2019 LONDON HYDRO

REPORT ON FINANCE

DEAR STAKEHOLDERS,

As we write this letter, all of us find ourselves collectively engaged in navigating unchartered territory and uncertainty of the COVID-19 pandemic. The resulting health and economic challenges for our community and the world at large are truly overwhelming. London Hydro has met this crisis head-on; taking all necessary steps to ensure the health and safety of our employees and their families. Consistent with our long-standing commitment to supporting our greater London community, we have also stepped-up our efforts to provide ongoing support and assistance to all of our stakeholders. All of our employees, customers and community remain central in all of our planning and actions. We remain committed to ensuring the security of the electrical grid and the health and safety of our employees and our community. In the midst of all this, we continue to do business and accordingly, respectfully submit our 2019 Annual Report. The Report highlights London Hydro's financial performance and affirms a strong balance sheet, which would prove to be valuable in managing the challenges associated with the current COVID-19 pandemic.

2019 was another banner year for London Hydro as it continued its strategic journey of technological innovations. Initially, back in 2012 when we turned our focus to technology and innovation, it was challenging to establish the technology infrastructure foundation; but having done that, London Hydro can launch various value-added applications for our customers' convenience with relative speed and ease. Our Interval Data Centre (IDC) application (now called "Commerce") for commercial and industrial customers was renewed in 2019 by adding many rich features, which our customers really appreciate. These technological innovations and applications have led to increased customer satisfaction levels among all our users; residential, commercial, landlords, developers, and contractors alike. Our most recent customer satisfaction survey gave us a 95% satisfaction level among commercial and industrial customers and a 91% satisfaction level among residential customers.

These technologies also help London Hydro become more efficient in its operation and as such we have maintained our low cost position among Ontario utilities; accordingly, our rates for distribution services are also highly competitive. We have also launched an increasing number of applications and technology tools for added customer convenience. We are the first Ontario utility, and so far the only Ontario utility, to offer a credit card bill payment option at no additional cost to the payee. This credit card payment option has been a very successful service and has attracted a large number of customers.

Gabe Valente,
Chair

Vinay Sharma,
CEO

NEARLY

68,000

CUSTOMERS NOW MAKE USE OF PAPERLESS BILLING

As a strong "hometown" utility, we stay true to our culture of safety, high service reliability, and increased security of the electricity distribution system. In 2019, London Hydro invested $43 million into our electrical distribution network to increase contingency, security and automation as well as in IT innovation. The major focus of the capital expenditures was our new, beautiful, downtown flex street. London Hydro designed an innovative and flexible electricity distribution system, with significant back-up redundancies for this project, to ensure continuous service even in the case of any mechanical malfunction or interruption. Not to mention, a fully integrated and self-healing electricity distribution system for local businesses along the flex street.

London Hydro completed its budget plans for 2019 and achieved a 7% return on Shareholder Equity. London Hydro's Net Income in 2019 is $12 million on total revenue of about $448 million. London Hydro's rate base, made up of net asset base and working capital, increased to about $315 million, an annual increase of 6%. London Hydro's customer base is now 160,599 and its operating income is about $81.5 million. London Hydro purchased about $368 million worth of electricity and transmission services from the wholesale market on behalf of Londoners. Also, nearly 100,000 customers now use our online tools, smart applications and desktop applications to self-manage their energy needs and nearly 70,000 customers now make use of paperless billing.

In 2019 we welcomed a new Board member, Andy Hrymak, Provost of Western University. The continued success and achievements of London Hydro are recognition of the guidance and sound governance by a qualified and experienced Board of Directors. Equally noteworthy is the contribution of the sincere and dedicated 319 employees of London Hydro who continue to make London Hydro a great utility and a valued community asset.

London Hydro is a strong, valuable, community-owned utility with a very strong balance sheet. We continue to enjoy an A stable credit rating by Standard & Poor's with a debt-to-equity ratio of 47%. The story of dynamic growth in the city of London is also London Hydro's story. We are pleased to see the city grow at a greater rate of more than 2% and its local utility, London Hydro, remains strong and proactive to serve them with their electrical energy services.

Connie Graham
Vice Chair

Marilyn Sinclair
Board Member

Jack Smit
Board Member

Michael van Holst
Board Member

Guy Holborn
Board Member

Andy Hrymak
Board Member

David Arnold
CFO, VP Finance & Corporate Secretary

Syed Mir
CIO & VP Corporate Services

William Milroy
VP Engineering & Operations

Elizabeth Carswell
Senior Director HR

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis is of London Hydro's (also referred to as the Company) financial position, results from operations and cashflow. It should be read in conjunction with the Statement of Financial Position for the period ended December 31, 2019.

The results reported herein have been prepared in accordance with International Financial Reporting Standards (IFRS) and are expressed in Canadian dollars. As a rate-regulated entity, the Company has elected to adopt IFRS14 standard, which allows for reporting of certain transactions as regulatory assets and liabilities otherwise not allowed under the IFRS. Such transactions, and the resulting impacts, are described in notes 2, 3 and 11 to the Statement of Financial Position for the period ended December 31, 2019.

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

The Company Overview

London Hydro Inc. is a wholly-owned subsidiary of the Corporation of the City of London, established pursuant to Section 141 (1) of the Electricity Act, 1998 Ontario. The Company has been issued operating license ED-2002-0557 by the Ontario Energy Board (OEB) to distribute electricity within the service territory of the City of London. The Company owns and maintains a distribution grid to distribute electricity to about 160,599 residential and commercial customers in the City of London with a population base of approximately 405,000. As one of the larger electrical distribution companies, London Hydro Inc. employs 319 hardworking men and women who help deliver a highly reliable and safe distribution of electricity to its customers.

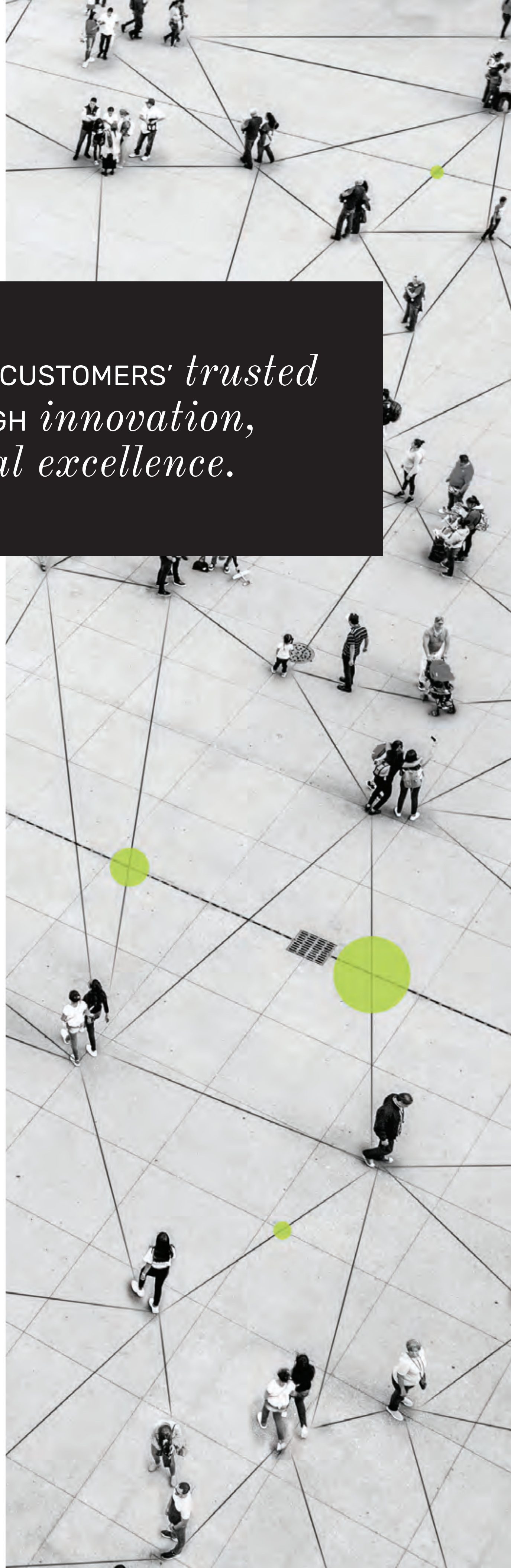
London Hydro procures electricity (MW) from the Independent Electricity System Operator (IESO) operated market. On an annual basis, London Hydro draws a peak demand of 657 MW during the summer season and about 513 MW during the winter season. London Hydro also procures wholesale market services from the IESO and transmission services from Hydro One at regulated prices. The price for electricity (MW) comprises the Hourly Ontario Energy Price (HOEP) and Global Adjustment. Also, the number of customers serviced by London Hydro grew by 1.0% from 2018 to 2019.

The Company's Purpose

TO PROVIDE *safe, reliable electricity* AND *energy* RELATED *value-added services* TO ITS CUSTOMERS.

The Company's Vision

LONDON HYDRO'S *vision* IS TO BE THE CUSTOMERS' *trusted energy service provider* THROUGH *innovation, customer focus* AND *operational excellence.*



Strategic Priorities

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

The Company also continues to advance the application of Green Button standards and technologies for managing and analysing customers' energy consumption data, customer care and customer billing. The OEB has granted special approval to the Company, pursuant to Section 71(4) of the amended OEB Act, to market its Green Button related technology to other Ontario utilities and customers. As such, the Company has achieved initial success in marketing Green Button related technologies and services to three hydro utilities and one water utility; however, a larger market opportunity is still awaited pending a regulatory requirement to deploy Green Button standards across the entire utility sector as expressed by the government in its 2017 Long-Term Energy Plan.

