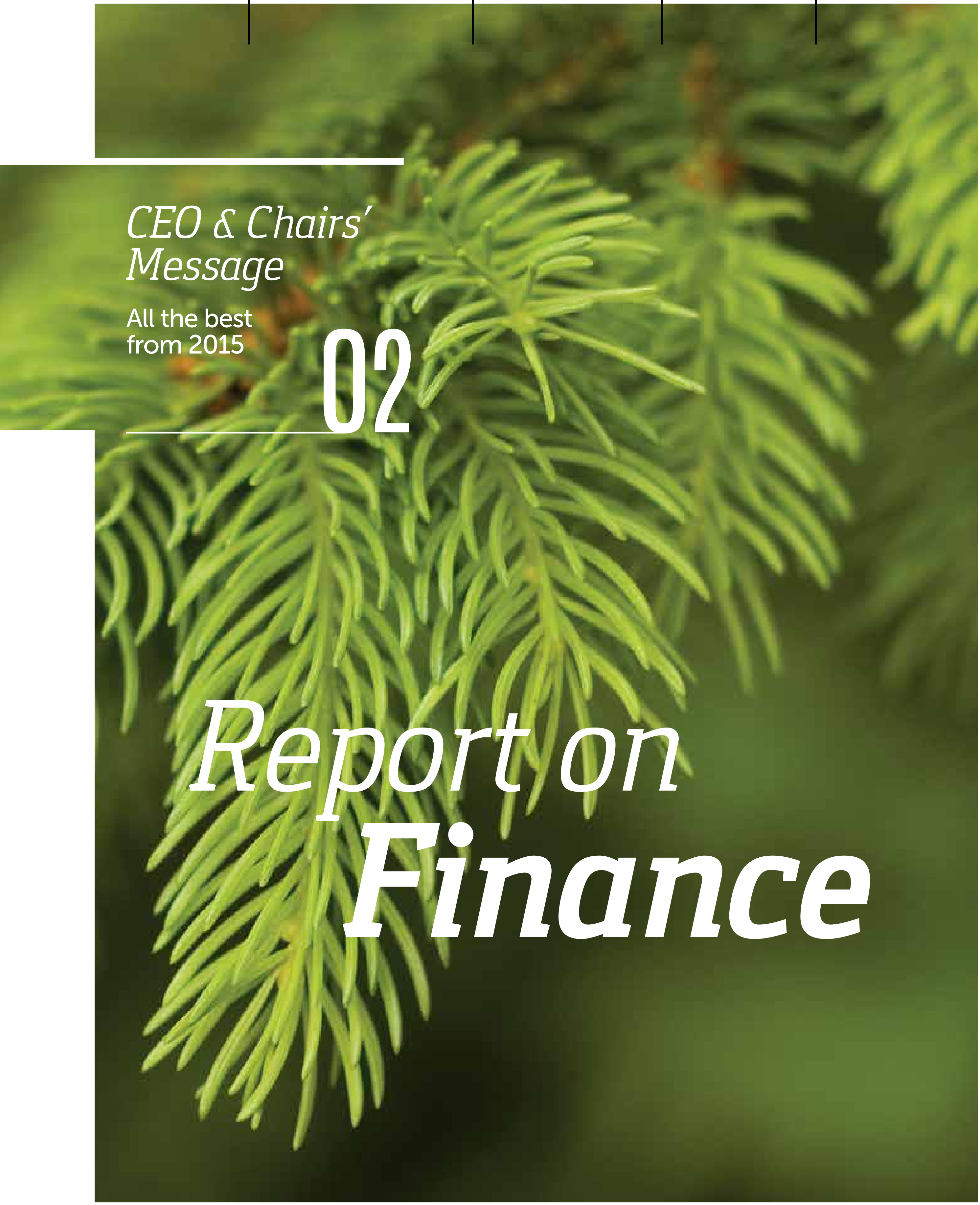


CEO & Chairs' Message

All the best from 2015

02

Report on Finance

CEO *and* ***Chairs'*** *Message:*

The advent of new technologies, customer expectations of on-demand services and new service delivery models confer disruption and new opportunities alike to the century old business of electricity distribution. The future business paradigm for the industry could hold many possibilities; however, the passion of innovation and strategic positioning has brought opportunities to London Hydro. Over the past several years we have been carefully authoring a story of innovation and community leadership at London Hydro. 2015 was a landmark year for deploying many innovative solutions to our customers.

These well recognized and awarded efforts are a testament to London Hydro's strategic differentiation, positioning and readiness for the future. These efforts have culminated in global and national recognition with London Hydro winning several national and international awards for many of our customer-centric solutions, environmental stewardship and customer satisfaction. Our leadership and innovation spans all functions of distributing electricity: customer services, employee services, outage management, reliability reporting, smart Apps, and Twitter feeds.

As a champion of public and employee safety, London Hydro has been innovative in adopting new, safe practices and work protection code. "***Safety Starts with ME***" has been the core recognition of our safe practices and in 2015, we are all proud of reaching a major safety milestone of one million person hours without a lost time injury. This is a significant achievement and it is the first time this milestone has been reached in the company's 100 year history.

We celebrate 2015 as a year of the beginning of innovation in technology, service to our customers as well as in developing a strong corporate safety culture. The level of innovation and the quality of service, our core pillars, elevates the corporate performance and enhances our competencies to ensure success in our financial performance as well.

1,000,000 HOURS Without a lost time injury

Board Members

Ken Walsh - *Chief Engineer & VP Operations*
David Arnold - *Chief Financial Officer VP Finance & Corporate Secretary*
Elizabeth Carswell - *Senior Director HR*
Vinay Sharma - *Chief Executive Officer*
Syed Mir - *CIO & VP Corporate Services*
Connie Graham - *Board Member*
Marilyn Sinclair - *Board Member*
Mohan Mathur - *Chair*
Gabe Valente - *Board Member*
Michael van Holst - *City Councillor, Board Member*
Peter Johnson - *Board Member*
Bernard Borschke - *Vice-Chair*

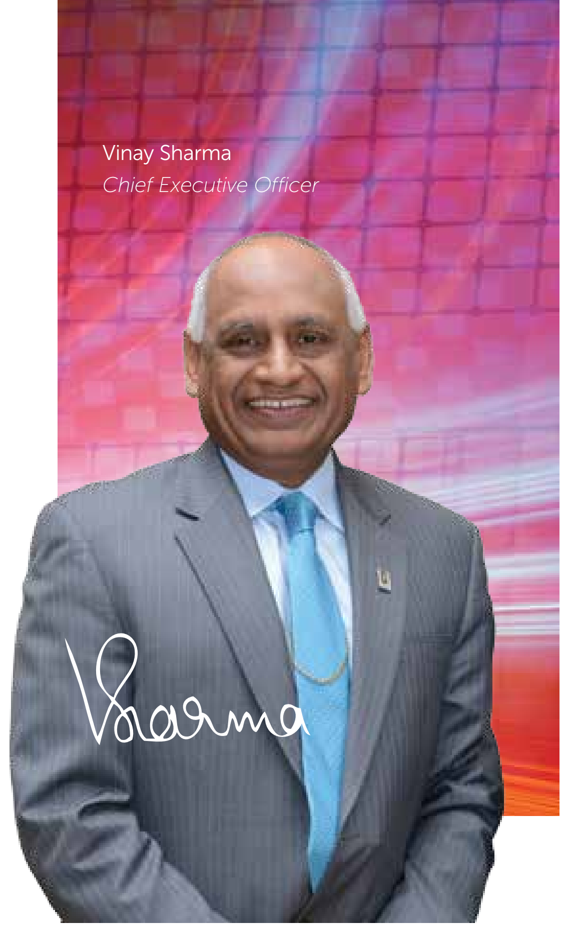
Financial Performance

Earnings for 2015 are $10.2 million resulting in an average Return on Shareholder Equity of 6.8%; however, this includes an unrealized loss of $3.2 million on an interest swap arrangement for a bank loan. Excluding this unrealized loss, the Net Income for 2015 is $13.4 million providing an average Return on Equity of 8.9%. In concert, our rate base grew by $11 million from $282 million in 2014 to $293 million in 2015 reflecting strong corporate growth. In a performance benchmark review by the Ontario Energy Board, London Hydro is ranked as one of the most efficient utilities with costs among the lowest and performance among the best. Furthermore, London Hydro's historical costs and rates to customers have increased at a rate much lower than the Ontario average. Prudent cost and cash management has enabled London Hydro to declare a special dividend of $5 million in addition to the annual dividend of $5 million payable to the City. Additionally, London Hydro has maintained a steady investment of $31 million in capital assets and yet maintained a strong balance sheet with 41% leverage and an A/stable credit rating.

