Report on Financials

2017

London Hydro

Dear Stakeholders,

London Hydro was recognized for the second consecutive year by the industry association for its customer service excellence and for its innovation. As well, London Hydro was ranked as one of the most efficient utilities in Ontario in the benchmarking study by the regulator, the Ontario Energy Board (OEB), for the third consecutive year.

With these significant achievements, London Hydro's focus has and will always be on performing the fundamentals well, which are distributing electricity safely, reliably and servicing our customers efficiently. We have remained focused on our strategy of being the best utility that we can be and we are preparing well for the future changes that are coming fast and furious.

With the advent of technology, greater emphasis on climate change, a renewed focus on renewables, and the declining cost of smaller generation and energy storage solutions, we anticipate a significant proliferation of customer owned and distribution embedded generation and energy storage assets. In tandem with all of this, we are perhaps at the cusp of seeing exponential growth of electrical vehicles. These assets would mostly and significantly impact the distribution grid as they would be deployed by customers at low voltages. Collectively, these customer owned assets which can nowadays have three roles: consume, store or produce, are called Distributed Energy Resources (DER). Today, there are about 380 such DERs including renewables, net metering, electric charging stations, and combined heat and power generation that are connected to London Hydro's grid. Our industry association, the Electricity Distributors Association (EDA), has led the development of a vision paper on DER and on how to manage these changes, which London Hydro is fully supportive of. As such, the Government of Ontario in its Long-Term Energy Plan (released in September 2017) endorses the DER development landscape.

Fortuitously, London Hydro has led a technology and innovation agenda for the last three years and this strategy has now placed London Hydro in a leading position to be ready and relevant for the emerging electricity market to integrate, interconnect and manage the DERs. The primary outcome of our innovation strategy has been the development of technological tools both for operational and customer facing solutions. Nearly 86,000 of our customers now use self service tools, 48,927 have signed up for paperless billing and 90% of property owners use online tools to manage their rental properties; these are examples of the power of a "digital utility". London Hydro has gradually been undertaking a digital transformation of its grid. We are proud to claim that all of our relaying is fully digital in 2017. As well, we enhanced the grid automation by increasing the number of automated switches by 20% and expanded the network configuration. Nearly all of London Hydro's service area is now served with a network of grid as opposed to radial feeders, which gives us added flexibility in rerouting power to reduce the duration of outages and increase the flexibility of our operation. Over the last five years, London Hydro has invested nearly $152 million in upgrading its grid and plans to spend an additional $136 million (gross) in our capital projects over the next three years.

London Hydro's employees – 325 strong – recognize and understand very well the future need to become a "digital utility". Our employee leaders have helped London Hydro develop a strong footprint of seminal technologies such as Green Button standards and systems to be ready to serve the future needs of our customers as well as that of the industry. Our innovation regarding Green Button has been recognized internationally and in 2017, the Government of Ontario highlighted in its Long-Term Energy Plan the benefits of Green Button and London Hydro's use case. London Hydro is one of three worldwide utilities that has championed the Green Button standards and developed an efficient and economical Green Button platform and applications to serve customers. The Green Button standard is a foundation for establishing an "open utility" paradigm of customer consumption data so that customers can be served better and provided a rich set of solutions not only from a utility, but from other third parties. On the basis of the success of London Hydro, the Government of Ontario is now preparing a set of regulations to mandate Green Button for all utilities in Ontario.

In 2017, the OEB issued a broader industry request for experimenting with a new set of energy pricing plans. Many utilities responded, but London Hydro was the only one selected to first deploy a critical peak pricing initiative. In 2017 we recruited approximately 3,000 customers for this pilot project. It is the manifestation of our strategy of innovation that ensured London Hydro's leading role in this pilot project.

Juxtaposed to our accomplishments, innovation and technology, London Hydro's financial performance is equally strong. In 2017, London Hydro earned a Net Income of $14.6 million, earning a Return on Equity of 9.4%; however, our return performance is 12.1% if the equity is adjusted to a fully leveraged position. The Shareholder Equity grew by 6.0% to $160 million and our rate base grew by another $5 million to $301 million. The accompanying Financial Statements and Report on Progress provide further details on our performance, our successes in 2017 and our future strategy. These accomplishments bear witness to the hard work, skills and commitment of all London Hydro employees. Likewise, these reports are eminent evidence of sound governance by an experienced Board of Directors. On behalf of all of them, we present this report to all of our stakeholders who have played a significant role in making London Hydro their successful corporation.

Board Members

Board Vice Chair

Board Member

Board Member

Board Member

Board Member

Board Member

CFO, VP Finance & Corporate Secretary

CIO & VP Corporate Services

VP Engineering & Operations

Senior Director HR

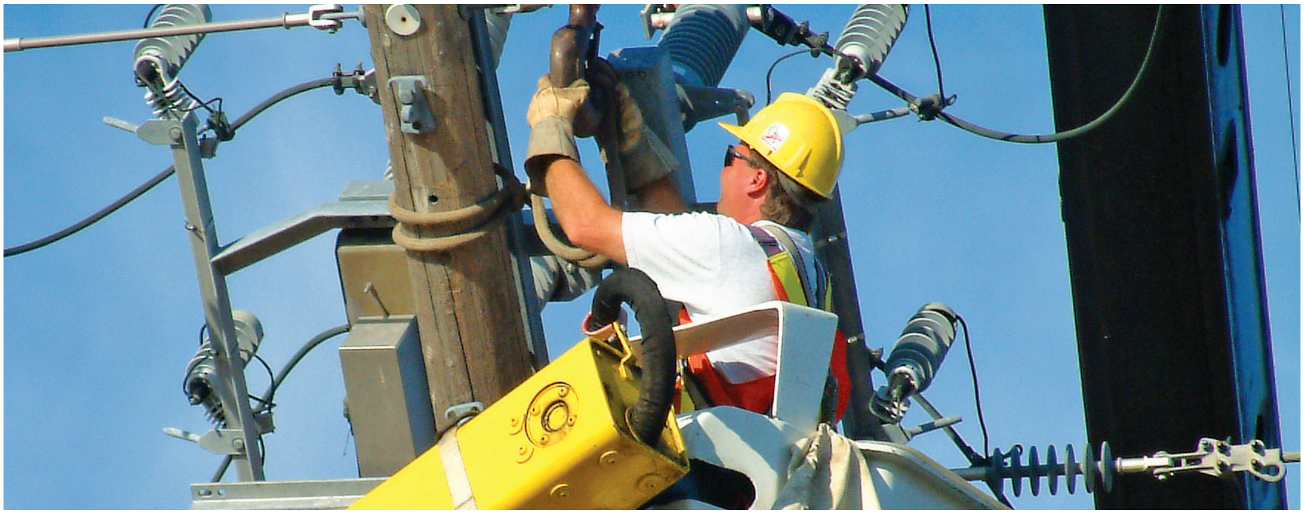
Board Administrative Assistant

Management's Discussion and Analysis

The following discussion and analysis is of London Hydro Inc.'s ("the Company") financial position, results from operations, and cash flows, and should be read in conjunction with the Financial Statements for the period ended December 31, 2017.