OPERATIONS OVERVIEW

The financial performance of the Company for fiscal 2019 is summarized in the following table. For the purpose of comparison to budgeted performance, and to provide an historical perspective, the Company's actual results are presented alongside the budgeted performance for fiscal 2019 and the performance for the year ending December 31, 2018.

YTD RESULTS FOR THE PERIOD ENDED

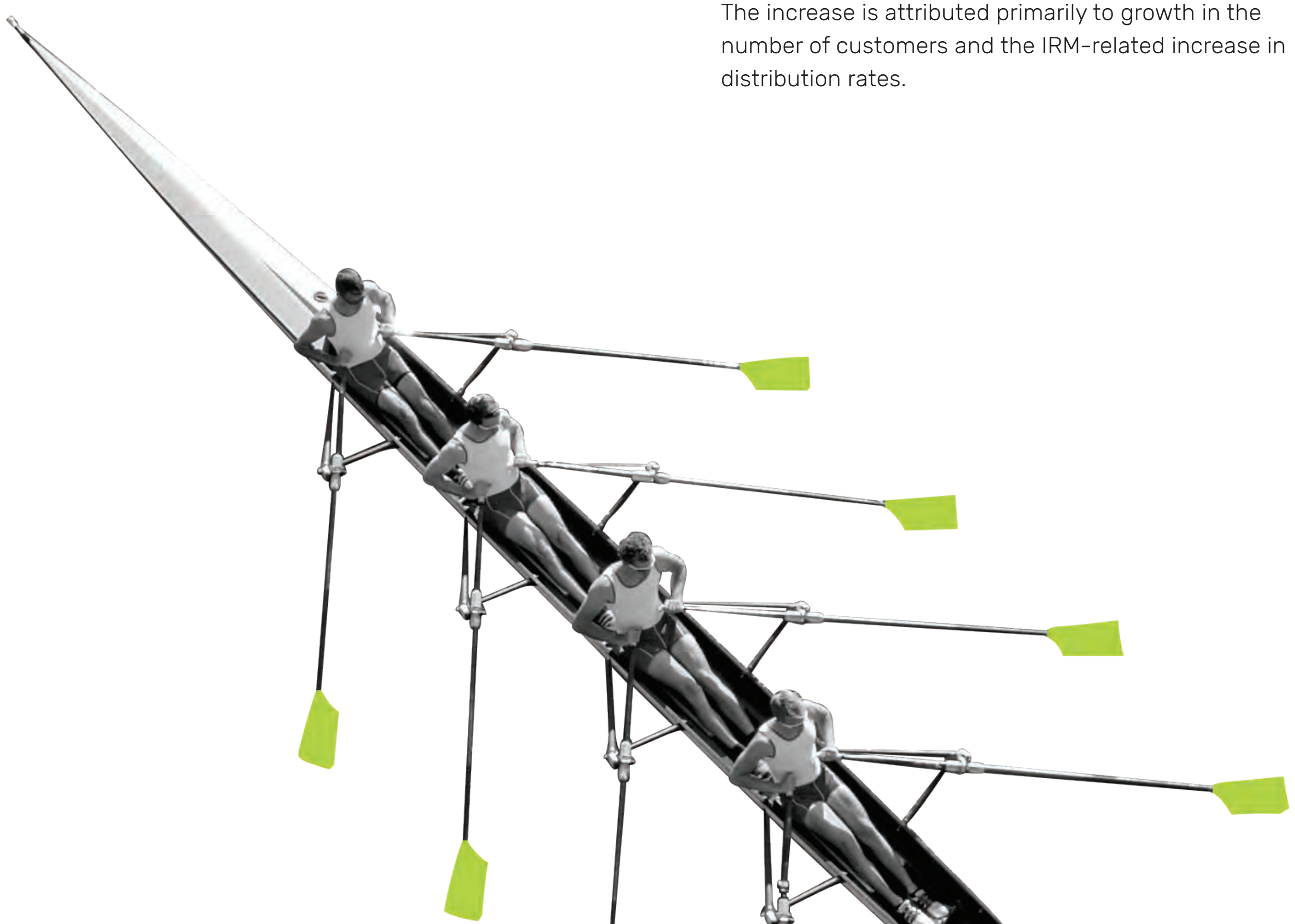
FINANCIAL HIGHLIGHTS	*ACTUAL* 31-Dec-19	*ACTUAL* 31-Dec-18	CHANGE	*PLAN* 31-Dec-19	% OF PLAN
Energy Distributed - Gigawatt Hrs	3,211.0	3,310.8	(99.8)	3,344.4	(4.0)%
(in thousands of $'s)					
Sale of Energy	$366,746	$342,046	$24,700	$369,288	(0.7)%
Distribution revenue	69,726	68,676	1,050	68,850	1.3%
Other revenue	11,778	13,121	(1,343)	10,958	7.5%
Cost of power	368,249	356,921	11,328	368,894	(0.2)%
Operating expenses	44,229	43,709	520	45,927	(3.7)%
Amortization expenses	20,180	19,168	1,012	19,909	1.4%
Net earnings before regulatory adjustments	7,906	(4,147)	12,053	9,408	(16.0)%
Regulatory adjustment	4,064	17,066	(13,002)	1,152	252.8%
Net earnings after regulatory adjustments	11,970	12,919	(949)	10,560	13.4%
Operating Expenses as a % of Distribution Revenue	63.4%	63.6%			
Annualized Return on Equity	7.0%	7.9%			
Energy distributed - gigawatt	3,211	3,310.8	(3.0)%		
Number of customers	160,599	159,040	1.0%		
(in thousands of $'s)					
Operating Cash flow	31,808	14,450			
Investing Cash flow	(38,120)	(37,504)			
Financing Cash flow	8,446	19,984			
Cash flow	2,134	(3,070)			
Cash - end of period	3,428	1,294			

Energy Quantities Distributed

Total energy distributed to our customers decreased from 3,310.8 gigawatt hours (GWh) in fiscal 2018 to 3,211.0 GWh in fiscal 2019, an overall reduction of 3.0%. This reduction in energy consumption can be primarily attributed to factors such as conservation and demand management programs as well as weather.

Distribution Revenues

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



Approximately 74% of annual revenues for fiscal 2019 are derived from a monthly fixed charge, as compared to 66% for fiscal 2018, while the remaining is derived on the basis of a volumetric rate for energy consumption (KWh) and power demand (KW). Beginning in 2016, fixed revenues represent a greater percentage of the distribution revenues from residential and small commercial customers as the OEB began moving towards 100% fixed charges for these customers. The complete change in rate structure was completed on May 1, 2019 and represents the most significant factor contributing to the increased percentage of fixed revenues in 2019 compared to 2018.

As of December 31, 2019, London Hydro served 160,599 customers compared to 159,040 as of December 31, 2018. While the number of customers increased, the composition of distribution revenue remained unchanged from 2018 to 2019 at 63% from residential customers, 33% from general service customers and 4% from large users and other customers.

Total distribution revenues for the year ending December 31, 2019 was $69.7 million. This represents an increase of $1 million or 1.5% when compared to December 31, 2018. The increase is attributed primarily to growth in the number of customers and the IRM-related increase in distribution rates.

Other Revenue

Other revenue earned by the Company decreased from $13.1 million in 2018 to $11.8 million in 2019. This reduction is from the absence of an incentive payment in 2019 as the government cancelled conservation and demand management programs, despite London Hydro's peerless achievements in delivering such programs. A similar performance in 2018 resulted in an extra $2 million for the Company.

In 2019, London Hydro provided external IT services of $0.6 million as compared to $0.3 million for the same services in 2018.

Cost of Service Rate Making Process

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

In the case where any amount of capital expenditures are denied, the Company would have a corresponding amount of impaired assets, which could result in a write-off and, thus, negatively impact annual net income. In the case where an increase in operating expenses is denied, the Company might not earn the required revenue to achieve the regulated net income. The Company's last cost of service was in 2017. The Company's next cost of service application will be for the year 2022. In the intervening periods from 2018 through 2021, London Hydro implements a rate adjustment as per the IRM rules aforementioned.

Operating Expenses and Amortization

Total operating expenses increased slightly to $44.2 million for fiscal 2019 from $43.7 million for fiscal 2018, representing an increase $0.5 million or 1.2% that is mostly the result of increased payroll costs.

Amortization expenses increased by $1.0 million from $19.2 million in 2018 to $20.2 million in 2019. This increase is the result of the Company's ongoing commitment to invest in its aging infrastructure and leading information technology to enhance the distribution grid and deliver increasing convenience to our customers.

In October 2017, the provincial government announced that all local distribution companies are banned from disconnecting residential customers due to non-payment between October and April each year. London Hydro has not had a significant change in bad debt expense related to this directive. The Company has been proactively monitoring its overdue accounts and has programs in place to offer customers flexibile payment options as needed.

Net Finance Costs

The Company's interest expense in 2019 increased to $5.0 million, compared to $4.1 million in 2018. This increase is the result of two factors.

First, the Company had a slightly higher than average debt balance compared to the previous year, which resulted in an increase of $0.9 million in interest expense. Second, the unrealized loss associated with the Company's swap agreements[i] was $0.4 million in 2019 as compared to a loss of $0.3 million in 2018. It should be noted that, these unrealized losses are adjustments reported for the purpose of the financial statements only and so long as the debt agreements are not cancelled early, these losses are not realized. Thus, excluding these adjustments related to the swap agreements, the real interest expense should be adjusted to $4.6 million for fiscal 2019 as compared to $3.7 million for fiscal 2018.

Once the unrealized gain/loss amounts are normalized, the difference in the net finance costs between 2018 and 2019 is reduced to $0.9 million as a result of the higher than average debt balance.