Customer Solutions

London Hydro introduced innovative solutions for our customers, from a loyalty program to new Apps for customers and employees alike. Our customer loyalty program of awarding Aeroplan® Miles is unique among utilities and perhaps is the only utility program in North America. In partnership with Aeroplan, we reward our customers with benefits for using our online, self-service customer service tools from bill payment, to signing up for services as well as managing their energy consumption. MyLondonHydro is an award winning online tool with many innovative features such as "Delegate" wherein a customer can delegate authority to a third party to manage their service – this unique feature provides additional convenience for our customers. Another award winning innovation in 2015 is our Property Management Portal which assists property owners and managers to manage all of their rental properties effectively and efficiently, this new design is a significant update to our previous version.

In 2015, London Hydro developed and launched many smart Apps for commercial customers such as Event Assist for arenas and sports facilities to manage their utilities; this tool helps arenas analyze and forecast the costs associated with events. Our smart Apps are also helping the Thames Valley District School Board, Western University as well as other industrial customers in analyzing and managing their utility usage and costs. These Apps, including MyLondonHydro, run uniformly across all platforms from iPad to laptop to smart phone. Proof of these innovations is in the pudding and it is tremendously satisfying to receive customer validation of our services, some examples of customers' testimonials:



Thank you as always... I am always proud to tell my Energy colleagues that Western has the best LDC in the Province

PAUL MARTIN, Director
Business Operations,
Western Universtiy

...enables our School Board to view the electricity usage data for over 150 schools across seven LDCs. This service saves time and money...

MICHAEL COLQUHOUN,
Energy Management Coordinator,
Thames Valley District School Board

In 2015, we strengthened our commitment to the Housing Stability Bank by increasing our funding **33%**

Looking Forward

London Hydro's technological innovation and accomplishments in 2015 are a strategic foundation for future success; and, of course, this achievement is driven by the extraordinary people that work at London Hydro. With a corporate culture that respects employees and a safety culture that empowers employees, London Hydro can only look forward to many successes in the future. Our pride in our employees is rooted in their dedication and commitment to constantly live out London Hydro's Mission and Vision.

London Hydro is a valuable corporation and is committed to the community of London. In 2015, we strengthened our commitment to the Housing Stability Bank by increasing our funding by 33% from $150,000 to $200,000 per year. As a local employer, we also hired 15 new full-time, 6 apprentices and 25 co-op/summer employees in 2015. With disruption on the way and innovation as our strategic focus, the challenges will be abound in the future. London Hydro remains mindful of these challenges and will continue to evolve and adopt through our agile workforce of 300+ employees, while respecting the Shareholder's goals and objectives. The accompanying financial statements for the period ending December 31, 2015, are an expression of the outstanding performance of London Hydro, its Board of Directors and its employees. Equally important are our customers and stakeholders who in their own way contribute to London Hydro's success.

We thank one and all.

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London, ON N6A 5P2
Canada

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Fax (519) 672-5684
Internet www.kpmg.ca

INDEPENDENT AUDITORS' REPORT

To the Shareholder of London Hydro Inc.

We have audited the accompanying financial statements of London Hydro Inc. (the "Entity"), which comprise the statements of financial position as at December 31, 2015, December 31, 2014 and January 1, 2014, the statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2015, and December 31, 2014, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

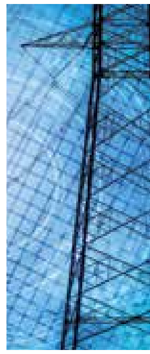
In our opinion, the financial statements present fairly, in all material respects, the financial position of London Hydro Inc. as at December 31, 2015, December 31, 2014 and January 1, 2014, and its financial performance and its cash flows for the years ended December 31, 2015, and December 31, 2014 in accordance with International Financial Reporting Standards.

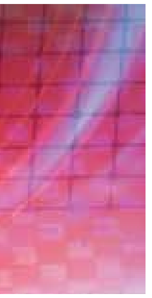
KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

April 19, 2016

London, Canada





London Hydro Inc.
Statements of Financial Position

December 31, 2015, with comparative amounts at January 1, 2014 and December 31, 2014
(*in thousands of dollars*)

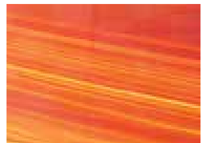
ASSETS				
Current assets				
Cash	5	$ 6,429	$ 6,208	$ -
Accounts receivable	6	70,495	72,432	72,294
Income tax receivable		416	-	80
Materials and supplies	7	749	655	731
Prepaid expenses		1,826	1,569	1,456
Total current assets		79,915	80,864	74,561
Non-current assets				
Property, plant and equipment	8	250,739	235,287	224,482
Intangible assets	9	16,648	15,101	16,237
Deferred tax assets	10	740	1,299	2,157
Total non-current assets		268,127	251,687	242,876
Total assets		348,042	332,551	317,437
Regulatory balances	11	2,896	6,584	2,311
Total assets and regulatory balances		$ 350,938	$ 339,135	$ 319,748
LIABILITIES				
Current liabilities				
Bank indebtedness	5	$ -	$ -	$ 3,012
Accounts payable and accrued liabilities	12	53,551	53,229	52,636
Due to shareholder	21	7,428	6,943	6,276
Income tax payable		-	1,398	-
Current portion of long-term debt	14	7,304	2,304	2,304
Customer and other deposits		594	691	714
Deferred revenue	13	1,192	1,482	1,277
Total current liabilities		70,069	66,047	66,219
Non-current liabilities				
Long-term debt	14,23	91,130	93,434	10,738
Post-employment benefits	15	13,845	13,749	12,989
Customer and other deposits		5,663	5,218	5,166
Deferred revenue	13	12,950	8,934	6,229
Unrealized loss on interest rate swap	14,23	5,935	2,778	199
Due to related party	21	-	-	70,000
Total non-current liabilities		129,523	124,113	105,321
Total liabilities		199,592	190,160	171,540
Equity				
Share capital	16	96,116	96,116	96,116
Retained earnings		52,784	52,609	43,075
Accumulated other comprehensive loss		(292)	(471)	-
Total equity		148,608	148,254	139,191
Total liabilities and equity		348,200	338,414	310,731
Regulatory balances	11	2,738	721	9,017
Total liabilities, equity and regulatory balances		$ 350,938	$ 339,135	$ 319,748

Commitments and contingencies (Note 20), Subsequent event (Note 24)

Director

Director

The accompanying notes are an integral part of these financial statements.



London Hydro Inc.
Statements of Comprehensive Income

For the year ended December 31, 2015, with comparative amounts for 2014
(*in thousands of dollars*)

	Note	2015	2014
Revenues			
Sale of energy		$ 387,820	$ 352,208
Distribution revenue		64,042	63,662
Other	17	9,920	13,373
		461,782	429,243
Operating expenses			
Cost of power purchased		379,937	363,384
Operating expenses	18	39,206	37,146
Depreciation and amortization		17,755	17,569
		436,898	418,099
Income from operating activities		24,884	11,144
Finance (income) / expense			
Finance income	19	(101)	(69)
Finance expenses	19	5,898	7,303
		5,797	7,234
Income before income taxes		19,087	3,910
Income tax expense	10	3,160	4,070
Net income / (loss) for the year		15,927	(160)
Net movement in regulatory balances, net of tax	11	(5,752)	12,694
Net income for year and net movement in regulatory balances		10,175	12,534
Other comprehensive income			
Items that will not be reclassified to profit or loss:			
Remeasurements of post-employment benefits		179	(471)
Tax on remeasurements	10	(47)	125
Net movement in regulatory balances, net of tax	11	47	(125)
Other comprehensive income / (loss) for the year		179	(471)
Total comprehensive income for the year		$ 10,354	$ 12,063

The accompanying notes are an integral part of these financial statements.

London Hydro Inc.
Statements of Changes in Equity

December 31, 2015, with comparative amounts at January 1, 2014 and December 31, 2014
(*in thousands of dollars*)

	Note	Share Capital	Retained Earnings	Accumulated other comprehensive income / (loss)	Total
Balance at January 1, 2014		$ 96,116	$ 43,075	$ -	$ 139,191
Net income and net movement in regulatory balances		-	12,534	-	12,534
Other comprehensive income (loss)		-	-	(471)	(471)
Dividends	16	-	(3,000)	-	(3,000)
Balance at December 31, 2014		$ 96,116	$ 52,609	$ (471)	$ 148,254
Balance at January 1, 2015		$ 96,116	$ 52,609	$ (471)	$ 148,254
Net income and net movement in regulatory balances		-	10,175	-	10,175
Other comprehensive income		-	-	179	179
Dividends	16	-	(10,000)	-	(10,000)
Balance at December 31, 2015		$ 96,116	$ 52,784	$ (292)	$ 148,608

The accompanying notes are an integral part of these financial statements.