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 which allows for certain regulatory transactions to qualify as assets and liabilities not usually allowed under IFRS. The Company's process for assessing the impact of such regulatory practices and direction on reported financial results are more fully described in notes 2, 3, and 11 to the Financial Statements for the period ended December 31, 2017.

This analysis contains forward-looking statements regarding management's future expectations of performance. Such statements are subject to general risks and uncertainties, such as economic conditions, regulatory, and government decisions. Forward-looking statements are not guarantees of performance as future results may differ materially from those expressed by these statements.



Mission and Values

The Company's mission is to provide safe, reliable electricity, and value-added services.

The Company achieves its mission by operating within the following set of core values:

Overview

The Company and its Strategy

The Company is a wholly owned subsidiary of The Corporation of the City of London ("City of London") and provides regulated electrical distribution services to the inhabitants of the City of London.

The Company is regulated by the Ontario Energy Board ("OEB"), and operates under the authority granted by the Ontario Energy Board Act (1998). The Company is one of the larger distribution companies in Ontario employing a workforce of 325 personnel servicing 157,245 customers and a population base of approximately 383,000.

The City of London has directed the Company's Board of Directors to oversee the operation of the business, addressing several objectives of which include: to enhance the quality and reliability of electrical supply, to maintain the corporate value of the distribution assets, and to ensure that distribution rates are fair and competitive with those charged in the industry.

Corporate Vision and Strategy

The Company's vision is to pursue excellence as an industry leader. The Company's strategy is to be a leading energy services provider through the aggressive and innovative pursuit of customer focus, social and environmental responsibility, and financial health. Through the implementation of viable and economical technology, renewable generation projects, and expanding application of green technologies in the community, the Company achieves its vision and strategy and adds value for its customers.

Strategic Priorities

In pursuit of its vision and strategy, the Company continues to focus on the areas of distribution systems and technology, human resources, customer service, financial/regulatory, communications and community leadership, and green energy.

The strategic plan focuses on strategic investments in technology due to smart meters, time-of-use ("TOU") billing, renewable energy, and upcoming smart grid initiatives. The Company is an engineering and technology driven corporation and as such, continues to focus on deploying increased automation in the areas of the distribution system and energy management to improve reliability/contingency, customer care, retailer engagement and settlements.

To succeed in its plan, the Company will continue to invest in employee training and development, and maintain its focus on the development of a high performing corporate culture which promotes creativity and innovation in the workplace.

Improvements to customer service, customer communications, and customer interactions with the Company, with due regard for controlling customer costs and other financial and regulatory constraints, are key priorities of the strategic plan. The Company continues to further increase communication with its customers as documented in the Distribution System Plan ("DSP") filed with the OEB in 2016.

Further, the Company will continue to support the Ontario Green Energy Plan that has already resulted in the installation of new generation capacity in London over the last few years. Additional generation, mostly from renewable energy sources, is expected to be connected to London's distribution system over the coming years.

The 2017-2021 strategic plan is focused on the following six pillars: Leadership, Customer Care, Reliability, Financial Stewardship, Supporting a High Performing Team, and Technology.

SAFETY - Safety is our first priority.

PEOPLE - Our employees are our greatest strength. Our customers are our primary focus.

INTEGRITY - We are stewards of the public trust and we demonstrate the highest standards of professional ethics and accountability in all our activities. We treat others with respect and courtesy.

AGILITY - We are open and adaptable as we embrace the industry's future.

CORPORATE AND SOCIAL RESPONSIBILITY - We are committed to being a financially, socially, and environmentally sustainable company.

2017 Year to Date Operations Overview

The Company's 2017 results for the twelve-month period ended December 31, 2017 as compared to historical and planned performance is summarized in the following tables:

YTD RESULTS FOR THE PERIOD ENDED

FINANCIAL HIGHLIGHTS	ACTUAL 31-Dec-17	ACTUAL 31-Dec-16	CHANGE	PLAN 31-Dec-17	% OF PLAN
Energy Distributed - Gigawatt Hrs	3,178.7	3,279.9	(101.2)	3,297.8	(3.6)%
Number of Customers	157,245	155,497	1,748	156,673	0.4%
Sale of Energy	$371,392	$430,713	$(59,321)	$443,107	(16.2)%
Distribution revenue	66,862	65,158	1,704	68,616	(2.6)%
Other revenue	10,504	10,690	(186)	10,359	1.4%
Cost of power	373,466	423,092	(49,626)	441,531	(15.4)%
Operating expenses	41,933	41,167	766	40,016	4.8%
Amortization expenses	18,321	18,717	(396)	18,152	0.9%
Net finance costs	(607)	1,228	(1,835)	3,153	(119.3)%
Income taxes	4,553	3,979	574	2,611	74.4%
Net earnings before regulatory adjustments	11,092	18,378	(7,286)	16,619	(33.3)%
Regulatory adjustment	3,544	(5,911)	9,455	(3,412)	(203.9)%
Net earnings after regulatory adjustments	$14,636	$12,467	$2,169	$13,207	10.8%
Operating Expenses as a % of Distribution Revenue	62.7%	63.2%			
Return on Equity	9.4%	8.3%			
(in thousands of $'s)					
Operating Cash flow	$33,287	$25,264	$8,023		
Investing Cash flow	(32,332)	(33,676)	1,344		
Financing Cash flow	2,696	2,696	-		
Cash flow	3,651	(5,716)	9,367		
Cash and equivalents - end of period	$4,364	$713	$3,651		

Energy Quantities Distributed

Total energy distributed on the system decreased by 3.1% to 3,178.7 gigawatt hours (December 31, 2016 – 3,279.9 gigawatt hours). Although the number of customers grew by 1.1% over the course of the year, all groups of customers are continuing to conserve electricity through active conservation efforts in addition to the cooler summer months compared to the previous year, which are contributing to the decrease of energy distributed.