Income Tax Expense

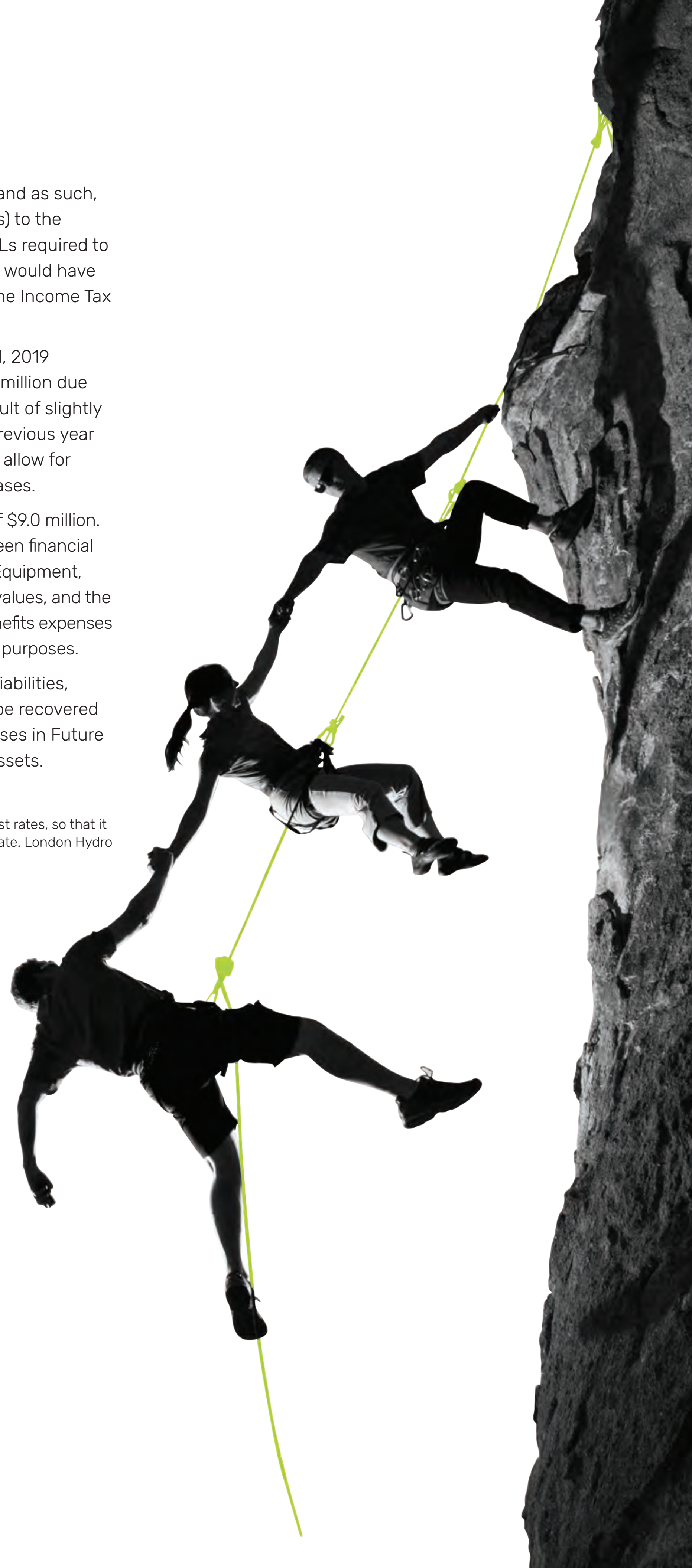
London Hydro is a private, taxable corporation and as such, is required to make payments in lieu of tax (PILs) to the Ontario Electricity Financial Corporation. The PILs required to be paid are equivalent to the income taxes that would have been paid if London Hydro was taxable under the Income Tax Act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

The PILs due for the period ended December 31, 2019 amounted to $2.8 million, as compared to $4.3 million due for the same 2018 period. The decrease is a result of slightly lower net income in 2019 as compared to the previous year as well as new tax rules enacted in 2019, which allow for accelerated amortization on new capital purchases.

London Hydro also has Deferred Tax Liabilities of $9.0 million. It represents the temporary net difference between financial reporting carrying amounts for Property, Plant, Equipment, and Intangibles, which are in excess of their tax values, and the deferred taxes receivable for employee future benefits expenses that have not yet been deducted for income tax purposes.

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

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



Regulatory Assets/Liabilities

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

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

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

As of December 31, 2019, the Company had regulatory assets of $21.0 million, as compared to $17.2 million at 2018 yearend. The increase of $3.8 million relates mostly to the increase in variance due to treatment of deferred taxes receivable.

The Company also had regulatory liabilities in the amount of $2.3 million as of December 31, 2019, compared to $2.1 million as of December 31, 2018. The $0.2 million increase is the result of the OEB's decision that the tax savings from accelerated amortization, in accordance with new tax rules as reported earlier, is to be paid back to the customers at a future time.

Accounting Changes

A new standard, "IFRS 16 – Leases", came into effect as of January 1, 2019, which requires all significant leases to be recorded on the financial statements as both an asset and lease obligation. These changes were to be retroactively applied to 2018.

London Hydro has one significant lease from the City of London, which has been recorded on the financial statements, pertaining to the land that the Company occupies. This accounting charge resulted in an initial right of use land asset of $2.3 million, and an offsetting lease obligation of the same amount. The annual impact to comprehensive income will be to reduce operating expenditures while, at the same time, increasing amortization expense and interest expense.

COVID-19

Subsequent to December 31, 2019, the COVID-19 outbreak was declared a pandemic by the World Health Organization. This has resulted in governments worldwide, including the Canadian and Ontario governments, enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused material disruption to businesses globally and in Ontario resulting in an economic slowdown. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions; however, the success of these interventions is not currently determinable. The current challenging economic climate may lead to adverse changes in cashflows, working capital levels and/or debt balances, which may also have a direct impact on the Company's operating results and financial position in the future. The situation is dynamic and the ultimate duration and magnitude of the impact on the economy and our business are not known at this time.

CAPITAL RESOURCES

London Hydro has four debt agreements that total $155.0 million as of December 31, 2019, as compared to $141.5 million as of December 31, 2018, as well as a letter of credit.

London Hydro has two formal swap agreements totaling $125.0 million. Also, the Company has an uncommitted revolving bank credit facility of $40.0 million, a committed 364-day extendable revolving bank loan facility of $30.0 million maturing on March 31, 2021, and $6.6 million in Standby Letters of Credit issued to the IESO as security. In the event that the maturity date of the committed bank loan facility is not extended, payment of this loan must be made within one year from the date of maturity.

As of December 31, 2019, London Hydro has drawn down $30.0 million, compared to $15.0 million as of December 31, 2018, on its committed loan facility. No amounts have been drawn on the uncommitted facility as at December 31 for either 2019 or 2018..

Dividend Policy

The Company's dividend policy provides for an annual dividend, subject to satisfactory cashflow. In accordance with that policy, a regular dividend was declared by the Board of Directors in the amount of $5.0 million on March 27, 2019, to be paid in quarterly installments during fiscal 2019.

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

Credit Rating

London Hydro maintains an "A/Stable" long-term corporate credit rating, which was reaffirmed by Standard & Poor's in May 2019. This rating is a reflection of the Company's low risk as a distribution company with regulated cash flows.

Liquidity and Cashflow

Cash generated from operating activities increased to $31.8 million as of December 31, 2019, as compared to $14.5 million as of December 31, 2018. Cashflows primarily relate to amounts of:

- $12.0 million from net income after regulatory adjustments,
- $20.2 million from amortization expenses,
- $3.4 million as a result of changes in non-cash working capital, and
- A decrease of $4.0 million from the repayment of regulatory balances.

Cash used in investing activities increased to $38.1 million as of December 31, 2019, as compared to the $37.5 million for 2018. Primarily, it represents the net purchase of capital assets and intangible assets.

As of December 31, 2019, cash generated from financing activities decreased to $8.5 million, as compared to $20.0 million in 2018, due to the proceeds of long-term debt in the amount of $15.0 million, repayment of debt, and dividend payments made to the shareholder.

The year-to-date change in cash is an increase of $2.1 million.

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INDEPENDENT AUDITORS' REPORT

To the Shareholder of London Hydro Inc.

Opinion

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

- the statement of financial position as at December 31, 2019
- the statement of comprehensive income for the year then ended
- the statement of changes in equity for the year then ended
- the statement of cash flows for the year then ended
- and notes to the financial statements, including a summary of significant accounting policies

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at December 31, 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

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

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

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

Emphasis of Matter

We draw attention to Note 3 (m) to the financial statements which indicates that the Entity has changed its accounting policy for leases, as a result of the adoption of IFRS 16, Leases, and has applied that change using the modified retrospective method.

Our opinion is not modified in respect of this matter.

Other Information

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

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

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

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

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

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

We have nothing to report in this.