London Hydro Inc.
Statements of Cash Flows

For the year ended December 31, 2015, with comparative amounts for 2014
(*in thousands of dollars*)

	Note	2015	2014
Operating activities			
Net income and net movement in regulatory balances		$ 10,175	$ 12,534
Adjustments for:			
Depreciation and amortization	8,9	17,755	17,569
Amortization of deferred revenue	17	(79)	(21)
Post-employment benefits	15	275	289
Gain on disposal of property, plant and equipment	17	(162)	(172)
Net finance expenses	19	5,797	7,234
Income tax expense	10	3,160	4,070
		36,921	41,503
Change in non-cash working capital:			
Accounts receivable		1,937	(138)
Materials and supplies		(94)	76
Prepaid expenses		(257)	(113)
Accounts payable and accrued liabilities		322	593
Due to / from shareholder		485	667
Customer deposits		348	29
		2,741	1,114
Other:			
Regulatory balances	11	5,752	(12,694)
Income tax paid		(4,639)	(1,900)
Income tax received		177	291
Interest paid		(2,741)	(4,724)
Interest received		101	69
		(1,350)	(18,958)
Net cash from operating activities		38,312	23,659
Investing activities			
Purchase of property, plant and equipment	8	(28,099)	(23,108)
Purchase of intangible assets	9	(6,655)	(4,153)
Proceeds on disposal of property, plant, equipment and intangible assets		162	195
Contributions received from customers		3,805	2,931
Net cash from investing activities		(30,787)	(24,135)
Financing activities			
Dividends paid	16	(10,000)	(3,000)
Proceeds from long-term debt	14	5,000	85,000
Repayment of long-term debt	14	(2,304)	(2,304)
Repayment of promissory note due to related party	21	-	(70,000)
Net cash from financing activities		(7,304)	9,696
Change in cash		221	9,220
Cash (bank indebtedness), beginning of year		6,208	(3,012)
Cash, end of year		$ 6,429	$ 6,208

The accompanying notes are an integral part of these financial statements.

London Hydro Inc.
Notes to the Financial Statements
(*in thousands of dollars*)

For the year ended December 31, 2015 and 2014

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) Adoption of IFRS

These are the Company's first financial statements prepared in accordance with IFRS and IFRS 1 *First-time Adoption of International Financial Reporting Standards* has been applied. An explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of the Company is provided in note 25.

The financial statements were approved by the Board of Directors on April 19, 2016.

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.

London Hydro Inc.
Notes to the Financial Statements
(*in thousands of dollars*)

For the year ended December 31, 2015 and 2014

2. Basis of presentation (continued)

e) Use of estimates and judgments (continued)

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.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in material adjustment is included in the following notes:

(i) 3(b) – measurement of unbilled revenue
(ii) 3(d), 3(e), 8, 9 – estimation of useful lives of its property, plant and equipment and intangible assets
(iii) 11 – recognition and measurement of regulatory balances
(iv) 15 – measurement of defined benefit obligations: key actuarial assumptions
(v) 20 – recognition and measurement of provisions and contingencies

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 is 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").

Rate setting

Distribution revenue

For the distribution revenue, the Company files a "Cost of Service" ("COS") rate application with the OEB every four years 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 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 this review, including any revisions resulting from that review.

London Hydro Inc.
Notes to the Financial Statements
(*in thousands of dollars*)
For the year ended December 31, 2015 and 2014

2. Basis of presentation (continued)

f) Rate Regulation (continued)

Rate setting - *Distribution revenue (continued)*

In the intervening years an Incentive Rate Mechanism ("IRM") 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.

The Company last filed a COS application in September 2012 for rates effective May 1, 2013 to April 30, 2017. The GDP IPI-FDD for 2015 is 1.6%, the OEB applied productivity factor is 0.0% and the OEB determined stretch factor is (0.15)%, resulting in a net adjustment of 1.45% to the previous year's rates.

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.

London Hydro Inc.
Notes to the Financial Statements
(*in thousands of dollars*)
For the year ended December 31, 2015 and 2014

3. Significant accounting policies

The accounting policies set out below have been applied consistently in all years presented in these financial statements and in preparing the opening IFRS statement of financial position at January 1, 2014, for the purpose of the transition to IFRS.

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 profit and loss as incurred as finance expenses. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are recognized in profit or loss.

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

b) Revenue recognition

Sale and distribution of electricity

Revenue from the sale and distribution of electricity is recognized as the electricity is delivered to customers on the basis of cyclical meter readings and estimated customer usage since the last meter reading date to the end of the period. Revenue includes the cost of 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 are recorded on a net basis as the Company is acting as an agent for this billing stream.

London Hydro Inc.
Notes to the Financial Statements
(*in thousands of dollars*)
For the year ended December 31, 2015 and 2014

3. Significant accounting policies (continued)

b) Revenue recognition (continued)

Other revenue

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

Certain customers and developers are required to contribute towards the capital cost of construction of distribution assets in order to provide ongoing service. Cash contributions are recorded as deferred revenue. Where an asset other than cash is received as a capital contribution, the asset is initially recognized at its fair value, with a corresponding amount recognized as deferred revenue. The deferred revenue, which represents the Company's obligation to continue to provide the customers access to the supply of electricity, is amortized to income on a straight-line basis over the useful life of the related asset.

Government grants and the related performance incentive payments under Conservation Demand Management ("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.

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 established on the transition date (see note 25 b) ii), 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.

London Hydro Inc.
Notes to the Financial Statements
(*in thousands of dollars*)
For the year ended December 31, 2015 and 2014

3. Significant accounting policies (continued)

d) Property, plant and equipment (continued)

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.

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 profit or loss. The costs of the day-to-day servicing of PP&E are recognized in profit or loss 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 profit or loss. 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
Distribution system and equipment	25 - 60
Building structures and components	12 - 75
Substation equipment	15 - 45
Metering devices	15 - 30
System supervisory equipment	8 - 35
Automotive equipment	8 - 12
Equipment, tools and furniture	5 - 8
Computer hardware	3
Renewable generation assets	20

London Hydro Inc.
Notes to the Financial Statements
(*in thousands of dollars*)
For the year ended December 31, 2015 and 2014

3. Significant accounting policies (continued)

e) Intangible assets

Intangible assets used in rate-regulated activities and acquired prior to January 1, 2014 are measured at deemed cost established on the transition date (see note 25 b) ii), less accumulated amortization. All other intangible assets are measured at cost.

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.

Computer software that is acquired or developed by the Company after January 1, 2014, including software that is not integral to the functionality of equipment purchased which has finite useful lives, is measured at cost less accumulated amortization.

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.

With the market opening in 2002, wholesale market participants, including the Company, were charged with the responsibility of upgrading all their wholesale meter points to "IESO" compliant standards. Since the Company does not hold title to these assets, these expenditures have been classified as intangible assets. Wholesale metering upgrades are measured at cost less accumulated amortization.

Intangible assets in progress consist of application software under development and capital contributions paid towards refurbishment of a transformer station that is not owned by the Company, which is scheduled to be energized during the year ending December 31, 2018.

Amortization is recognized in profit or loss 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
Computer software	3 - 5
Land rights	25
Wholesale metering	30

London Hydro Inc.
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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 profit or loss. An impairment loss is reversed through profit or loss if the reversal can be related objectively to an event occurring after the impairment loss was recognized.

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 profit or loss.

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.

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.

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3. Significant accounting policies (continued)

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 profit or loss 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 profit or loss 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 profit or loss 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 profit or loss 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 profit or loss or OCI.

London Hydro Inc.
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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 profit or loss 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 profit or loss.

London Hydro Inc.
Notes to the Financial Statements
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3. Significant accounting policies (continued)

k) Finance income and finance expenses

Finance income is recognized as it accrues in profit or loss. Finance income comprises interest earned on cash and cash equivalents.

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

l) Income taxes

The income tax expense comprises current and deferred tax. Income tax expense is recognized in profit or loss 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 are recognized for unused tax losses, unused tax credits and deductible 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.