Energy Revenue and Cost of Power

The sale of energy decreased during the twelve-month period to $371.4 million (December 31, 2016 - $430.7 million). The decrease of $59.3 million or 13.8% is attributable primarily to the Fair Hydro Plan which reduced the cost of electricity for residential customers as of May 1, 2017. The cost of power purchased decreased during the twelve-month period ended December 31, 2017 to $373.5 million (December 31, 2016 - $423.1 million). The decrease of $49.6 million or 11.7% usually represents the electricity increases in commodity and non-commodity pricing, fluctuations in the spot market price and global adjustment rates determined by the Independent Electricity System Operator ("IESO"), but was also impacted by the Fair Hydro Plan.

All variances due to timing of customer billing or regulated pricing are recorded in retail settlement variance accounts ("RSVA"), which are recovered from or returned to customers in accordance with regulatory directives.

Distribution Revenues

The Company is compensated by a regulated distribution rate based on the number of customers connected to the distribution system and their energy consumption and demand levels. Approximately 60% (December 31, 2016 – 54%) of revenues are derived from a monthly fixed customer charge, while the remaining 40% (December 31, 2016 – 46%) is dependent upon the customers' energy consumption and demand levels.

Beginning in 2016, fixed revenues represent a greater percentage of the distribution rates for residential and small commercial customers as the OEB began moving towards 100% fixed rates for these customers. The change in rate structure will be completed over a 4-year period. This is the most significant factor contributing to the increased percentage of fixed revenues in 2017 as compared to 2016. As part of the 2017 Cost of Service proceeding, London Hydro requested that the progression towards fixed rates for residential customers be delayed, but the OEB denied the request.

Total customers as at December 31, 2017 were 157,245 (December 31, 2016 – 155,497). Distribution revenue composition remained unchanged from the prior year with approximately 63% from residential customers (December 31, 2016 – 63%), 33% from general service customers (December 31, 2016 – 33%), and the remaining 4% from large users and other customers (December 31, 2016 – 4%).

Total distribution revenues for the twelve-month period increased by $1.7 million (2.6%) to $66.9 million (December 31, 2016 – $65.2 million) primarily due to the change in rates included in the cost of service application.

The Company successfully completed its last Cost of Service in 2017. The Cost of Service is a process wherein the Company applies for the revenue requirement in order to cover the costs of operating expenditures, amortization of capital assets, and a regulated return on investment. This process usually occurs once every five years. During the first quarter of 2017, the Company received successful approval of its 2017 Cost of Service Application. The approved rates included in the application represent a decrease of $1.40 per month for the average residential customer, effective May 1, 2017, as compared to the current rates. The total bill impact decreased by $1.40 as a result of some of the regulatory repayments made to customers, while the actual distribution amount increased slightly.

Operating Expense and Amortization

Total operating expenses increased slightly during the twelve-month period to $41.9 million (December 31, 2016 - $41.2 million). The overall increase is $0.7 million or 1.7%. The increase is primarily the result of increased labour expenses.

In October 2017, the provincial government announced that all local distribution companies are not to disconnect residential customers due to non-payment between October to April each year. As of December 31, 2017, the Company has increased it's bad debt expense by $0.1 million as a result of the disconnection moratorium.

Amortization expense decreased slightly to $18.3 million (December 31, 2016 - $18.7 million). The Company continues to invest in infrastructure and information technology to maintain reliability for its users.

Other Revenue

Other revenue remained at levels similar to the prior year in the amount of $10.5 million (December 31, 2016 - $10.7 million). The biggest change is the reduction of collection charges which was the result of the months where disconnects were prohibited.

Net Finance Costs

Interest expense decreased significantly to $(0.6) million (December 31, 2016 - $1.2 million) as the mark-to-market adjustment changed from a loss to a gain. The adjustment for the twelve-month period ended December 31, 2017 was a gain of $3.5 million as compared to a gain of $1.5 million in 2016. Excluding the mark-to-market expense incurred for financial statement purposes relating to the two swap agreements, the interest expense would have increased slightly to $2.9 million (December 31, 2016 - $2.7 million) due to the increase in debt.

The first agreement is a 7-year interest rate swap agreement maturing on August 30, 2019, having an all-in rate of 3.33%. As of December 31, 2017, the total outstanding on this agreement is $3.8 million (December 31, 2016 - $6.1 million) with monthly installments of $192,000 plus interest.

The second agreement is a 7.5-year interest rate swap agreement maturing on June 30, 2022, having an all-in rate of 2.65%. As of December 31, 2017, the total outstanding on this agreement is $85 million (December 31, 2016 - $85 million) with interest only payments made on a quarterly basis.

A total unrealized loss on the interest rate swap of $0.9 million, recorded on the Statement of Financial Position, represents what the Company's cost would be to unwind these agreements as at December 31, 2017. Currently, the Company plans to maintain these agreements until the maturity dates.

Subsequent to year-end, the Company completed a new swap agreement in the amount of $40 million that matures on June 30, 2022 having an all-in rate of 2.98%, of which $30 million of the proceeds were allocated to settle the revolving loan.

Income Tax Expense

The Company is required to make payments in lieu of tax ("PILs") to the Ontario Electricity Financial Corporation. The amount of PILs is approximately equivalent to the income taxes that would be paid if the Company was a taxable corporation under the Income Tax Act (Canada). Income tax expense for the twelve-month period ended December 31, 2017 was $4.6 million (December 31, 2016 - $4.0 million) increasing primarily due to the increase in net income compared to the prior year.

The Company has a deferred tax liability of $3.8 million (December 31, 2016 - $1.2 million) as a result of temporary differences related to tax values of Property, Plant, Equipment and Intangibles in excess of their carrying amount for financial reporting purposes, net of losses incurred relating to the interest rate swap, and expenses incurred for accounting for employee future benefits but not yet deducted for income tax purposes.

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

Regulatory Assets/Liabilities

As a regulated distributor of electricity, the Company is obligated to provide energy to all customers at the Regulated Price Plan ("RPP") or at the Hourly Ontario Energy Price ("HOEP") plus global adjustment charges, unless they elect to purchase their energy from an energy retailer which also entails adding a global adjustment charge. The regulatory framework requires that all energy commodity and non-commodity costs be billed at regulated rates to consumers who are on the RPP.