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

We also:

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

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

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

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

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

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

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

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

London, Canada

March 31, 2020

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

December 31, 2019, with comparative amounts at December 31,2018

	Note		2019		2018
ASSETS					
Current assets					
Cash	5	$	3,428	$	1,294
Accounts receivable	6		71,369		74,985
Income tax receivable			1,171		-
Materials and supplies	7		418		617
Prepaid expenses			2,338		2,667
Total current assets			78,724		79,563
Non-current assets					
Property, plant and equipment	8		330,641		308,700
Intangible assets	9		23,514		22,836
Total non-current assets			354,155		331,536
Total assets			432,879		411,099
Regulatory balances	11		21,019		17,166
Total assets and regulatory balances		$	453,898	$	428,265
LIABILITIES					
Current liabilities					
Accounts payable and accrued liabilities	12	$	48,440	$	48,209
Due to shareholder	22		6,952		6,451
Income tax payable			-		2,197
Current portion of lease liability	16		33		32
Current portion of long-term debt	14		-		1,522
Current portion of customer and other deposits			1,082		2,415
Current portion of deferred revenue	13		2,771		2,336
Total current liabilities			59,278		63,162
Non-current liabilities					
Long-term debt	14,25		155,000		140,000
Post-employment benefits	15		15,535		13,895
Customer and other deposits			3,324		3,509
Deferred revenue	13		30,880		27,192
Deferred tax liability	10		8,982		5,590
Lease liability	16		2,223		2,256
Unrealized loss on interest rate swap	14,25		1,647		1,228
Total non-current liabilities			217,591		193,670
Total liabilities			276,869		256,832
Equity					
Share capital	17		96,116		96,116
Retained earnings			79,776		72,806
Accumulated other comprehensive (loss) income			(1,202)		380
Total equity			174,690		169,302
Total liabilities and equity			451,559		426,134
Regulatory balances	11		2,339		2,131
Commitments and contingencies (Note 23), Subsequent events (Note 26)					
Total liabilities, equity and regulatory balances		$	453,898	$	428,265

On behalf of the Board:

Director

Director

The accompanying notes are an integral part of these financial statements

For the year ended December 31, 2019, with comparative amounts for 2018

	Note		2019		2018
Revenues					
Electricity sales	18	$	366,746	$	342,046
Distribution revenue	18		69,726		68,676
Other	19		11,778		13,121
			448,250		423,843
Operating expenses					
Electricity purchased			368,249		356,921
Operating expenses	20		44,229		43,709
Depreciation and amortization	8,9		20,180		19,168
			432,658		419,798
Income from operating activities			15,592		4,045
Net finance expense	21		4,905		3,880
Income before income taxes			10,687		165
Income tax expense	10		2,781		4,312
Net income (loss) for the year			7,906		(4,147)
Movement of regulatory balances					
Net movement of regulatory balances			142		15,563
Income taxes			3,922		1,503
	11		4,064		17,066
Net income for year and net movement in regulatory balances			11,970		12,919
Other comprehensive (loss) income					
Items that will not be reclassified to profit or loss:					
Remeasurements of post-employment benefits	15		(1,582)		1,550
Tax on remeasurements	10		419		(411)
Net movement in regulatory balances, net of tax	11		(419)		411
Other comprehensive income			(1,582)		1,550
Total comprehensive income for the year		$	10,388	$	14,469

The accompanying notes are an integral part of these financial statements

London Hydro Inc. / Statement on Changes in Equity / IN THOUSANDS OF DOLLARS

For the year ended December 31, 2019, with comparative amounts for 2018

	Note	Share Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance at January 1, 2018		$ 96,116	$ 64,887	$ (1,170)	$ 159,833
Net income and net movement in regulatory balances		-	12,919	-	12,919
Other comprehensive income		-	-	1,550	1,550
Dividends	17	-	(5,000)	-	(5,000)
Balance at December 31, 2018		$ 96,116	$ 72,806	$ 380	$ 169,302
Balance at January 1, 2019		$ 96,116	$ 72,806	$ 380	$ 169,302
Net income and net movement in regulatory balances		-	11,970	-	11,970
Other comprehensive loss		-	-	(1,582)	(1,582)
Dividends	17	-	(5,000)	-	(5,000)
Balance at December 31, 2019		$ 96,116	$ 79,776	$ (1,202)	$ 174,690

The accompanying notes are an integral part of these financial statements

London Hydro Inc. / Statement of Cash Flows / IN THOUSANDS OF DOLLARS

For the year ended December 31, 2019, with comparative amounts for 2018

	Note	2019	2018
Operating activities			
Net income and net movement in regulatory balances		$ 11,970	$ 12,919
Adjustments for:			
Depreciation and amortization	8,9	20,180	19,168
Amortization of deferred revenue	19	(525)	(412)
Post-employment benefits	15	58	232
Gain on disposal of property, plant and equipment	19	(31)	(220)
Net finance expense	21	4,905	3,880
Income tax expense	10	2,781	4,312
		39,338	39,879
Change in non-cash working capital:			
Accounts receivable		3,616	62
Materials and supplies		199	30
Prepaid expenses		329	(206)
Accounts payable and accrued liabilities		231	(95)
Due to shareholder		501	(2,273)
Customer and other deposits		(1,518)	(904)
		3,358	(3,386)
Other:			
Regulatory balances	11	(4,064)	(17,066)
Income tax paid		(2,972)	(1,745)
Income tax received		634	307
Interest paid	21	(4,626)	(3,719)
Interest received	21	140	180
		(10,888)	(22,043)
Net cash from operating activities		31,808	14,450
Investing activities			
Purchase of property, plant and equipment	8	(37,000)	(36,262)
Purchase of intangible assets	9	(6,018)	(8,351)
Proceeds on disposal of property, plant and equipment		250	296
Contributions received from customers		4,648	6,813
Net cash used in investing activities		(38,120)	(37,504)
Financing activities			
Dividends paid	17	(5,000)	(5,000)
Proceeds from long-term debt	14	15,000	55,000
Lease liability	16	(32)	2,288
Repayment of long-term debt	14	(1,522)	(32,304)
Net cash from financing activities		8,446	19,984
Change in cash		2,134	(3,070)
Cash, beginning of year		1,294	4,364
Cash, end of year		$ 3,428	$ 1,294

The accompanying notes are an integral part of these financial statements

1. Reporting entity

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

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

2. Basis of presentation

a) Statement of compliance

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

b) Approval of financial statements

These financial statements were approved by the Board of Directors on March 31, 2020.

c) Basis of measurement

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

d) Functional and presentation currency

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

e) Use of estimates and judgments

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

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

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

2. Basis of presentation (continued)

e) Use of estimates and judgments (continued)

Critical accounting estimates and judgments for leases:

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

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

f) Rate regulation

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

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

2. Basis of presentation (continued)

f) Rate regulation (continued)

Rate setting

Distribution revenue

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

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

In August 2016, the Company filed a COS application which has been approved by the OEB. The rates approved in the application result in a decrease for the typical residential customer of $1.40 per month compared to the previous year's rates effective May 1, 2017. The GDP IPI-FDD for 2018 was 1.2%, the OEB applied productivity factor was 0.0% and the OEB determined stretch factor was (0.15)%, resulting in a net adjustment of 1.05% to the previous year's rates effective May 1, 2018. The GDP IPI-FDD for 2019 was 1.5%, the OEB applied productivity factor was 0.0% and the OEB determined stretch factor was (0.30)%, resulting in a net adjustment of 1.2% to the previous year's rates effective May 1, 2019.

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

Electricity rates

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

3. Significant accounting policies

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

a) Financial instruments

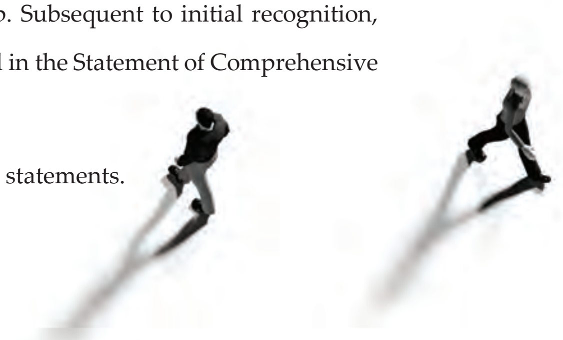
Non-derivative

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

Derivative

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

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



b) Revenue recognition

Sale and distribution of electricity

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

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

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

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

3. Significant accounting policies (continued)

b) Revenue recognition (continued)

Capital contributions

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

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

Other revenue

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

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

c) Materials and supplies

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

d) Property, plant and equipment

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

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

3. Significant accounting policies (continued)

d) Property, plant and equipment (continued)

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

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

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

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

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

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

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

The estimated useful lives are as follows:

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

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, 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.

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

Computer software that is acquired or developed by the Company 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.

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

Intangible assets in progress consist of application software under development at December 31, 2019.

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

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

London Hydro Inc. / Notes to the Financial Statements / IN THOUSANDS OF DOLLARS
For the year ended December 31, 2019

3. Significant accounting policies (continued)

f) Impairment

Financial assets measured at amortized cost

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

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

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

Non-financial assets

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

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

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

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

3. Significant accounting policies (continued)

g) Customer and other deposits

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

h) Provisions

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

i) Regulatory balances

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

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

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

3. Significant accounting policies (continued)

j) Post-employment benefits

Pension plan

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

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

Post-employment benefits, other than pension

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

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

3. Significant accounting policies (continued)

k) Finance income and finance expenses

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

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

l) Income taxes

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

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

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

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

3. Significant accounting policies (continued)

m) Change in accounting policies

The Company has adopted the following amendments to standards with a date of initial application of January 1, 2019:

i. IFRS 16 Leases
ii. Annual Improvements to IFRS (2015-2017) cycle

i. IFRS 16 Leases

Effective January 1, 2019, the Company adopted IFRS 16, which specifies how to recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all major leases. The Company's accounting policy under IFRS 16 is as follows:

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

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

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

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

3. Significant accounting policies (continued)

m) Change in accounting policies (continued)

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

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

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

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

Impact of transition to IFRS 16:

The new standard has been applied in preparing these financial statements for the year ended December 31, 2019. Comparative information presented for the year ended December 31, 2018, and for the year ended 2018 have been restated.