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4. Standards issued but 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.

Annual Improvements to IFRS (2012-2014) cycle

On September 25, 2014 the IASB issued narrow-scope amendments to a total of four standards as part of its annual improvements process. The amendments will apply for annual periods beginning on or after January 1, 2016. Earlier application is permitted, in which case, the related consequential amendments to other IFRSs would also apply. Each of the amendments has its own specific transition requirements. Amendments were made to clarify the following in their respective standards:

- Changes in method for disposal under IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*;
- ‘Continuing involvement’ for servicing contracts and offsetting disclosures in condensed interim financial statements under IFRS 7 *Financial Instruments: Disclosures;*
- Discount rate in a regional market sharing the same currency under IAS 19 *Employee Benefits;*
- Disclosure of information ‘elsewhere in the interim financial report’ under IAS 34 *Interim Financial Reporting*;

The Company intends to adopt these amendments in its financial statements for the annual period beginning on January 1, 2016. The extent of the impact of adoption of the standard has not yet been determined.

IFRS 9 Financial Instruments

On July 24, 2014 the IASB issued the complete IFRS 9 (IFRS 9 (2014)). The mandatory effective date of IFRS 9 is for annual periods beginning on or after January 1, 2018 and must be applied retrospectively with some exemptions. Early adoption is permitted. The restatement of prior periods is not required and is only permitted if information is available without the use of hindsight.

IFRS 9 (2014) introduces new requirements for the classification and measurement of financial assets. Under IFRS 9 (2014), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows.

The standard introduces additional changes relating to financial liabilities. It also amends the impairment model by introducing a new ‘expected credit loss’ model for calculating impairment.

IFRS 9 (2014) also includes a new general hedge accounting standard which aligns hedge accounting more closely with risk management. This new standard does not fundamentally change the types of hedging relationships or the requirement to measure and recognize ineffectiveness, however it will provide more hedging strategies that are used for risk management to qualify for hedge accounting and introduce more judgment to assess the effectiveness of a hedging relationship.

Special transitional requirements have been set for the application of the new general hedging model.

The Company intends to adopt IFRS 9 (2014) in its financial statements for the annual period beginning on January 1, 2018. The extent of the impact of adoption of the standard has not yet been determined.

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Notes to the Financial Statements
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For the year ended December 31, 2015 and 2014

4. Standards issued not yet adopted (continued)

IFRS 15 Revenue from Contracts with Customers

On May 28, 2014 the IASB issued IFRS 15 *Revenue from Contracts with Customers*. The new standard is effective for annual periods beginning on or after January 1, 2018. Earlier application is permitted. IFRS 15 will replace IAS 11 *Construction Contracts*, IAS 18 *Revenue*, IFRIC 13 *Customer Loyalty Programmes*, IFRIC 15 *Agreements for the Construction of Real Estate*, IFRIC 18 *Transfer of Assets from Customers*, and SIC 31 *Revenue – Barter Transactions Involving Advertising Services*.

The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized.

The new standard applies to contracts with customers. It does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other IFRSs.

The Company intends to adopt IFRS 15 in its financial statements for the annual period beginning on January 1, 2018. The extent of the impact of adoption of the standard has not yet been determined.

IFRS 16 Leases

On January 13, 2016 the IASB issued IFRS 16 *Leases*.

The new standard is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted for entities that apply IFRS 15 *Revenue from Contracts with Customers* at or before the date of initial adoption of IFRS 16. IFRS 16 will replace IAS 17 *Leases*.

This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments.

This standard substantially carries forward the lessor accounting requirements of IAS 17, while requiring enhanced disclosures to be provided by lessors.

Other areas of the lease accounting model have been impacted, including the definition of a lease. Transitional provisions have been provided.

The Company intends to adopt IFRS 16 in its financial statements for the annual period beginning on January 1, 2019. The extent of the impact of adoption of the standard has not yet been determined.

London Hydro Inc.
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For the year ended December 31, 2015 and 2014

5. Cash and bank indebtedness

	December 31, 2015	December 31, 2014	January 1, 2014
Cash	$ 6,429	$ 6,208	$ -
Bank indebtedness	$ -	$ -	$ 3,012

6. Accounts receivable

	December 31, 2015	December 31, 2014	January 1, 2014
Trade receivables	$ 25,344	$ 33,188	$ 30,628
Unbilled revenue	42,085	35,980	39,731
Other	3,066	3,264	1,935
	$ 70,495	$ 72,432	$ 72,294

Included in accounts receivable is approximately $7.9 million (2014 - $7.7 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 $1.8 million (2014 - $1.7 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, 2015 was $0.1 million (2014 - nil).

London Hydro Inc.
Notes to the Financial Statements
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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, 2014	$ 12,532	$ 9,285	$ 177,376	$ 15,005	$ 10,284	224,482
Additions	1,123	273	19,698	2,112	(98)	23,108
Disposals / retirements	-	-	-	(25)	-	(25)
Balance at December 31, 2014	$ 13,655	$ 9,558	$ 197,074	$ 17,092	$ 10,186	$ 247,565
Balance at January 1, 2015	$ 13,655	$ 9,558	$ 197,074	$ 17,092	$ 10,186	$ 247,565
Additions	673	167	23,709	3,436	114	28,099
Disposals / retirements	(17)	-	(793)	(801)	-	(1,611)
Balance at December 31, 2015	$ 14,311	$ 9,725	$ 219,990	$ 19,727	$ 10,300	$ 274,053

b) Accumulated depreciation:

	Land and buildings	Distribution substation equipment	Other distribution equipment	Other fixed assets	Construction in progress	Total
Balance at January 1, 2014	$ -	$ -	$ -	$ -	$ -	$ -
Depreciation	904	273	8,551	2,552	-	12,280
Disposals / retirements	-	-	-	(2)	-	(2)
Balance at December 31, 2014	$ 904	$ 273	$ 8,551	$ 2,550	$ -	$ 12,278
Balance at January 1, 2015	$ 904	$ 273	$ 8,551	$ 2,550	$ -	$ 12,278
Depreciation	930	280	8,803	2,634	-	12,647
Disposals / retirements	(17)	-	(793)	(801)	-	(1,611)
Balance at December 31, 2015	$ 1,817	$ 553	$ 16,561	$ 4,383	$ -	$ 23,314

c) Carrying amounts:

Balance at	Land and buildings	Distribution substation equipment	Other distribution equipment	Other fixed assets	Construction in progress	Total
January 1, 2014	$ 12,532	$ 9,285	$ 177,376	$ 15,005	$ 10,284	$ 224,482
December 31, 2014	$ 12,751	$ 9,285	$ 188,523	$ 14,542	$ 10,186	$ 235,287
December 31, 2015	$ 12,494	$ 9,172	$ 203,429	$ 15,344	$ 10,300	$ 250,739

London Hydro Inc.
Notes to the Financial Statements
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9. Intangible assets

a) Cost or deemed cost:

	Land rights	Wholesale metering	Computer software	Intangible work in progress	Total
Balance at January 1, 2014	$ 185	$ 1,085	$ 14,217	$ 750	$ 16,237
Additions	17	-	4,428	(292)	4,153
Balance at December 31, 2014	$ 202	$ 1,085	$ 18,645	$ 458	$ 20,390
Balance at January 1, 2015	$ 202	$ 1,085	$ 18,645	$ 458	$ 20,390
Additions	31	-	5,071	1,553	6,655
Disposals / retirements	-	-	(2,004)	-	(2,004)
Balance at December 31, 2015	$ 233	$ 1,085	$ 21,712	$ 2,011	$ 25,041

b) Accumulated amortization:

	Land rights	Wholesale metering	Computer software	Intangible work in progress	Total
Balance at January 1, 2014	$ -	$ -	$ -	$ -	$ -
Amortization	17	43	5,229	-	5,289
Disposals / retirements	-	-	-		-
Balance at December 31, 2014	$ 17	$ 43	$ 5,229	$ -	$ 5,289
Balance at January 1, 2015	$ 17	$ 43	$ 5,229	$ -	$ 5,289
Amortization	18	43	5,047	-	5,108
Disposals / retirements	-	-	(2,004)	-	(2,004)
Balance at December 31, 2015	$ 35	$ 86	$ 8,272	$ -	$ 8,393

c) Carrying amounts:

Balance at	Land rights	Wholesale metering	Computer software	Intangible Work in Progress	Total
January 1, 2014	$ 185	$ 1,085	$ 14,217	$ 750	$ 16,237
December 31, 2014	$ 185	$ 1,042	$ 13,416	$ 458	$ 15,101
December 31, 2015	$ 198	$ 999	$ 13,440	$ 2,011	$ 16,648

During the year, borrowing costs of nil (2014 - nil) were capitalized as part of the cost of intangible assets. A capitalization rate of 2.55% (2014 - 0%) was used to determine the amount of borrowing costs to be capitalized.