Variances between purchased costs and amounts billed are required to be captured in the RSVA for disposition through future rates.

At December 31, 2017, the Company had regulatory assets of $5.8 million (December 31, 2016 - $6.6 million), representing a decrease of $0.8 million, the majority of which relates to the OEB approved recovery of balances from customers. Accounting rules require that future tax assets/liabilities are offset against a regulatory account as the future benefit/cost of the future taxes will ultimately be impacting the customers rather than the Company.

The Company also had regulatory liabilities of $8.3 million at December 31, 2017, compared to $12.4 million as of December 31, 2016. This change is primarily the result of the repayment of OEB approved regulatory balances as rate riders through rates.

Capital Resources

Capital Structure and Dividend Policy

The Company has three debt agreements which account for total debt of $118.8 million.

The Company's distribution rates are based on a regulatory deemed capital structure of 60% debt and 40% equity. To the extent that the Company's existing capital structure and debt rates do not reflect the deemed structure included in distribution rates, the economic performance of the Company will be suboptimal.

The Company's dividend policy provides for an annual dividend, subject to satisfactory cash flow. In accordance with that policy, a regular dividend was declared by the Board of Directors in the amount of $5.0 million on March 22, 2018 to be paid in quarterly installments during fiscal 2018.

External Credit Facilities and Credit Rating

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, 2019, 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 extendable operating loan facility is not extended, the due date for repayment of this loan facility is 1-year from the date of maturity.

As at December 31, 2017, the Company has drawn down $30.0 million (December 31, 2016 - $20.0 million) on its committed loan facility and $nil (December 31, 2016 - $nil) on the uncommitted facility. Subsequent to year-end, the $30.0 million committed facility was repaid in full.

The Company's 'A/stable' long-term corporate credit rating was reaffirmed by Standard & Poor's in April 2017. This rating reflects the Company's low-risk as a distribution company with regulated cash flows. The Company's current credit rating provides for a reduction in the IESO prudential requirement by approximately $59.0 million.

Liquidity and Cash Flow

Cash generated from operating activities increased to $33.3 million (December 31, 2016 - $25.3 million). Cash flows primarily relate to amounts of $14.6 million from net income after regulatory adjustments, $18.3 million from amortization expenses, and increases of $4.4 million as a result of a change in non-cash working capital. Cash flow used in operations is primarily from the repayment of regulatory balances totalling $3.5 million.

Cash used in investing activities decreased to $32.3 million (December 31, 2016 - $33.7 million) which primarily represents the net purchase of capital assets and intangible assets.

Cash related to financing activities generated $2.7 million (December 31, 2016 - $2.7 million generated) due to the proceeds of long-term debt and repayment of scheduled debt payments and dividend payments of $5.0 million.

The year-to-date change in cash is an increase of $3.7 million. The cash balance as of December 31, 2017 was $4.4 million.

KPMG LLP
140 Fullarton Street Suite 1400
London ON N6A 5P2
CANADA

Tel 519 672-4800
Fax 519 672-5684
www.kpmg.ca

Independent Auditors' Report

To the Shareholder of London Hydro Inc.

We have audited the accompanying financial statements of London Hydro Inc., which comprise the statement of financial position as at December 31, 2017, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of London Hydro Inc. as at December 31, 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants
London, Canada
March 22, 2018

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

December 31, 2017, with comparative amounts at December 31, 2016

	Note		2017		2016
ASSETS					
Current assets					
Cash	5	$	4,364	$	713
Accounts receivable	6		75,047		86,914
Materials and supplies	7		647		845
Prepaid expenses			2,461		1,896
Total current assets			82,519		90,368
Non-current assets					
Property, plant and equipment	8		286,584		268,702
Intangible assets	9		19,583		17,617
Total non-current assets			306,167		286,319
Total assets			388,686		376,687
Regulatory balances	11		5,832		6,550
Total assets and regulatory balances		$	394,518	$	383,237
LIABILITIES					
Current liabilities					
Accounts payable and accrued liabilities	12	$	48,304	$	56,257
Due to shareholder	21		8,724		8,671
Income tax payable			736		223
Current portion of long-term debt	14		2,304		2,304
Customer and other deposits			932		436
Deferred revenue	13		1,799		1,399
Total current liabilities			62,799		69,290
Non-current liabilities					
Long-term debt	14,23		116,522		108,826
Post-employment benefits	15		15,213		14,481
Customer and other deposits			5,896		5,600
Deferred revenue	13		21,328		16,309
Deferred tax liability	10		3,766		1,163
Unrealized loss on interest rate swap	14,23		887		4,406
Total non-current liabilities			163,612		150,785
Total liabilities			226,411		220,075
Equity					
Share capital	16		96,116		96,116
Retained earnings			64,887		55,251
Accumulated other comprehensive loss			(1,170)		(586)
Total equity			159,833		150,781
Total liabilities and equity			386,244		370,856
Regulatory balances	11		8,274		12,381
Commitments and contingencies (Note 20), Subsequent events (Notes 14 and 24)					
Total liabilities, equity and regulatory balances		$	394,518	$	383,237

On behalf of the Board:

Director

Director

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

Statement of Comprehensive Income

London Hydro Inc. / Statement of Comprehensive Income / IN THOUSANDS OF DOLLARS
For the year ended December 31, 2017, with comparative amounts for 2016

	Note	2017	2016
Revenues			
Sale of energy		$ 371,392	$ 430,713
Distribution revenue		66,862	65,158
Other	17	10,504	10,690
		448,758	506,561
Operating expenses			
Cost of power purchased		373,466	423,092
Operating expenses	18	41,933	41,167
Depreciation and amortization		18,321	18,717
		433,720	482,976
Income from operating activities		15,038	23,585
Finance (income) / expense	19	(607)	1,228
Income before income taxes		15,645	22,357
Income tax expense	10	4,553	3,979
Net income for the year		11,092	18,378
Net movement in regulatory balances, net of tax	11	3,544	(5,911)
Net income for year and net movement in regulatory balances		14,636	12,467
Other comprehensive income / (loss)			
Items that will not be reclassified to profit or loss:			
Remeasurements of post-employment benefits	15	(584)	(294)
Tax on remeasurements	10	155	78
Net movement in regulatory balances, net of tax	11	(155)	(78)
Other comprehensive loss		(584)	(294)
Total comprehensive income for the year		$ 14,052	$ 12,173