A reconciliation between comparative amounts previously reported to revised amounts presented in these financial statements is provided in the schedules below:

Reconciliation of Statement of Financial Position:

As at December 31, 2018	As Originally Presented	IFRS 16 Transitional Addition	Amortization	Reclass Lease Payments to debt / interest	Amounts Restated
Current assets					
Cash	$ 1,294				$ 1,294
Accounts receivable	74,985				74,985
Materials and supplies	617				617
Prepaid expenses	2,667				2,667
Total current assets	79,563				79,563
Non-current assets					
Property, plant and equipment	306,439	2,319	(58)		308,700
Intangible assets	22,836				22,836
Total non-current assets	329,275	2,319	(58)		331,536
Total assets	408,838	2,319	(58)		411,099
Regulatory balances	17,166				17,166
Total assets and regulatory balances	$ 426,004	$ 2,319	$ (58)	$ -	$ 428,265
LIABILITIES					
Current liabilities					
Accounts payable and accrued liabilities	$ 48,209				$ 48,209
Due to shareholder	6,451				6,451
Income taxes payable	2,197				2,197
Current portion of long-term debt	1,522				1,522
Current portion of lease liability	-	32			32
Customer and other deposits	2,415				2,415
Deferred revenue	2,336				2,336
Total current liabilities	63,130	32			63,162
Non-current liabilities					
Long-term debt	140,000				140,000
Post-employment benefits	13,895				13,895
Customer and other deposits	3,509				3,509
Deferred revenue	27,192				27,192
Deferred tax liability	5,590				5,590
Lease liability	-	2,287		(31)	2,256
Unrealized loss on interest rate swap	1,228				1,228
Total non-current liabilities	191,414	2,287		(31)	193,670
Total liabilities	254,544	2,319		(31)	256,832
Equity					
Share capital	96,116				96,116
Retained earnings	72,833		(58)	31	72,806
Accumulated other comprehensive income	380				380
Total equity	169,329		(58)	31	169,302
Total liabilities and equity	423,873	2,319	(58)	-	426,134
Regulatory balances	2,131				2,131
Total liabilities, equity and regulatory balances	$ 426,004	$ 2,319	$ (58)	$ -	$ 428,265

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Reconciliation of Statement of Comprehensive Income:

For the year ended December 31, 2018	As Originally Presented	Amortization	Reclass Lease Payments to debt / interest	Amounts Restated
Revenue				
Sales of energy	$ 342,046			$ 342,046
Distribution revenue	68,676			68,676
Other	13,121			13,121
	423,843			423,843
Operating Expenses				
Cost of power purchased	356,921			356,921
Operating expenses	43,809		(100)	43,709
Depreciation and amortization	19,110	58		19,168
	419,840	58	(100)	419,798
Income from operating activities	4,003	(58)	100	4,045
Net finance expense	3,811		69	3,880
Income before income taxes	192	(58)	31	165
Income tax expense	4,312			4,312
Net loss for the year	(4,120)	(58)	31	(4,147)
Movement of regulatory balances				
Net movement of regulatory balances	15,563			15,563
Income taxes	1,503			1,503
	17,066			17,066
Net income for year and net movement in regulatory balance	12,946	(58)	31	12,919
Other comprehensive income				
Remeasurement of post-employment benefits	1,550			1,550
Tax on remeasurements	(411)			(411)
Net movement in regulatory balances, net of tax	411			411
Other comprehensive income	1,550			1,550
Total comprehensive income for the year	$ 14,496	$ (58)	$ 31	$ 14,469

ii. Annual Improvements to IFRS (2015-2017) cycle

On December 12, 2017 the IASB issued narrow-scope amendments to three standards as part of its annual improvements process. Each of the amendments has its own specific transition requirements. The amendments were made to the following standards:

- IFRS 3 Business Combinations and IFRS 11 Joint Arrangements - to clarify how a company accounts for increasing its interest in a joint operation that meets the definition of a business;
- IAS 12 Income Taxes – to clarify that all income tax consequences of dividends are recognized consistently with the transactions that generated the distributable profits – i.e. in profit or loss, OCI, or equity; and
- IAS 23 Borrowing Costs – to clarify that specific borrowings – i.e. funds borrowed specifically to finance the construction of a qualifying asset – should be transferred to the general borrowings pool once the construction of the qualifying asset has been completed. They also clarify that an entity includes funds borrowed specifically to obtain an asset other than a qualifying asset as part of general borrowings.

These amendments did not result in a material impact on the financial statements.

4. Standards issued not yet adopted

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

i. Amendment to Conceptual Framework

ii. Definition of Material (Amendments to IAS 1 and IAS 8)

i. Amendments to References to the Conceptual Framework in IFRS Standards:

On March 29, 2018 the IASB issued a revised version of its Conceptual Framework for Financial Reporting (the Framework), that underpins IFRS Standards. The IASB also issued Amendments to References to the Conceptual Framework in IFRS Standards to update references in IFRS Standards to previous versions of the Conceptual Framework.

The Company intends to adopt this standard in its financial statements for the annual period beginning January 1, 2020. The Company does not expect the standard to have a material impact on the financial statements.

Some Standards include references to the 1989 and 2010 versions of the Framework. The IASB has published a separate document which contains consequential amendments to affected Standards so that they refer to the new Framework, with the exception of IFRS 3 Business Combinations which continues to refer to both the 1989 and 2010 Frameworks.

ii. Definition of Material (Amendments to IAS 1 and IAS 8):

On October 31, 2018, the IASB refined its definition of material and removed the definition of material omissions or misstatements from IAS 8.

The Company intends to adopt this standard in its financial statements for the annual period beginning January 1, 2020. The Company does not expect the standard to have a material impact on the financial statements.

The definition of material has been aligned across IFRS Standards and the Framework. The amendments provide a definition and explanatory paragraphs in one place.

Pursuant to the amendments, information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

5. Cash

		2019		2018
Bank balances	$	3,428	$	1,294

6. Accounts receivable

		2019		2018
Trade receivables	$	32,083	$	32,929
Unbilled revenue		36,468		38,237
Other		5,451		6,159
Allowance for doubtful accounts		(2,633)		(2,340)
	$	71,369	$	74,985

Included in accounts receivable is approximately $9.4 million (2018 - $8.5 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 $0.4 million (2018 - $2.8 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, 2019 was $0.1 million (2018 - $0.1 million).

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For the year ended December 31, 2019

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, 2018	$	16,048	$	10,092	$	268,347	$	24,370	$	13,639		332,496
Additions		3,598		91		30,609		2,321		(357)		36,262
Disposals / retirements		(30)		-		(933)		(1,196)		-		(2,159)
Balance at December 31, 2018	$	19,616	$	10,183	$	298,023	$	25,495	$	13,282	$	366,599
Balance at January 1, 2019	$	19,616	$	10,183	$	298,023	$	25,495	$	13,282	$	366,599
Additions		1,759		265		31,184		2,740		1,052		37,000
Disposals / retirements		-		(237)		(878)		(968)		-		(2,083)
Balance at December 31, 2019	$	21,375	$	10,211	$	328,329	$	27,267	$	14,334	$	401,516

b) Accumulated depreciation:

		Land and buildings		Distribution substation equipment		Other distribution equipment		Other fixed assets		Construction in progress		Total
Balance at January 1, 2018	$	2,708	$	1,125	$	34,429	$	7,650	$	-	$	45,912
Depreciation		835		293		10,274		2,668		-		14,070
Disposals / retirements		(30)		-		(870)		(1,183)		-		(2,083)
Balance at December 31, 2018	$	3,513	$	1,418	$	43,833	$	9,135	$	-	$	57,899
Balance at January 1, 2019	$	3,513	$	1,418	$	43,833	$	9,135	$	-	$	57,899
Depreciation		875		301		10,917		2,747		-		14,840
Disposals / retirements		-		(47)		(856)		(961)		-		(1,864)
Balance at December 31, 2019	$	4,388	$	1,672	$	53,894	$	10,921	$	-	$	70,875

c) Carrying amounts:

Balance at		Land and buildings		Distribution substation equipment		Other distribution equipment		Other fixed assets		Construction in progress		Total
December 31, 2018	$	16,103	$	8,765	$	254,190	$	16,360	$	13,282	$	308,700
December 31, 2019	$	16,987	$	8,539	$	274,435	$	16,346	$	14,334	$	330,641

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

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9. Intangible assets

a) Cost or deemed cost:

		Land rights		Capital contributions		Computer software		Intangible work in progress		Total
Balance at January 1, 2018	$	277	$	1,085	$	22,331	$	6,370	$	30,063
Additions		81		7,258		6,464		(5,452)		8,351
Disposals / retirements		-		-		(5,227)		-		(5,227)
Balance at December 31, 2018	$	358	$	8,343	$	23,568	$	918	$	33,187
Balance at January 1, 2019	$	358	$	8,343	$	23,568	$	918	$	33,187
Additions		32		-		6,155		(169)		6,018
Disposals / retirements		-		-		(3,890)		-		(3,890)
Balance at December 31, 2019	$	390	$	8,343	$	25,833	$	749	$	35,315

b) Accumulated amortization:

		Land rights		Capital contributions		Computer software		Intangible work in progress		Total
Balance at January 1, 2018	$	74	$	172	$	10,234	$	-	$	10,480
Amortization		22		49		5,027		-		5,098
Disposals / retirements		-		-		(5,227)		-		(5,227)
Balance at December 31, 2018	$	96	$	221	$	10,034	$	-	$	10,351
Balance at January 1, 2019	$	96	$	221	$	10,034	$	-	$	10,351
Amortization		24		204		5,112		-		5,340
Disposals / retirements		-		-		(3,890)		-		(3,890)
Balance at December 31, 2019	$	120	$	425	$	11,256	$	-	$	11,801

c) Carrying amounts:

Balance at		Land rights		Capital contributions		Computer software		Intangible work in progress		Total
December 31, 2018	$	262	$	8,122	$	13,534	$	918	$	22,836
December 31, 2019	$	270	$	7,918	$	14,577	$	749	$	23,514

During the year ended December 31, 2019, borrowing costs of nil (2018 - $0.2 million) were capitalized as part of the cost of intangible assets. A capitalization rate of 2.89% was used to determine the amount of borrowing costs capitalized during the year ended December 31, 2018.