London Hydro Inc.
Notes to the Financial Statements
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10. Income tax expense

Income tax expense is comprised of:

	2015	2014
Current income tax		
Current year	$ 2,789	$ 3,262
Adjustment for prior years	(140)	(175)
	2,649	3,087
Deferred tax		
Change in recognized deductible temporary differences:		
Loss on interest rate swap	(837)	(683)
Property, plant, equipment and intangible assets	1,479	1,756
Post-employment benefits	(73)	(76)
Deferred revenue	(58)	(14)
	511	983
Total current and deferred income tax in profit or loss, before before movement of regulatory balance	3,160	4,070
Other comprehensive income		
Post-employment benefits	47	(125)
Total current and deferred income tax, before movement of regulatory balances	3,207	3,945
Net movement in regulatory balances	(1,396)	(1,541)
Income tax expense recognized in Statement of Comprehensive Income	$ 1,811	$ 2,404

Reconciliation of effective tax rate:

	2015	2014
Income before taxes	$ 12,165	14,469
Canada and Ontario statutory income tax rates	26.5%	26.5%
Expected tax provision on income at statutory rates	3,224	3,834
Increase (decrease) in income taxes resulting from:		
Net movement in regulatory balances	(1,396)	(1,541)
Other items	(17)	111
	$ 1,811	$ 2,404

Significant components of the Company's deferred tax balances:

	December 31, 2015	December 31, 2014	January 1, 2014
Property, plant, equipment and intangible assets	$ (4,573)	$ (3,094)	$ (1,338)
Post-employment benefits	3,668	3,643	3,442
Deferred revenue	72	14	-
Future income taxes to be realized by customers	(833)	563	2,104
Loss on interest rate swap	1,573	736	53
	$ 740	$ 1,299	$ 2,157

London Hydro Inc.
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For the year ended December 31, 2015 and 2014

11. Regulatory balances

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

Regulatory deferral account debit balances	January 1, 2015	Additions	Recovery/ reversal	December 31, 2015	Remaining recovery/ reversal years
Group 1 deferred accounts	$ 5,295	$ (5,295)	$ -	$ -	
IFRS-CGAAP transitional PP&E recoveries	275	-	(118)	157	1.3
Regulatory settlement account	47	-	(47)	-	-
Other regulatory accounts	967	939	-	1,906	
Income tax	-	833	-	833	
	$ 6,584	$ (3,523)	$ (165)	$ 2,896	

Regulatory deferral account debit balances	January 1, 2014	Additions	Recovery/ reversal	December 31, 2014	Remaining years
Group 1 deferred accounts	$ -	$ 5,295	$ -	$ 5,295	
IFRS-CGAAP transitional PP&E recoveries	393	-	(118)	275	2.3
Regulatory settlement account	-	105	(58)	47	0.3
Other regulatory accounts	1,918	(951)	-	967	
	$ 2,311	$ 4,449	$ (176)	$ 6,584	

Regulatory deferral account credit balances	January 1, 2015	Additions	Recovery/ reversal	December 31, 2015	Reversal years
Group 1 deferred accounts	$ -	$ (2,577)	$ -	$ (2,577)	
Regulatory settlement account	-	-	-	-	-
Other regulatory accounts	(158)	(3)	-	(161)	
Income tax	(563)	563	-	-	
	$ (721)	$ (2,017)	$ -	$ (2,738)	

Regulatory deferral account credit balances	January 1, 2014	Additions	Recovery/ reversal	December 31, 2014	Remaining years
Group 1 deferred accounts	$ (2,929)	$ 2,929	$ -	$ -	
Regulatory settlement account	(3,830)	(17)	3,847	-	-
Other regulatory accounts	(154)	(4)	-	(158)	
Income tax	(2,104)	1,541	-	(563)	
	$ (9,017)	$ 4,449	$ 3,847	$ (721)	

London Hydro Inc.
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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. In the first quarter of 2015 the rate was 1.47% and for the balance of the year the rate was set at 1.10%.

a) Group 1 deferred accounts

The Group 1 deferred accounts consist of purchased power cost 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.

These variances were credit balances on January 1, 2014. Due to price fluctuations the accumulated variances became debit balances during 2014, then changed back to credit balances in 2015. The 2016 IRM rate application was submitted to the OEB on October 19, 2015, which includes a claim to recover the debit balances at December 31, 2014 via rate riders. The OEB issued its decision with respect to this Application which authorizes the recovery of these balances over a one-year period commencing May 1, 2016.

b) IFRS-CGAAP transitional PP&E recoveries

Compliant with OEB directives of the Accounting Procedures Handbook, the Company must use this account to record differences arising as a result of accounting policy changes caused by the transition from previous Canadian GAAP to Modified International Financial Reporting Standards ("MIFRS").

During 2012, the Company filed its 2013 Cost of Service Rate Application ("Application") which included a request for OEB approval for the recovery of certain authorized regulatory deferral accounts including these IFRS-CGAAP transitional PP&E differences. The OEB issued its decision with respect to this Application which authorizes amortization of the balance into rate base and revenue requirement amounts. Therefore, the approved distribution rates during the four year period commencing May 1, 2013, include the recovery of these IFRS-CGAAP Transitional PP&E account differences.

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Notes to the Financial Statements
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11. Regulatory balances (continued)

c) Regulatory settlement account

The regulatory settlement account with debit balance consists of the Lost Revenue Adjustment Mechanism Variance ("LRAMVA") approved for recovery by the OEB. During 2013, the Company filed its Incentive Regulation Mechanism ("IRM") rate application for the 2014 rate year. The OEB issued its decision with respect to this application which included a request for OEB approval for the recovery of LRAMVA for amounts as at December 31, 2012. The regulatory decision approved the recovery of these balances over a one-year period commencing May 1, 2014.

The regulatory settlement account with credit balance consists of purchased power cost variances captured in RSVAs approved for disposition by the OEB. Variances accumulated prior to January 1, 2011 are the amounts that were approved in 2012 for disposition effective May 1, 2012 through to April 30, 2014. During 2012, the Company filed its 2013 Cost of Service Rate Application which included a request for OEB approval for the disposition of the RSVA Power account and the RSVA Power-Global Adjustment sub accounts. These amounts accumulated between January 1, 2011 and December 31, 2012. The non-commodity RSVA amounts accumulated between January 1, 2011 and December 31, 2011. The OEB issued its decision with respect to this Application which authorizes the disposition of these balances over a one-year period commencing May 1, 2013.

d) Other regulatory accounts

Other regulatory debit balances include various deferred costs in connection with Green Energy programs, Lost Revenue Adjustment Mechanism Variances, Smart Metering Entity Charge Variances, IFRS transition expenditures, Retail Cost Variances and the residual balance of Stranded Meter costs previously approved for recovery by the OEB. Green Energy programs authorized by the OEB include renewable enabling improvements and investments towards smart grid. Costs incurred with respect to these various activities have been captured under deferral accounts for future rate recovery.

Other regulatory credit balances consist of amounts resulting from the implementation of the Harmonized Sales Tax.

e) 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.

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12. Accounts payable and accrued liabilities

	December 31, 2015	December 31, 2014	January 1, 2014
Due to Independent Electricity System Operator	$ 39,888	$ 41,193	$ 37,447
Debt retirement charge payable to OEFC	1,603	1,845	1,771
Harmonized sales tax	372	1,095	670
Payroll and benefits payable	2,264	2,006	1,747
Other	9,424	7,090	11,001
	$ 53,551	$ 53,229	$ 52,636

13. Deferred revenue

	December 31, 2015	December 31, 2014	January 1, 2014
Capital contributions for completed projects	$ 5,560	$ 1,849	$ -
Deposits held	8,582	8,567	7,506
	14,142	10,416	7,506
Less: Current portion	1,192	1,482	1,277
	$ 12,950	$ 8,934	$ 6,229

Included in deposits held is $3.8 million (2014 - $3.9 million) received from the Corporation of the City of London as contributions for the construction of capital assets.