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

London Hydro Inc. / Statement of Changes in Equity / IN THOUSANDS OF DOLLARS
For the year ended December 31, 2017, with comparative amounts for 2016

	Note	Share Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance at January 1, 2016		$ 96,116	$ 52,784	$ (292)	$ 148,608
Net income and net movement in regulatory balances		-	12,467	-	12,467
Other comprehensive loss		-	-	(294)	(294)
Dividends	16	-	(10,000)	-	(10,000)
Balance at December 31, 2016		$ 96,116	$ 55,251	$ (586)	$ 150,781
Balance at January 1, 2017		$ 96,116	$ 55,251	$ (586)	$ 150,781
Net income and net movement in regulatory balances		-	14,636	-	14,636
Other comprehensive loss		-	-	(584)	(584)
Dividends	16	-	(5,000)	-	(5,000)
Balance at December 31, 2017		$ 96,116	$ 64,887	$ (1,170)	$ 159,833

“...your help with the myIDC system has enabled us to better understand our load profile and I’ve been able to use it in our monthly reports.”

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, 2017, with comparative amounts for 2016

	Note	2017	2016
Operating activities			
Net income and net movement in regulatory balances		$ 14,636	$ 12,467
Adjustments for:			
Depreciation and amortization	8,9	18,321	18,717
Amortization of deferred revenue	17	(138)	(234)
Post-employment benefits	15	148	342
Gain on disposal of property, plant and equipment	17	(280)	(173)
Net finance expense / (income)	19	(607)	1,228
Income tax expense	10	4,553	3,979
		36,633	36,326
Change in non-cash working capital:			
Accounts receivable		11,867	(15,900)
Materials and supplies		198	(96)
Prepaid expenses		(565)	(70)
Accounts payable and accrued liabilities		(7,953)	2,187
Due to shareholder		53	1,243
Customer deposits		792	(221)
		4,392	(12,857)
Other:			
Regulatory balances	11	(3,544)	5,911
Income tax paid		(1,410)	(2,065)
Income tax received		128	706
Interest paid		(3,006)	(2,837)
Interest received		94	80
		(7,738)	1,795
Net cash from operating activities		33,287	25,264
Investing activities			
Purchase of property, plant and equipment	8	(31,331)	(31,110)
Purchase of intangible assets	9	(6,846)	(6,546)
Proceeds on disposal of property, plant and equipment		146	241
Contributions received from customers		5,699	3,739
Net cash used in investing activities		(32,332)	(33,676)
Financing activities			
Dividends paid	16	(5,000)	(10,000)
Proceeds from long-term debt	14	10,000	20,000
Repayment of long-term debt	14	(2,304)	(7,304)
Net cash from financing activities		2,696	2,696
Change in cash		3,651	(5,716)
Cash, beginning of year		713	6,429
Cash, end of year		$ 4,364	$ 713

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 22, 2018.

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.

2. Basis of presentation (continued)

e) Use of estimates and judgments (continued)

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future years affected.

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

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

f) Rate regulation

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

The Company is required to bill customers for the debt retirement charge set by the province. The Company may file to recover uncollected debt retirement charges from Ontario Electricity Financial Corporation ("OEFC").

Rate setting

Distribution revenue

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

2. Basis of presentation (continued)

f) Rate regulation (continued)

Rate setting - *Distribution revenue (continued)*

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.

The Company previously filed a COS application in September 2012 for rates effective May 1, 2013 to April The GDP IPI-FDD for 2016 was 2.1%, the OEB applied productivity factor was 0.0% and the OEB determined stretch factor was (0.15)%, resulting in a net adjustment of 1.95% to the previous year's rates effective May 1, 2016.

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 current rates. These new rates became effective May 1, 2017.

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

Revenue from the sale and distribution of electricity is recognized as the electricity is delivered to customers on the basis of cyclical meter readings and estimated customer usage since the last meter reading date to the end of the period. Revenue includes the cost of electricity supplied, distribution, and any other regulatory charges. The related cost of power is recorded on the basis of power used.

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

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

3. Significant accounting policies (continued)

b) Revenue recognition (continued)

Other revenue

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

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

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

c) Materials and supplies

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

d) Property, plant and equipment

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

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

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

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

3. Significant accounting policies (continued)

d) Property, plant and equipment (continued)

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

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

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

The cost of replacing a part of an item of PP&E is recognized in the net book value of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. In this event, the replaced part of PP&E is written off, and the related gain or loss is included in 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
Distribution system and equipment	25 - 60
Building structures and components	12 - 75
Substation equipment	15 - 45
Metering devices	15 - 30
System supervisory equipment	8 - 35
Automotive equipment	8 - 12
Equipment, tools and furniture	5 - 8
Computer hardware	3
Renewable generation assets	20

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.

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

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

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

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

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

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.

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.

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.

3. Significant accounting policies (continued)

h) Provisions

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

i) Regulatory balances

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

Regulatory deferral account debit balances are recognized if it is probable that future billings in an amount at least equal to the deferred cost will result from inclusion of that cost in allowable costs for rate-making purposes. The offsetting amount is recognized in net movement in regulatory balances in 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, 2017:

i. Disclosure Initiative (Amendments to IAS 7)
ii. Recognition of Deferred Tax Assets for Unrealized Losses (Amendments to IAS 12)
iii. Annual Improvements to IFRS (2014-2016) cycle

i. Disclosure Initiative (Amendments to IAS 7)

On January 7, 2016 the IASB issued Disclosure Initiative (Amendments to IAS 7). The amendments apply prospectively for annual periods beginning on or after January 1, 2017.

The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. One way to meet this new disclosure requirement is to provide a reconciliation between the opening and closing balances for liabilities from financing activities.

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

ii. Recognition of Deferred Tax Assets for Unrealized Losses (Amendments to IAS 12)

On January 19, 2016 the IASB issued Recognition of Deferred Tax Assets for Unrealized Losses (Amendments to IAS 12). The amendments apply retrospectively for annual periods beginning on or after January 1, 2017.

The amendments clarify that the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset. The amendments also clarify the methodology to determine the future taxable profits used for assessing the utilization of deductible temporary differences.

