 17, 2020 which remained in effect until July 24, 2020 when the Reopening Ontario Act, 2020 was introduced providing for restrictive orders. A secondary state of emergency was declared effective January 14, 2021 until February 16, 2021. These measures, which include the implementation of travel bans, self-imposed quarantine periods and physical distancing, have caused material disruption to businesses globally and in Ontario resulting in an economic slowdown. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions however the success of these interventions is not currently determinable. The OEB has informed the Company that it is to track any COVID-19 related expenses including bad debt expenses through a deferral account for potential future recovery. The current challenging economic climate may lead to adverse changes in cash flows, working capital levels and/or debt balances, which may also have a direct impact on the Company's operating results and financial position in the future. The situation is dynamic and the ultimate duration and magnitude of the impact on the economy and our business are not known at this time.

27. Subsequent event

On March 30, 2021, the Board of Directors declared a $5.0 million dividend payable to the sole shareholder, the Corporation of the City of London, to be paid by the end of 2021.

London Hydro

111 Horton St., London ON
Canada N6A 4H6
(519) 661-5503

www.londonhydro.com

Powering London.
Empowering You.