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14. Long-term debt

	December 31, 2015	December 31, 2014	January 1, 2014
Unsecured, committed extendible revolving loan bearing interest at prime, minus 0.5%, interest only payments due March 2016	$ 5,000	$ -	$ -
Unsecured, non-revolving term instalment loan bearing interest at the 7.58 year Bankers' Acceptance rate of 2.46% plus a stamping fee of 0.19%, interest only payments due June 2022	85,000	85,000	-
Unsecured, non-revolving term instalment loan bearing interest at the 7.75 year Bankers' Acceptance rate of 2.43% plus a stamping fee of 0.9%, payable in monthly instalments of $192 principal plus interest due August 2019	8,434	10,738	13,042
	98,434	95,738	13,042
Less: Current portion	7,304	2,304	2,304
	$ 91,130	$ 93,434	$ 10,738

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 0.19%, for an all-in rate of 2.65%.

The Company has an interest rate swap agreement with the Royal Bank of Canada for an unsecured loan in the original amount of $20.5 million to fund its Smart Meter capital expenditure program. Principal repayments on this loan commenced October 2010 and are being amortized over a 9 year period ending August 2019. The agreement is a fixed rate swap and matures August 2019 which effectively converts variable interest rates on unsecured Bankers' Acceptances to an effective interest rate of 2.43%, plus a stamping fee of 0.9%, for an all-in rate of 3.33%.

The swap agreements entered into with Royal Bank of Canada 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, 2015 was $3.2 million (2014 - $2.6 million).

At December 31, 2015, the Company would be required to pay $5.9 million (2014 - $2.8 million) if it wished to cancel the swap agreements.

London Hydro Inc.
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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, 2015, the Company made employer contributions of $2.7 million to OMERS (2014 - $2.6 million), of which $0.7 million (2014 - $0.7 million) has been capitalized as part of PP&E and the remaining amount of $2.0 million (2014 - $1.9 million) has been recognized in operating expenses in the Statement of Comprehensive Income. The Corporation estimates that a contribution of $2.8 million to OMERS will be made during the next fiscal year.

As at December 31, 2015, OMERS had approximately 461,000 members, of whom 320 are employees of the Company. The most recently available OMERS annual report is for the year ended December 31, 2015, which reported that the plan was 91.5% funded, with an unfunded liability of $7.0 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. Based on the most recent actuarial valuation as at December 31, 2015, the following information has been determined:

Reconciliation of the obligation:

	December 31, 2015	December 31, 2014
Defined benefit obligation, beginning of year	$ 13,749	$ 12,989
Included in profit or loss:		
Current service costs	386	355
Interest cost	514	580
Other benefits	42	(75)
	942	860
Actuarial (gains) / losses included in OCI:		
Changes in demographic assumptions	-	(749)
Change in financial assumptions	(192)	1,233
Effect of experience adjustments	13	(13)
	(179)	471
Benefits paid	(667)	(571)
Defined benefit obligation, end of year	$ 13,845	$ 13,749

London Hydro Inc.
Notes to the Financial Statements
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15. Post-employment benefits (continued)

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

Actuarial assumptions:

	December 31, 2015	December 31, 2014
Discount (interest) rate	4.0%	3.9%
Salary levels	4.0%	4.0%
Immediate medical costs	6.1%	6.2%
Ultimate medical costs	4.5%	4.5%
Dental cost rate	4.5%	4.5%
Year ultimate rate reached	2028	2028

A 1% increase in the assumed discount rate would result in the defined benefit obligation decreasing by $2.0 million. A 1% decrease in the assumed discount rate would result in the defined benefits obligation increasing by $1.9 million.

16. Share capital

	December 31, 2015	December 31, 2014	January 1, 2014
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	$ 96,116

Dividends

The holders of the common shares are entitled to receive dividends as declared from time to time.

On March 31, 2015 the Board of Directors declared a $5.0 million annual dividend and a $5.0 million special dividend both payable to the sole shareholder, the Corporation of the City of London, in quarterly installments in 2015.

On March 26, 2014 the Board of Directors approved the payment of a dividend in the amount of $3.0 million paid in quarterly instalments in 2014.

London Hydro Inc.
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17. Other revenue

	2015	2014
City of London water services	$ 3,996	$ 3,904
Late payment charges	1,816	1,739
Collection charges	694	692
Occupancy charges	619	594
Customer billing service fees	586	592
Pole and other rental income	410	414
Other services, recoveries and sundry revenues	580	805
Income tax incentive credits	319	390
Renewable generation revenue	314	308
Sale of scrap	298	508
Gain on disposal of capital assets	162	172
Amortization of deferred revenue	79	21
Ontario Power Authority incentives	47	3,234
	$ 9,920	$ 13,373

18. Operating expenses

	2015	2014
Labour and benefits	$ 24,213	$ 23,428
Professional services	5,478	5,067
Office equipment services and maintenance	2,011	1,071
Rental, regulatory and other expenses	1,649	1,615
Facilities maintenance and repair	1,521	1,677
Postage	1,250	1,208
Corporate training and employee expenses	1,124	1,123
Property tax and insurance	1,095	1,137
Materials and supplies	983	951
Fleet operations and maintenance	952	917
Bad debts	650	700
Allocations to capital and billable activities	(1,720)	(1,748)
	$ 39,206	$ 37,146

London Hydro Inc.
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19. Finance (income) and expenses

	2015	2014
Finance income		
Interest income on bank deposits	$ (101)	$ (69)
Finance expenses		
Unrealized loss on interest rate swap	3,158	2,579
Related party promissory note	-	3,850
Interest on long-term debt	2,643	709
Interest on short-term debt	27	60
Other	70	105
	5,898	7,303
Net finance expense	$ 5,797	$ 7,234

20. 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, 2015, no assessments have been made.

London Hydro Inc.
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20. Commitments and contingencies (continued)

Letters of credit

At December 31, 2015, the Company had provided $6.6 million (2014 – $6.6 million) in bank standby letters of credit to the IESO.

Vendor commitments

The Company has commitments in connection with Information Systems projects of approximately $0.8 million (2014 - $0.7 million), Infrastructure projects of $5.3 million (2014 – $3.9 million) and new vehicle acquisitions of $0.5 million (2014 - $0.8 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:

	December 31 2015	December 31 2014	January 1, 2014
Less than one year	$ 303	$ 171	$ 155
Between one and five years	1,027	588	561
More than five years	193	232	271
	$ 1,523	**$ 991**	**$ 987**

Operating lease expense incurred during the year ended December 31, 2015 was of $0.3 million (2014 - $0.2 million).

London Hydro Inc.
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21. Related party transactions

a) Trade balances due to shareholder

	December 31, 2015	December 31, 2014	January 1, 2014
Water consumption	$ 6,746	$ 6,208	$ 6,315
Non-interest bearing trade balance due to (from) shareholder, without stated repayment terms	682	735	(39)
	$ 7,428	$ 6,943	$ 6,276

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 and customer care services.

During the year ended December 31, 2015, the Company billed customers for water service on behalf of the shareholder and remitted funds to the shareholder in the amount of $151.1 million (2014 – $143.0 million). The shareholder paid $3.9 million (2014 - $3.9 million) for this service.

b) Promissory note due to related party

	December 31, 2015	December 31, 2014	January 1, 2014
Unsecured promissory note, due to related party, bearing interest at 6% per annum, payable on demand with 367 days notice, maturing October 31, 2015	$ -	$ -	$ 70,000
	-	-	70,000
Less: Current portion	-	-	-
	$ -	$ -	$ 70,000

The Company repaid the promissory note to the Corporation of the City of London on November 28, 2014. The Company obtained funding in the amount of $85.0 million from the Royal Bank of Canada which was in place on the transfer date (note 14).

The Company paid interest on the promissory note during the year ended December 31, 2014 in the amount of $3.9 million.

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22. 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.

23. Financial instruments and risk management

Fair value disclosure

The carrying values of cash, accounts receivable, unbilled revenue, due from/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, 2015 is $95 million (2014 - $96 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, 2015 was 2.16% (2014 – 2.46%). The fair value of interest rate swaps is recorded based on valuation amounts as provided by RBC Capital Markets on a quarterly basis.

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.

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23. 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 profit and loss as bad debt expense. Subsequent recoveries of receivables previously provisioned are credited to profit and loss. The balance of the allowance for impairment loss at December 31, 2015 is $2.5 million (2014 - $2.3 million). Bad debt expense was $0.7 million (2014 - $0.7 million) during the year ended December 31, 2015.