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

3. Significant accounting policies (continued)

m) Change in accounting policies (continued)

iii. Annual Improvements to IFRS (2014-2016) cycle

On December 8, 2016 the IASB issued narrow-scope amendments to three standards as part of its annual improvements process. Clarification that IFRS 12 Disclosures of Interests in Other Entities also applies to interests that are classified as held for sale, held for distribution, or discontinued operations became effective retrospectively for annual periods beginning on or after January 1, 2017. The remaining two amendments not yet effective relate to IFRS 1 and IAS 28 (note 4 iv).

The Company has adopted IFRS 12 disclosure amendments effective January 1, 2017. The amendment 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. IFRS 15 Revenue from Contracts with Customers
ii. IFRS 9 Financial Instruments
iii. IFRS 16 Leases
iv. Annual Improvements to IFRS (2014-2016) cycle
v. Annual Improvements to IFRS (2015-2017) cycle

i. IFRS 15 Revenue from Contracts with Customers

On May 28, 2014 the IASB issued IFRS 15 Revenue from Contracts with Customers. The new standard is effective for annual periods beginning on or after January 1, 2018. IFRS 15 will replace IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfer of Assets from Customers, and SIC 31 Revenue – Barter Transactions Involving Advertising Services. On April 12, 2016, the IASB issued Clarifications to IFRS 15, Revenue from Contracts with Customers, which is effective at the same time as IFRS 15.

4. Standards not yet adopted (continued)

i. IFRS 15 Revenue from Contracts with Customers (continued)

The standard contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. The new standard applies to contracts with customers. It does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other IFRSs. The clarifications to IFRS 15 provide additional guidance with respect to the five-step analysis, transition, and the application of the Standard to licenses of intellectual property.

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

ii. IFRS 9 Financial Instruments

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

IFRS 9 introduces new requirements for the classification and measurement of financial assets. Under IFRS 9, financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. The standard introduces additional changes relating to financial liabilities. It also amends the impairment model by introducing a new ‘expected credit loss’ model for calculating impairment. IFRS 9 also includes a new general hedge accounting standard which aligns hedge accounting more closely with risk management. This new standard does not fundamentally change the types of hedging relationships or the requirement to measure and recognize ineffectiveness, however it will provide more hedging strategies that are used for risk management to qualify for hedge accounting and introduce more judgment to assess the effectiveness of a hedging relationship. Special transitional requirements have been set for the application of the new general hedging model.

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

4. Standards not yet adopted (continued)

iii. IFRS 16 Leases

On January 13, 2016 the IASB issued IFRS 16 Leases. The new standard is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted for entities that apply IFRS 15 Revenue from Contracts with Customers at or before the date of initial adoption of IFRS 16. IFRS 16 will replace IAS 17 Leases.

This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. This standard substantially carries forward the lessor accounting requirements of IAS 17, while requiring enhanced disclosures to be provided by lessors. Other areas of the lease accounting model have been impacted, including the definition of a lease. Transitional provisions have been provided.

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

iv. Annual Improvements to IFRS (2014-2016) cycle

On December 8, 2016 the IASB issued narrow-scope amendments to three standards as part of its annual improvements process. The amendment to IFRS 12 became effective from January 1, 2017 (note 3 (m) iii). Remaining amendments not yet effective relate to IFRS 1 and IAS 28:

- Removal of out-dated exemptions for first time adopters under IFRS 1 First-time Adoption of International Financial Reporting Standards, effective for annual periods beginning on or after January 1, 2018; and
- Clarification that the election to measure an associate or joint venture at fair value under IAS 28 Investments in Associates and Joint Ventures for investments held directly, or indirectly, through a venture capital or other qualifying entity can be made on an investment-by-investment basis. The amendments are effective retrospectively for annual periods beginning on or after January 1, 2018.

The Company will adopt the amendments to IFRS 1 and IAS 28 in its financial statements for the annual period beginning on January 1, 2018. The extent of the impact of adoption of the standard has not yet been determined.

4. Standards not yet adopted (continued)

v. 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. The amendments are effective on or after January 1, 2019, with early application permitted. 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.

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

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

5. Cash

		2017		2016
Bank balances	$	4,364	$	713

6. Accounts receivable

		2017		2016
Trade receivables	$	33,256	$	40,993
Unbilled revenue		38,031		45,507
Other		6,476		2,969
Allowance for doubtful accounts		(2,716)		(2,555)
	$	75,047	$	86,914

Included in accounts receivable is approximately $9.0 million (2016 - $8.6 million) of customer receivables for water consumption that the Company bills and collects on behalf of the Corporation of the City of London. As the Company does not assume liability for collection of these amounts, any amount relating to water consumption that is determined to be uncollectible is charged to the Corporation of the City of London.

Also, included in the accounts receivable is $1.4 million (2016 - $1.8 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, 2017 was $0.1 million (2016 - $0.1 million).

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

8. Property, plant and equipment

a) Cost or deemed cost:

	Land and buildings	Distribution substation equipment	Other distribution equipment	Other fixed assets	Construction in progress	Total
Balance at January 1, 2016	$ 14,311	$ 9,725	$ 219,990	$ 19,727	$ 10,300	$ 274,053
Additions	1,450	191	25,840	3,297	332	31,110
Disposals / retirements	(742)	-	(444)	(1,455)	-	(2,641)
Balance at December 31, 2016	$ 15,019	$ 9,916	$ 245,386	$ 21,569	$ 10,632	$ 302,522
Balance at January 1, 2017	$ 15,019	$ 9,916	$ 245,386	$ 21,569	$ 10,632	$ 302,522
Additions	1,131	176	23,619	3,398	3,007	31,331
Disposals / retirements	(102)	-	(658)	(597)	-	(1,357)
Balance at December 31, 2017	$ 16,048	$ 10,092	$ 268,347	$ 24,370	$ 13,639	$ 332,496

b) Accumulated depreciation:

	Land and buildings	Distribution substation equipment	Other distribution equipment	Other fixed assets	Construction in progress	Total
Balance at January 1, 2016	$ 1,817	$ 553	$ 16,561	$ 4,383	$ -	$ 23,314
Depreciation	960	283	9,216	2,681	-	13,140
Disposals / retirements	(742)	-	(444)	(1,448)	-	(2,634)
Balance at December 31, 2016	$ 2,035	$ 836	$ 25,333	$ 5,616	$ -	$ 33,820
Balance at January 1, 2017	$ 2,035	$ 836	$ 25,333	$ 5,616	$ -	$ 33,820
Depreciation	775	289	9,746	2,631	-	13,441
Disposals / retirements	(102)	-	(650)	(597)	-	(1,349)
Balance at December 31, 2017	$ 2,708	$ 1,125	$ 34,429	$ 7,650	$ -	$ 45,912

c) Carrying amounts:

Balance at	Land and buildings	Distribution substation equipment	Other distribution equipment	Other fixed assets	Construction in progress	Total
December 31, 2016	$ 12,984	$ 9,080	$ 220,053	$ 15,953	$ 10,632	$ 268,702
December 31, 2017	$ 13,340	$ 8,967	$ 233,918	$ 16,720	$ 13,639	$ 286,584

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

9. Intangible assets

a) Cost or deemed cost:

	Land rights	Wholesale metering	Computer software	Intangible work in progress	Total
Balance at January 1, 2016	$ 233	$ 1,085	$ 21,712	$ 2,011	$ 25,041
Additions	14	-	4,821	1,711	6,546
Disposals / retirements	-	-	(4,032)	-	(4,032)
Balance at December 31, 2016	$ 247	$ 1,085	$ 22,501	$ 3,722	$ 27,555
Balance at January 1, 2017	$ 247	$ 1,085	$ 22,501	$ 3,722	$ 27,555
Additions	30	-	4,168	2,648	6,846
Disposals / retirements	-	-	(4,338)	-	(4,338)
Balance at December 31, 2017	$ 277	$ 1,085	$ 22,331	$ 6,370	$ 30,063

b) Accumulated amortization:

	Land rights	Wholesale metering	Computer software	Intangible work in progress	Total
Balance at January 1, 2016	$ 35	$ 86	$ 8,272	$ -	$ 8,393
Amortization	19	43	5,515	-	5,577
Disposals / retirements	-	-	(4,032)	-	(4,032)
Balance at December 31, 2016	$ 54	$ 129	$ 9,755	$ -	$ 9,938
Balance at January 1, 2017	$ 54	$ 129	$ 9,755	$ -	$ 9,938
Amortization	20	43	4,817	-	4,880
Disposals / retirements	-	-	(4,338)	-	(4,338)
Balance at December 31, 2017	$ 74	$ 172	$ 10,234	$ -	$ 10,480

c) Carrying amounts:

Balance at	Land rights	Wholesale metering	Computer software	Intangible work in progress	Total
December 31, 2016	$ 193	$ 956	$ 12,746	$ 3,722	$ 17,617
December 31, 2017	$ 203	$ 913	$ 12,097	$ 6,370	$ 19,583

During the year ended December 31, 2017, borrowing costs of $0.1 million (2016 - $0.1 million) were capitalized as part of the cost of intangible assets. A capitalization rate of 2.62% (2016 – 2.60%) was used to determine the amount of borrowing costs to be capitalized.

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

10. Income tax expense

Income tax expense is comprised of:

		2017		2016
Current income tax				
Current year	$	2,115	$	2,261
Amendment for prior period income tax credits		(307)		(293)
Adjustment for prior period income tax expense		(13)		30
		1,795		1,998
Deferred tax				
Change in recognized deductible temporary differences:				
Gain on interest rate swap loss		933		405
Property, plant, equipment and intangible assets		2,016		1,768
Post-employment benefits		(39)		(91)
Deferred revenue		(152)		(101)
		2,758		1,981
Total current and deferred income tax in profit and loss, before movement of regulatory balance		4,553		3,979
Other comprehensive income				
Post-employment benefits		(155)		(78)
Total current and deferred income tax, before movement of regulatory balances		4,398		3,901
Net movement in regulatory balances		(1,670)		(1,498)
Income tax expense recognized in Statement of Comprehensive Income	$	2,728	$	2,403

Reconciliation of effective tax rate:

		2017		2016
Income before taxes	$	16,780		14,576
Canada and Ontario statutory income tax rates		26.5%		26.5%
Expected tax provision on income at statutory rates		4,447		3,863
Decrease in income taxes resulting from:				
Net movement in regulatory balances		(1,670)		(1,498)
Other items		(49)		38
	$	2,728	$	2,403

Significant components of the Company's deferred tax balances:

		2017		2016
Property, plant, equipment and intangible assets	$	(8,357)	$	(6,341)
Post-employment benefits		4,031		3,837
Deferred revenue		325		173
Future income taxes to be realized by customers		(4,001)		(2,331)
Loss on interest rate swap		235		1,168
	$	(3,766)	$	(1,163)

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

11. Regulatory balances

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

Regulatory assets:

Regulatory deferral account debit balances		January 1, 2017		Changes		Recovery/ reversal		December 31, 2017	Remaining years
IFRS-CGAAP transitional PP&E recoveries	$	39	$	-	$	(39)	$	-	
Regulatory settlement account		1,979		99		(2,078)		-	
Other regulatory accounts		2,201		(370)		-		1,831	
Income tax		2,331		1,670		-		4,001	
	$	6,550	$	1,399	$	(2,117)	$	5,832	

Regulatory deferral account debit balances		January 1, 2016		Changes		Recovery/ reversal		December 31, 2016	Remaining years
IFRS-CGAAP transitional PP&E recoveries	$	157	$	-	$	(118)	$	39	0.3
Regulatory settlement account		-		5,434		(3,455)		1,979	0.3
Other regulatory accounts		1,906		295		-		2,201	
Income tax		833		1,498		-		2,331	
	$	2,896	$	7,227	$	(3,573)	$	6,550	

Regulatory liabilities:

Regulatory deferral account credit balances		January 1, 2017		Changes		Recovery/ reversal		December 31, 2017	Remaining years
Group 1 deferred accounts	$	(12,218)	$	7,001	$	-	$	(5,217)	
Regulatory settlement account		-		(7,085)		4,028		(3,057)	0.3
Other regulatory accounts		(163)		163		-		-	
	$	(12,381)	$	79	$	4,028	$	(8,274)	

Regulatory deferral account credit balances		January 1, 2016		Changes		Recovery/ reversal		December 31, 2016	Remaining years
Group 1 deferred accounts	$	(2,577)	$	(9,641)	$	-	$	(12,218)	
Other regulatory accounts		(161)		(2)		-		(163)	
	$	(2,738)	$	(9,643)	$	-	$	(12,381)	

The regulatory balances are recovered or settled through fixed and/or volumetric rate riders approved by the OEB. The volumetric rate riders are determined using estimates of future consumption of electricity by its customers. Future consumption is impacted by various factors including the economy and weather. The Company has received approval from the OEB to establish its regulatory balances. Regulatory balances attract interest at OEB prescribed rates, which are based on Bankers' Acceptances three-month rate plus a spread of 25 basis points. In the first three quarters of 2017 the rate was set at 1.10% and in the last quarter the rate was set at 1.50%.