10. Income tax expense

Income tax expense is comprised of:

		2019		2018
Current income tax				
Current year	$	(384)	$	2,886
Amendment for prior period income tax credits		(311)		(408)
Adjustment for prior period income tax expense		(335)		421
		(1,030)		2,899
Deferred tax				
Change in recognized deductible temporary differences:				
Loss on interest rate swap		(111)		(90)
Property, plant, equipment and intangible assets		4,760		1,671
Post-employment benefits		(16)		(61)
Deferred revenue		(822)		(107)
		3,811		1,413
Total current and deferred income tax in profit and loss, before movement of regulatory balance		2,781		4,312
Other comprehensive (loss) income				
Post-employment benefits		(419)		411
Total current and deferred income tax, before movement of regulatory balances		2,362		4,723
Net movement in regulatory balances		(3,503)		(1,914)
Income tax (recovery) expense recognized in Statement of Comprehensive Income	$	(1,141)	$	2,809

Reconciliation of effective tax rate:

		2019		2018
Income before taxes	$	9,247		17,278
Canada and Ontario statutory income tax rates		26.5%		26.5%
Expected tax provision on income at statutory rates		2,450		4,579
Increase (decrease) in income taxes resulting from:				
Net movement in regulatory balances		(3,503)		(1,914)
Other items		(88)		144
	$	(1,141)	$	2,809

Significant components of the Company's deferred tax balances:

		2019		2018
Property, plant, equipment and intangible assets	$	(14,788)	$	(10,028)
Post-employment benefits		4,116		3,681
Deferred revenue		1,254		432
Future income taxes to be realized by customers		(9,418)		(5,915)
Loss on interest rate swap		436		325
	$	(8,982)	$	(5,590)

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11. Regulatory balances

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

Regulatory assets:

Regulatory deferral account debit balances		January 1, 2018		Changes		Recovery/ (reversal)		December 31, 2018	Remaining years
Group 1 deferred accounts	$	-	$	8,002	$	-	$	8,002	
Other regulatory accounts		1,831		1,418		-		3,249	
Income tax		4,001		1,914		-		5,915	
	$	5,832	$	11,334	$	-	$	17,166	

Regulatory deferral account debit balances		January 1, 2019		Changes		Recovery/ (reversal)		December 31, 2019	Remaining years
Group 1 deferred accounts	$	8,002	$	(4,526)	$	-	$	3,476	
Regulatory settlement account		-		8,440		(3,443)		4,997	0.8
Other regulatory accounts		3,249		(121)		-		3,128	2.3
Income tax		5,915		3,503		-		9,418	
	$	17,166	$	7,296	$	(3,443)	$	21,019	

Regulatory liabilities:

Regulatory deferral account credit balances		January 1, 2018		Changes		Recovery/ (reversal)		December 31, 2018	Remaining years
Group 1 deferred accounts	$	(5,217)	$	5,217	$	-	$	-	
Regulatory settlement account		(3,057)		(3,927)		5,265		(1,719)	0.3
Other regulatory accounts		-		159		(571)		(412)	3.3
	$	(8,274)	$	1,449	$	4,694	$	(2,131)	

Regulatory deferral account credit balances		January 1, 2019		Changes		Recovery/ (reversal)		December 31, 2019	Remaining years
Regulatory settlement account	$	(1,719)	$	(5,143)	$	6,862	$	-	-
Other regulatory accounts		(412)		(509)		(1,418)		(2,339)	2.3
	$	(2,131)	$	(5,652)	$	5,444	$	(2,339)	

11. Regulatory balances (continued)

The regulatory balances are recovered or settled through fixed and/or volumetric rate riders approved by the OEB. The volumetric rate riders are determined using estimates of future consumption of electricity by its customers. Future consumption is impacted by various factors including the economy and weather. The Company has received approval from the OEB to establish its regulatory balances. Regulatory balances attract interest at OEB prescribed rates, which are based on Bankers' Acceptances three-month rate plus a spread of 25 basis points. The rate was set at 2.45% in the first quarter of 2019 (March 31, 2018 – 1.5%) and 2.18% in the second, third and fourth quarters of 2019 (June 30, 2018 – 1.89%, September 30, 2018 – 1.89%, December 31, 2018 – 2.17%).

a) Group 1 deferral accounts

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

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

These variances were credit balances in 2016 and 2017. On August 26, 2016, the Company filed its 2017 COS rate application, in which it proposed the disposition of Group 1 account balances as at December 31, 2015 via rate riders. The OEB issued its decision with respect to this Application which authorizes the refund/recovery of these balances over a one-year period commencing May 1, 2017.

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

11. Regulatory balances (continued)

b) Regulatory settlement account

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

c) Other regulatory accounts

Other regulatory account debit balances include various deferred costs in connection with LRAMVA, OEB Cost Assessment Variance non-cash OPEB adjustment and Retail Cost Variances.

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

d) Income tax

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

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12. Accounts payable and accrued liabilities

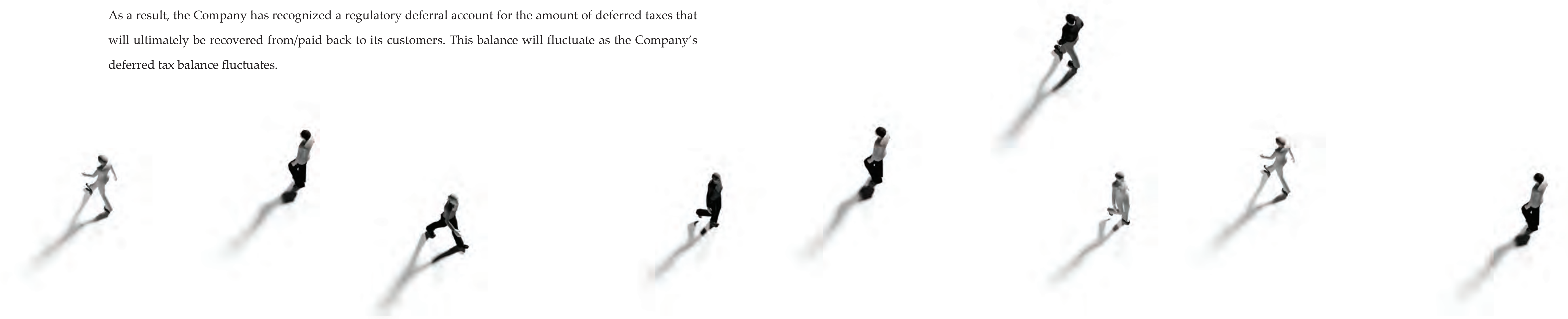
		2019		2018
Due to Independent Electricity System Operator	$	31,973	$	33,694
Harmonized sales tax		167		118
Payroll and benefits payable		3,382		3,060
Other		12,918		11,337
	$	48,440	$	48,209

13. Deferred revenue

		2019		2018
Capital contributions for completed projects	$	21,845	$	18,010
Deposits held		11,806		11,518
		33,651		29,528
Less: Current portion		2,771		2,336
	$	30,880	$	27,192

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

Included in deposits held is $3.6 million (2018 - $3.7 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

		2019		2018
Unsecured, committed extendible revolving loan bearing interest at prime, minus 0.5%, interest only payments due March 2021	$	30,000	$	15,000
Unsecured, non-revolving term instalment loan bearing interest at the 4.4 year Bankers' Acceptance rate of 2.7% plus a stamping fee of 0.28%, interest only payments due June 2022		40,000		40,000
Unsecured, non-revolving term instalment loan bearing interest at the 7.6 year Bankers' Acceptance rate of 2.46% plus a stamping fee of 0.30%, interest only payments due June 2022		85,000		85,000
Unsecured, non-revolving term instalment loan bearing interest at the 7.8 year Bankers' Acceptance rate of 2.43% plus a stamping fee of 0.9%, payable in monthly instalments of $192 principal plus interest, repaid in full August 2019		-		1,522
		155,000		141,522
Less: Current portion		-		1,522
	$	155,000	$	140,000

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

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

The Company had 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 were amortized over a 9 year period ending August 2019. The agreement was a fixed rate swap and matured August 2019 which effectively converted 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%.

14. Long-term debt (continued)

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, 2019 was $0.4 million (2018 – $0.3 million).

At December 31, 2019, the Company would be required to pay $1.6 million (2018 - $1.2 million) if it wished to cancel the swap agreements.

During the year ended December 31, 2019, interest on long-term debt was incurred in the amount of $4.2 million (2018 - $3.6 million) of which nil (2018 – $0.2 million) was capitalized as part of the cost of intangible assets.

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

		2019		2018
Balance, beginning of year	$	141,522	$	118,826
Add: Advances		15,000		55,000
Less: Repayments		1,522		32,304
		155,000		141,522
Less: Current portion		-		1,522
	$	155,000	$	140,000

15. Post-employment benefits

a) OMERS pension plan

The Company provides a pension plan for its employees through OMERS. The plan is a multi-employer, contributory defined pension plan with equal contributions by the employer and its employees. During the year ended December 31, 2019, the Company made employer contributions of $3.1 million to OMERS (2018 - $3.0 million), of which $0.8 million (2018 - $0.7 million) has been capitalized as part of PP&E and the remaining amount of $2.3 million (2018 - $2.3 million) has been recognized in the Statement of Comprehensive Income. The Corporation estimates that a contribution of $3.5 million to OMERS will be made during the next fiscal year.