At December 31, 2015, approximately $0.7 million (2014 - $0.6 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 Company's credit risk associated with accounts receivable is primarily related to payments from distribution customers. At December 31, 2015, approximately $2.0 million (2014 - $1.9 million) is considered 60 days past due. The Company has 154 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 18% of amounts billed to customers with the remaining 82% 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, 2015, the Company held deposits in the amount of $6.3 million (2014 - $5.9 million). Additionally, if presented with substantial credit losses, the Company would make an application to the regulator for recovery of those losses through distribution rate adjustments in future years.

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 in the interest rate at December 31, 2015 would have increased interest expense on the long-term debt by $ 0.1 million (2014 - nil), assuming all other variables remain constant. A 1% decrease in the interest rate would have an equal but opposite effect.

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23. Financial instruments and risk management (continued)

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 million with the Toronto Dominion Bank. At December 31, 2015, the amount drawn by the Company under this line of credit was nil (2014 - 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, 2015, the Company had a committed 364 day extendable operating revolving loan facility of $15 million with the Toronto Dominion Bank and the amount drawn by the Company under this loan facility was $5 million (2014 - nil). Under the terms of this agreement, the loan has a maturity date of March 31, 2016. The Company has a one year period from the loan maturity date to repay any outstanding balances in the event the lender elects not to extend the loan for an additional 364 day period. Interest is at bank prime rate on prime based borrowings minus 0.5%, or at B/A rates plus a 0.75% stamping fee on B/A based borrowings.

The Company also has a bilateral facility for $6.6 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 (2014 - nil).

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23. 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 Corporation's definition of capital includes shareholder's equity and long-term debt.

	December 31, 2015	December 31, 2014	January 1, 2014
Long-term debt	$ 98,434	$ 95,738	$ 13,042
Due to related party	-	-	70,000
Shareholder's equity	148,608	148,254	139,191
	$ 247,042	$ 243,992	$ 222,233

24. Subsequent event

On April 19, 2016, the Board of Directors declared a $5.0 million annual dividend and a $5.0 million special dividend both payable to the sole shareholder, the Corporation of the City of London, in quarterly installments in 2016.

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25. Explanation of transition to IFRS

As stated in note 2(b), these are the Company's first financial statements prepared in accordance with IFRS.

The accounting policies set out in note 3 have been applied in preparing the financial statements for the year ended December 31, 2015, the comparative information presented in these financial statements for the year ended December 31, 2014, and in the preparation of the opening IFRS Statement of Financial Position as at January 1, 2014 (the Company's date of transition).

In preparing its opening IFRS Statement of Financial Position, the Company has adjusted the amounts reported previously in the financial statements prepared in accordance with Canadian general accepted accounting principles ("CGAAP"). An explanation of how the transition from CGAAP to IFRS has affected the Company's financial position, financial performance and cash flows is set out in the following tables and the notes accompanying the tables.

a) Regulatory accounts

IFRS14: *Regulatory Deferral Accounts*, permits an entity to continue to account for regulatory deferral account balances in its financial statements in accordance with its previous CGAAP when it adopts IFRS. An entity is permitted to apply the requirements of this standard in its first IFRS financial statements if and only if it conducts rate-regulated activities and recognized amounts that qualify as regulatory deferral account balances in its financial statements in accordance with its previous CGAAP. This standard exempts an entity from applying paragraph 11 of IAS8: *Accounting policies, changes in accounting estimates and errors*, to its accounting policies for the recognition, measurement, impairment and derecognition of regulatory deferral account balances.

IFRS 14 is effective from periods beginning on or after January 1, 2016, however, early application is permitted. The Company has elected to apply this Standard in its first IFRS financial statements.

London Hydro Inc.
Notes to the Financial Statements
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25. Explanation of transition to IFRS (continued)

b) IFRS 1 Exemptions

IFRS 1 *First-time adoption of International Financial Reporting Standards* sets out the procedures that the Company must follow when it adopts IFRS for the first time as the basis for preparing its financial statements. The Company is required to establish its IFRS accounting policies as at December 31, 2015 and, in general, apply these retrospectively to determine the IFRS opening Statement of Financial osition as its date of transition, January 1, 2014. This standard provides a number of mandatory and optional exemptions to this general principle. These are set out below, together with a description in each case of the exemption adopted by the Company.

i. Transfer of assets from customers

IFRIC 18 - "Transfers of assets from customers" allows for the application of IFRIC 18 with respect to the recognition of capital contributions on the date of transition or earlier adoption is permitted. The Company has elected to apply IFRIC 18 effective January 1, 2014.

ii. Deemed cost

IFRS 1 provides an optional exemption for a first-time adopter with rate-regulated activities to use the carrying amount of PP&E and intangible assets as deemed cost on transition date when the carrying amount includes costs that do not quality for capitalization in accordance with IFRS. The Company elected this exemption and used the carrying amount of the PP&E and intangible assets under CGAAP as deemed cost on transition date. The carrying amount used as deemed cost is $224.5 million for PP&E and $16.2 million for intangible assets.

If an entity applies this exemption, at the date of transition to IFRS, it shall test for impairment each item for which this exemption is used. The assets were tested for impairment at the date of transition and it was determined that the assets were not impaired.

c) Reconciliations between Canadian GAAP and IFRS

In preparing its opening IFRS balance sheet as at January 1, 2014, the Company has adjusted amounts reported previously in financial statements prepared in accordance with CGAAP. An explanation of how the transition from CGAAP to IFRS has affected the Company's financial position and financial performance is set out in the following tables and the notes that accompany the tables.

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25. Explanation of transition to IFRS (continued)

Reconciliation of Statement of Financial Position and Statement of Changes in Equity

As at January 1, 2014	Note	CGAAP	Presentation differences	Measurement & recognition differences	IFRS
ASSETS					
Current assets					
Accounts receivable		$ 71,046	$ 1,248	$ -	$ 72,294
Income tax receivable		80			80
Materials and supplies		731			731
Prepaid expenses		1,456			1,456
Total current assets		73,313	1,248	-	74,561
Non-current assets					
Property, plant and equipment	a,b,c	240,693	(16,211)		224,482
Intangible assets	a,b,c	-	16,237		16,237
Deferred tax assets	g	2,463	(640)	334	2,157
Total non-current assets		243,156	(614)	334	242,876
Total assets		316,469	634	334	317,437
Regulatory balances	c	2,337	(26)		2,311
Total assets and regulatory balances		$ 318,806	$ 608	$ 334	$ 319,748
LIABILITIES					
Current liabilities					
Bank indebtedness		$ 3,012	$ -	$ -	$ 3,012
Accounts payable and accrued liabilities	d	51,450	1,186		52,636
Due to shareholder	d	6,577	(301)		6,276
Current portion of long-term debt		2,304			2,304
Customer and other deposits	d	1,626	(912)		714
Deferred revenue	d	-	1,277		1,277
Total current liabilities		64,969	1,250	-	66,219
Non-current liabilities					
Customer and other deposits	d	7,419	(2,253)		5,166
Long-term debt		10,738			10,738
Post-employment benefits	f	11,733		1,256	12,989
Deferred revenue	d	-	6,229		6,229
Unrealized loss on interest rate swap		199			199
Due to shareholder	d	3,976	(3,976)		-
Due to related party		70,000			70,000
Total non-current liabilities		104,065	-	1,256	105,321
Total liabilities		169,034	1,250	1,256	171,540
Equity					
Share capital		96,116			96,116
Retained earnings	f	44,331		(1,256)	43,075
Accumulated other comprehensive income (loss)		-			-
Total equity		140,447	-	(1,256)	139,191
Total liabilities and equity		309,481	1,250	-	310,731
Regulatory balances	g	9,325	(642)	334	9,017
Total liabilities, equity and regulatory balances		$ 318,806	$ 608	$ 334	$ 319,748

London Hydro Inc.
Notes to the Financial Statements
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25. Explanation of transition to IFRS (continued):

Reconciliation of Statement of Financial Position and Statement of Changes in Equity