As at December 31, 2019, OMERS had approximately 510,000 members, of whom 323 are employees of the Company. The most recently available OMERS annual report is for the year ended December 31, 2019, which reported that the plan was 97% funded, with an unfunded liability of $3.4 billion. This unfunded liability is likely to result in future payments by participating employers and members.

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15. Post-employment benefits (continued)

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, 2019, the following information has been determined:

Reconciliation of the obligation:

	2019	2018
Defined benefit obligation, beginning of year	$ 13,895	$ 15,213
Included in profit or loss:		
Current service costs	393	462
Interest cost	518	497
Other benefits	11	(13)
	922	946
Benefits paid	(864)	(714)
	58	232
Actuarial (gains) / losses included in OCI:		
Changes in financial assumptions	1,540	(1,465)
Effect of experience adjustments	42	(85)
	1,582	(1,550)
Defined benefit obligation, end of year	$ 15,535	$ 13,895

Actuarial assumptions:

	2019	2018
Discount (interest) rate	3.1%	3.9%
Salary levels	4.0%	4.0%
Immediate medical costs	5.3%	5.4%
Ultimate medical costs	4.0%	4.0%
Dental cost rate	4.0%	4.5%
Year ultimate rate reached	2040	2040

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 $2.3 million.

16. Lease liability

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

Right-of-use-asset:

	2019	2018
Cost:		
Balance, beginning of year	$ 2,319	$ -
Lease additions	-	2,319
Balance, end of year	$ 2,319	$ 2,319
Accumulated depreciation:		
Balance, beginning of year	$ 58	$ -
Depreciation	58	58
Balance, end of year	$ 116	$ 58
Carrying amount	$ 2,203	$ 2,261

Lease liability:

	Future minimum lease payments	Interest	Present value of minimum lease payments
Less than one year	$ 100	$ 67	$ 33
Between one and five years	400	259	141
More than five years	3,300	1,218	2,082
	$ 3,800	$ 1,544	$ 2,256

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17. Share capital

		2019		2018
Authorized:				
An unlimited number of common shares				
An unlimited number of non-voting, non-cumulative preference shares, redeemable at the paid-up amount				
Issued:				
1,001 common shares	$	96,116	$	96,116

Dividends

The holders of the common shares are entitled to receive dividends as declared from time to time. On March 27, 2019 the Board of Directors declared a $5.0 million dividend payable to the sole shareholder, the Corporation of the City of London, in quarterly installments in 2019. On March 22, 2018 the Board of Directors declared a $5.0 million dividend payable to the sole shareholder, the Corporation of the City of London, in quarterly installments in 2018.

18. Revenue from contracts with customers

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

Electricity rates:

		2019		2018
Residential	$	122,925	$	112,145
Commercial		230,628		218,668
Large users		10,301		8,714
Other		2,892		2,519
	$	366,746	$	342,046

Distribution revenue:

		2019		2018
Residential	$	44,312	$	43,601
Commercial		23,279		23,101
Large users		749		652
Other		1,386		1,322
	$	69,726	$	68,676

19. Other revenue

		2019		2018
City of London services	$	4,009	$	4,009
Late payment charges		1,699		1,561
Other services, recoveries and sundry revenues		1,404		1,421
Pole and other rental income		885		501
Customer billing service fees		864		717
Sale of scrap		834		552
Occupancy charges		596		608
Amortization of deferred revenue		525		412
Income tax incentive credits		480		496
Renewable generation revenue		322		312
Collection charges		132		346
Gain on disposal of property, plant and equipment		31		220
IESO Conservation recoveries and incentives		(3)		1,966
	$	11,778	$	13,121

20. Operating expenses

		2019		2018
Labour and benefits	$	27,133	$	26,719
Professional services		5,998		5,867
Computer hardware and software		2,815		2,540
Rental, regulatory and other expenses		1,943		2,243
Facilities maintenance and repair		1,668		1,534
Postage		1,258		1,262
Corporate training and employee expenses		1,233		1,201
Property tax and insurance		1,208		1,195
Materials and supplies		995		972
Fleet operations and maintenance		897		1,028
Bad debts		737		703
Office equipment services and maintenance		417		492
Allocations to capital and billable activities		(2,073)		(2,047)
	$	44,229	$	43,709

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21. Finance (income) and expenses

	2019	2018
Finance income		
Interest income on bank deposits	$ (140)	$ (180)
Finance expenses		
Interest on long-term debt	4,216	3,591
Interest on short-term debt	118	58
Interest on funds used for construction project	-	(188)
Lease liability interest	68	69
Other	224	189
	4,626	3,719
Change in interest rate swap		
Unrealized loss on interest rate swap	419	341
Net finance expense	$ 4,905	$ 3,880

22. Due to shareholder

Trade balances due to shareholder:

	2019	2018
Water consumption	$ 6,550	$ 5,604
Non-interest bearing trade balance due to shareholder, without stated repayment terms	402	847
	$ 6,952	$ 6,451

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

During the year ended December 31, 2019, the Company billed customers for water related service on behalf of the shareholder and remitted funds to the shareholder in the amount of $174.4 million (2018 – $174.2 million). The shareholder paid $3.9 million (2018 - $3.9 million) for this service.

During the year ended December 31, 2019, the Company performed water meter replacement administrative services on behalf of the shareholder. The shareholder paid $0.1 million (2018 – $0.1 million) for this service.

23. Commitments and contingencies

General

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

General Liability Insurance

The Company is a member of the Municipal Electric Association Reciprocal Insurance Exchange ("MEARIE"). MEARIE is a pooling of public liability insurance risks of many of the LDCs in Ontario. All members of the pool are subjected to assessment for losses experienced by the pool for the years in which they were members, on a pro-rata basis based on the total of their respective service revenues. As at December 31, 2019, no assessments have been made.

Letters of credit

At December 31, 2019, the Company had provided $6.6 million (2018 – $6.6 million) in bank standby letters of credit to the IESO.

Vendor commitments

The Company has commitments in connection with Infrastructure projects of $0.2 million (2018 – $0.5 million), new vehicle acquisitions of $1.1 million (2018 - $0.2 million) and Information Systems projects of $0.3 million (2018 - nil).

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:

	2019	2018
Less than one year	$ 319	$ 321
Between one and five years	868	209
More than five years	61	74
	$ 1,248	**$ 604**

The Company does not recognize right-of-use assets and lease liabilities for leases of low-value assets or leases with lease terms that are less than 12 months. Lease payments associated with these arrangements are instead recognized as an expense over the term on either a straight-line basis, or another systematic basis if more representative of the pattern of benefit. Operating leases expensed during the year ended December 31, 2019 was of $0.4 million (2018 - $0.3 million).

24. Joint venture agreement

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

25. Financial instruments and risk management

Fair value disclosure

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

The fair value of the long-term debt at December 31, 2019 is $156 million (2018 - $124 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, 2019 was 2.58% (2018 – 3.34%). 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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25. Financial instruments and risk management (continued)

a) Credit risk (continued)

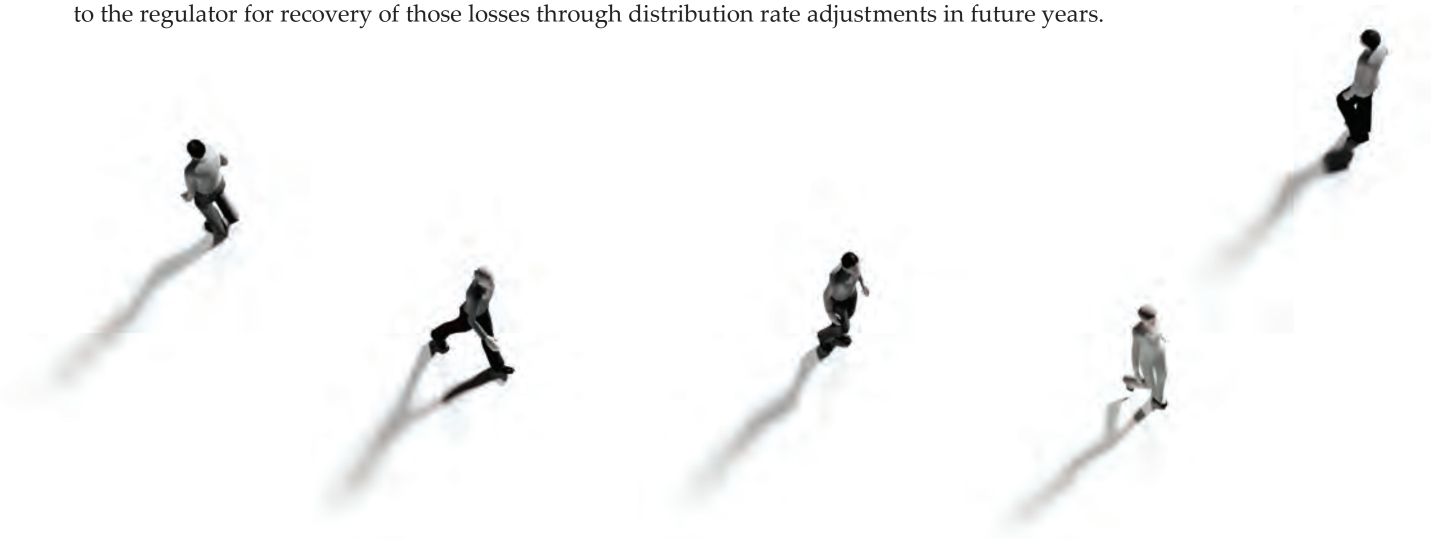
The carrying amount of accounts receivable is reduced through the use of an allowance for impairment and the amount of the related impairment loss is recognized in the Statement of Comprehensive Income as bad debt expense. Subsequent recoveries of receivables previously provisioned are credited to the Statement of Comprehensive Income. The balance of the allowance for impairment loss at December 31, 2019 is $2.6 million (2018 - $2.3 million). During the year ended December 31, 2019, bad debt expense was $0.7 million (2018 - $0.7 million).

At December 31, 2019, approximately $1.0 million (2018 - $0.8 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, 2019, approximately $2.2 million (2018 - $2.0 million) is considered 60 days past due. The Company has approximately 161 thousand customers, the majority of whom are residential.

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

Credit risk is managed through collection of security deposits from customers in accordance with directions provided by the OEB. At December 31, 2019, the Company held deposits in the amount of $4.4 million (2018 - $5.9 million). If presented with substantial credit losses, the Company has the ability to make an application to the regulator for recovery of those losses through distribution rate adjustments in future years.



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25. Financial instruments and risk management (continued)

b) Market risk

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

A 1% increase in the interest rate at December 31, 2019 would have increased interest expense on the long-term debt by $0.3 million (2018 - $0.2 million), assuming all other variables remain constant. A 1% decrease in the interest rate would have an equal but opposite effect.

c) Liquidity risk

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

The Company has an uncommitted operating revolving line of credit facility of $40.0 million with the Toronto Dominion Bank. At December 31, 2019 the amount drawn by the Company under this line of credit was nil (2018 - 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, 2019 the Company had a committed 364 day extendable operating revolving loan facility of $30.0 million with the Toronto Dominion Bank and the amount drawn by the Company under this loan facility was $30.0 million (2018 - $15.0 million). Under the terms of this agreement, the loan has a maturity date of March 31, 2021. 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 (2018 - nil).

25. Financial instruments and risk management (continued)

d) Capital disclosures

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

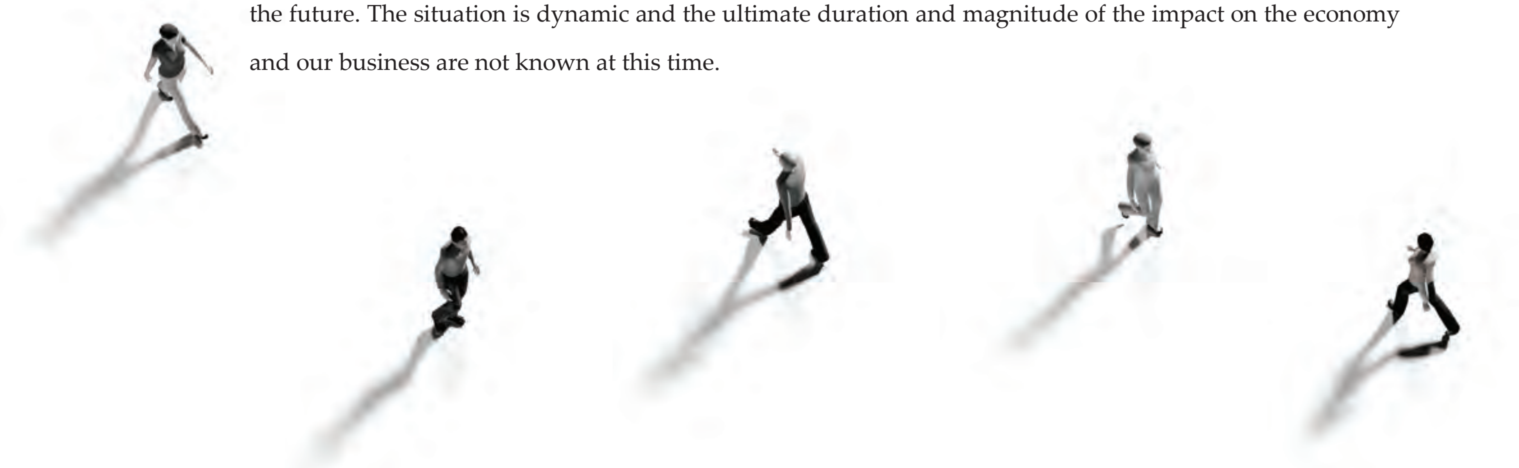
The Corporation's definition of capital includes shareholder's equity and long-term debt.

		2019		2018
Long-term debt	$	155,000	$	141,522
Shareholder's equity		174,690		169,302
	$	329,690	$	310,824

26. Subsequent events

On March 31, 2020, the Board of Directors declared a $5.0 million special dividend payable to the sole shareholder, the Corporation of the City of London, to be paid by the end of 2021.

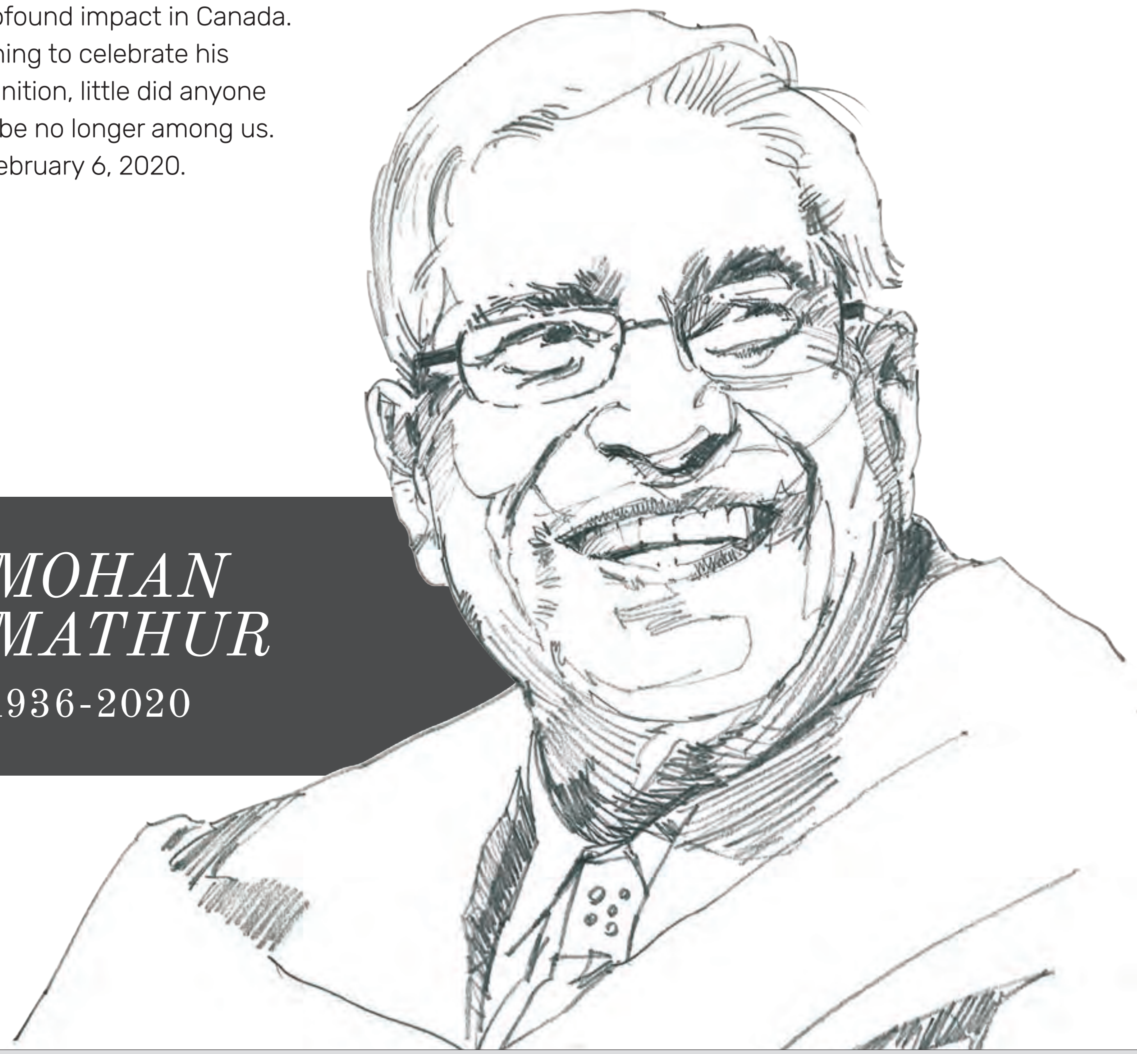
Subsequent to December 31, 2019 the COVID-19 outbreak was declared a pandemic by the World Health Organization. This has resulted in governments worldwide, including the Canadian and Ontario governments, enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused material disruption to businesses globally and in Ontario resulting in an economic slowdown. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions however the success of these interventions is not currently determinable. The current challenging economic climate may lead to adverse changes in cash flows, working capital levels and/or debt balances, which may also have a direct impact on the Company's operating results and financial position in the future. The situation is dynamic and the ultimate duration and magnitude of the impact on the economy and our business are not known at this time.



IN MEMORIAM:

We were thrilled and then quickly heartbroken within the span of one month. Our happiness had no bounds when we learned about our past Chair, Mohan Mathur's, distinguished recognition when he was bestowed with the Order of Canada on December 28, 2019. He was recognized as an inspirational thought leader, known for his innovative contributions to engineering and the energy sector through his world-renowned research, industry partnerships, academia, and administration. As the architect of visionary initiatives, he influenced the next generation of engineers and made a profound impact in Canada. As we were joyously planning to celebrate his prestigious national recognition, little did anyone know that soon he would be no longer among us. Mohan passed away on February 6, 2020.

Mohan was an integral part of London Hydro's success in his esteemed tenure with us as a Board Member from 2005 - 2012 and then Board Chair from 2012 to 2019. We will fondly remember him for his peerless and significant contributions to the success of London Hydro. He was a kind, compassionate and family loving man and he was genuine in his appreciation for everyone at London Hydro for their hard work in making our corporation great. His gentle smile and kindness will always be in our hearts.



MOHAN MATHUR

1936-2020