As at December 31, 2014	Note	CGAAP	Presentation differences	Measurement & recognition differences	IFRS
ASSETS					
Current assets					
Cash and cash equivalents		$ 6,208	$ -	$ -	$ 6,208
Accounts receivable		71,122	1,310		72,432
Income tax receivable		-			-
Materials and supplies		655			655
Prepaid expenses		1,569			1,569
Total current assets		79,554	1,310	-	80,864
Non-current assets					
Property, plant and equipment	a,b,c,d	248,217	(12,930)		235,287
Intangible assets	a,b,c	-	15,101		15,101
Deferred tax assets	g	879	(39)	459	1,299
Total non-current assets		249,096	2,132	459	251,687
Total assets		328,650	3,442	459	332,551
Regulatory balances	c	7,235	(651)		6,584
Total assets and regulatory balances		$ 335,885	$ 2,791	$ 459	$ 339,135
LIABILITIES					
Current liabilities					
Accounts payable and accrued liabilities	d	$ 51,997	$ 1,232	$ -	$ 53,229
Due to shareholder	d	7,285	(342)		6,943
Income tax payable		1,352	46		1,398
Current portion of long-term debt		2,304			2,304
Customer and other deposits	d	1,728	(1,037)		691
Deferred revenue	d	-	1,482		1,482
Total current liabilities		64,666	1,381	-	66,047
Non-current liabilities					
Customer and other deposits	d	8,824	(3,606)		5,218
Long-term debt		93,434			93,434
Post-employment benefits	f	12,019		1,730	13,749
Deferred revenue	d	-	8,934		8,934
Unrealized loss on interest rate swap		2,778			2,778
Due to shareholder	d	3,549	(3,549)		-
Total non-current liabilities		120,604	1,779	1,730	124,113
Total liabilities		185,270	3,160	1,730	190,160
Equity					
Share capital		96,116			96,116
Retained earnings	f	53,868		(1,259)	52,609
Accumulated other comprehensive income (loss)	f	-		(471)	(471)
Total equity		149,984	-	(1,730)	148,254
Total liabilities and equity		335,254	3,160	-	338,414
Regulatory balances	g	631	(369)	459	721
Total liabilities, equity and regulatory balances		$ 335,885	$ 2,791	$ 459	$ 339,135

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Notes to the Financial Statements
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25. Explanation of transition to IFRS (continued)

Reconciliation of net income for 2014

For the year ended December 31, 2014	Note	CGAAP	Presentation differences	Measurement & recognition differences	IFRS
Revenue					
Sales of energy	i	$ 363,384	$ (11,176)	$ -	$ 352,208
Distribution revenue	j	63,367	295		63,662
Other	j	8,894	4,479		13,373
		435,645	(6,402)	-	429,243
Operating Expenses					
Cost of power purchased		363,384			363,384
Operating expenses	j	32,249	4,895	2	37,146
Depreciation and amortization	j	17,655	(86)		17,569
		413,288	4,809	2	418,099
Finance (income) / costs					
Finance income	j	-	(69)		(69)
Finance costs	j	7,417	(114)		7,303
		7,417	(183)	-	7,234
Income before income taxes		14,940	(11,028)	(2)	3,910
Income tax expense	j	2,403	1,666	1	4,070
Net income for the year		12,537	(12,694)	(3)	(160)
Net movement in regulatory balances, net of tax	i,j	-	12,694		12,694
Net income and net movement in regulatory balance		12,537	-	(3)	12,534
Other comprehensive income					
Remeasurement of post-employment benefits	f	-		(471)	(471)
Tax on remeasurements	g	-		125	125
Net movement in regulatory balances, net of tax		-		(125)	(125)
		-	-	(471)	(471)
Total comprehensive income for the year		$ 12,537	$ -	$ (474)	$ 12,063

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Notes to the Financial Statements
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25. Explanation of transition to IFRS (continued)

Notes to the reconciliations

The impact on deferred tax of the adjustments described below is set out in note (g).

a) The Company has elected under IFRS 1 to use the carrying value of items of property, plant and equipment and intangible assets as the deemed cost at the date of transition. Therefore, there has been no change to the net PP&E and intangible assets at January 1, 2014. The effect of this transitional adjustment is a decrease to the original cost and accumulated depreciation of the affected property, plant and equipment and intangible assets by $187.1 million and $187.1 million respectively, representing the CGAAP accumulated depreciation amount on January 1, 2014.

b) The Company has identified certain intangible assets that under CGAAP were recorded with other classes of property, plant and equipment. The Company has reclassified the identified intangible assets to be in accordance with *IAS 38 - Intangible Assets*.

   The effect is to increase intangible assets by $16.2 million on January 1, 2014 and $14.8 million on December 31, 2014, and to decrease property, plant and equipment by $16.2 million at January 1, 2014 and $14.8 million at December 31, 2014.

c) The Company has identified certain intangible assets that under CGAAP were recorded under Regulatory balances. The Company has reclassified the identified intangible assets to be in accordance with *IAS 38 - Intangible Assets*.

   The effect is to increase intangible assets by nil on January 1, 2014 and $0.3 million on December 31, 2014, and to decrease Regulatory balances by nil at January 1, 2014 and $0.3 million at December 31, 2014.

d) Under CGAAP, customer contributions were netted against the cost of property, plant and equipment and amortized to profit or loss as an offset to depreciation expense, on the same basis as the related assets. Under IFRS, customer contributions are recognized as deferred revenue, not netted against property, plant and equipment, and amortized into profit or loss over the life of the related asset.

   There is no impact to property, plant and equipment as at January 1, 2014 as the deemed cost exemption has been used (See Notes to the reconciliations (a)).

London Hydro Inc.
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25. Explanation of transition to IFRS (continued)

Notes to the reconciliations (continued)

In accordance with this change, deposits held for capital construction have also been reclassified to deferred revenue.

The reclassification of deposits held for construction at January 1, 2014 had the effect of increasing deferred revenue (current portion) by $1.3 million and decreasing accounts payable and accrued liabilities by $0.1 million, decreasing customer and other deposits by $0.9 million and decreasing due to shareholder by $0.3 million. Deferred revenue (long-term) increased by $6.2 million as a result of this change and decreased customer and other deposits by $2.2 million and due to shareholder by $4.0 million at January 1, 2014.

The reclassification of deposits held for construction at December 31, 2014 had the effect of increasing deferred revenue (current portion) by $1.5 million and increasing property, plant and equipment by $0.1 million, decreasing accounts payable and accrued liabilities by nil, decreasing customer and other deposits by $1.1 million and decreasing due to shareholder by $0.3 million. Deferred revenue (long-term) increased by $8.9 million as a result of this change and increased property, plant and equipment by $1.8 million, decreased customer and other deposits by $3.6 million and due to shareholder by $3.5 million at December 31, 2014.

e) IFRS requires that borrowing costs related to the construction of the qualifying assets be capitalized. The Company has applied IAS 23 to all qualifying assets that were in progress or commenced since January 1, 2014. No qualifying assets were identified and therefore no borrowing costs were capitalized for the year ended December 31, 2014.

f) The Company adopted the revised Employee Benefits standard effective January 1, 2014. This revised standard requires recognition of actuarial gains and losses through other comprehensive income. The effect is to increase the Company's Post-employment benefits liability by $1.3 million at January 1, 2014 and $1.7 million at December 31, 2014 and decrease retained earnings by $1.3 million at January 1, 2014 and December 31, 2014 and decrease accumulated other comprehensive income by $0.4 million at December 31, 2014. This also provided for an increase in employee future benefits expense of nil and an other comprehensive loss of $0.4 million for the year ended December 31, 2014.

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25. Explanation of transition to IFRS (continued)

Notes to the reconciliations (continued)

g) The above changes increased the deferred tax asset as follows:

	Total $	December 31, 2014 $	January 1, 2014 $
Post-employment benefits	1,730	474	1,256
Tax impact at the enacted rate of 26.5%	459	125	334
Increase in deferred tax asset	459	125	334
Increase in regulatory liability balances	(459)	(125)	(334)

h) Explanation of material adjustments to the statement of cash flows for 2014:

There are no material differences between the statement of cash flows presented under IFRS and the statement of cash flows presented under CGAAP.

i) As discussed under Basis of Preparation in connection with rate setting for electricity, rates are set based on either market prices or the OEB regulated amounts. The Company is billed for the cost of the electricity that its customers use and passes this cost directly on to the customer at cost without a mark-up. Under CGAAP, variances between the cost of purchased power and rates set and charged to customers flowed directly to the Statement of Financial Position as regulatory assets or liabilities. IFRS requires that these variances first be reported through profit and loss under net income for the period, and then be reclassified to the Statement of Financial Position as a movement in regulatory balances, net of tax.

j) As discussed under Basis of Preparation regarding distribution revenues, current rates are set based on forecasted annual operating expenditures included in the last Cost of Service Rate Application. Distribution revenues and expenditures not included in the last Cost of Service Rate Application as a result of timing or newly implemented programs are captured under regulatory balances. Under CGAAP, these deferral amounts flowed directly to the Statement of Financial Position. IFRS requires that these items first be reported through profit and loss under net income for the period, and then be reclassified to the Statement of Financial Position as a movement in regulatory balances, net of tax.

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