11. Regulatory balances (continued)

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. The 2016 IRM rate application was submitted to the OEB on October 19, 2015, which included a claim to recover the debit balances at December 31, 2014 via rate riders. The OEB issued its decision with respect to this Application which authorizes the recovery of these balances over a one-year period commencing May 1, 2016.

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.

During 2017, the Company filed its 2018 IRM rate application in which it proposes the disposition of the Group 1 account balances as at December 31, 2016 via rate riders. Currently, the Company awaits the OEB's decision and rate order.

b) IFRS-CGAAP transitional PP&E recoveries

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

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

11. Regulatory balances (continued)

c) Regulatory settlement account

During 2015, the Company filed its 2016 IRM rate application which included a request for OEB approval for the disposition of the RSVA relating to Power and Global Adjustment subaccounts. These accounts include amounts accumulated between January 1, 2013 and December 31, 2014. The non-commodity RSVA accounts include amounts accumulated between January 1, 2012 and December 31, 2014. The OEB issued its decision with respect to this Application which authorizes the disposition of these balances over a one-year period commencing May 1, 2016.

During 2016, the Company filed its 2017 COS rate application which included a request for OEB approval for the disposition of the RSVA account balances. These accounts included amounts accumulated between January 1, 2015 and December 31, 2015. The request for disposition also included other regulatory account balances such as Retail Cost Variance balances, the remaining IFRS transition expenditures, amounts resulting from the implementation of the Harmonized Sales Tax, the residual balance of Stranded Meter costs, LRAMVA balances and the recovery of Climate Change program costs as at December 31, 2015 with carrying charges. 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.

d) Other regulatory accounts

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

During 2016, the Company filed its 2017 COS rate application 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 includes a request for the recovery of such costs via rate riders. Currently, the Company awaits the OEB's decision and rate order.

e) Income tax

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

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

12. Accounts payable and accrued liabilities

		2017		2016
Due to Independent Electricity System Operator	$	34,839	$	43,709
Debt retirement charge payable		988		1,023
Harmonized sales tax		350		788
Payroll and benefits payable		2,979		2,669
Other		9,148		8,068
	$	48,304	$	56,257

13. Deferred revenue

		2017		2016
Capital contributions for completed projects	$	13,627	$	8,700
Deposits held		9,500		9,008
		23,127		17,708
Less: Current portion		1,799		1,399
	$	21,328	$	16,309

Included in deposits held is $3.7 million (2016 - $3.8 million) received from the Corporation of the City of London as contributions for the construction of capital assets.

14. Long-term debt

		2017		2016
Unsecured, committed extendible revolving loan bearing interest at prime, minus 0.5%, interest only payments due March 2019	$	30,000	$	20,000
Unsecured, non-revolving term instalment loan bearing interest at the 7.6 year Bankers' Acceptance rate of 2.46% plus a stamping fee of 0.19%, 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 due August 2019		3,826		6,130
		118,826		111,130
Less: Current portion		2,304		2,304
	$	116,522	$	108,826

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

14. Long-term debt (continued)

The unsecured, committed extendible revolving loan in the amount of $30.0 million listed above was subsequently repaid with additional borrowing in the amount of $40.0 million obtained from the Royal Bank of Canada on February 1, 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 0.19%, for an all-in rate of 2.65%.

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

The swap agreements entered into with Royal Bank of Canada do not meet the standard to apply hedge accounting. Accordingly, the interest rate swap contracts are recorded at their fair value at the end of the period with the unrealized gain or loss recorded in the Statements of Comprehensive Income as finance expenses. The unrealized gain for the year ended December 31, 2017 was $3.5 million (2016 – $1.5 million).

At December 31, 2017, the Company would be required to pay $0.9 million (2016 - $4.4 million) if it wished to cancel the swap agreements.

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

	2017	2016
Balance, beginning of year	$ 111,130	$ 98,434
Add: Advances	10,000	20,000
Less: Repayments	2,304	7,304
	118,826	111,130
Less: Current portion	2,304	2,304
	$ 116,522	$ 108,826

During the year ended December 31, 2017, interest on long-term debt was incurred in the amounted of $3.0 million (2016 - $2.8 million) of which $0.1 million (2016 – $0.1 million) was capitalized as part of the cost of intangible assets.

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

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, 2017, the Company made employer contributions of $2.9 million to OMERS (2016 - $2.8 million), of which $0.9 million (2016 - $0.8 million) has been capitalized as part of PP&E and the remaining amount of $2.0 million (2016 - $2.0 million) has been recognized in the Statement of Comprehensive Income. The Corporation estimates that a contribution of $3.2 million to OMERS will be made during the next fiscal year.

As at December 31, 2017, OMERS had approximately 482,000 members, of whom 334 are employees of the Company. The most recently available OMERS annual report is for the year ended December 31, 2017, which reported that the plan was 94% funded, with an unfunded liability of $5.4 billion. This unfunded liability is likely to result in future payments by participating employers and members.

b) Post-employment benefits other than pension

The Company pays certain medical and life insurance benefits on behalf of some of its retired employees. The Company recognizes these post-employment benefits in the year in which employees' services were rendered. The Company is recovering its post-employment benefits in rates based on the expense and remeasurements recognized for post-employment benefit plans. Based on the most recent actuarial valuation as at December 31, 2017, the following information has been determined:

Reconciliation of the obligation:

	2017	2016
Defined benefit obligation, beginning of year	$ 14,481	$ 13,845
Included in profit or loss:		
Current service costs	432	392
Past service costs	-	180
Interest cost	539	529
Other benefits	(101)	26
	870	1,127
Benefits paid	(722)	(785)
	148	342
Actuarial (gains) / losses included in OCI:		
Changes in demographic assumptions	(902)	-
Changes in financial assumptions	1,193	183
Effect of experience adjustments	293	111
	584	294
Defined benefit obligation, end of year	$ 15,213	$ 14,481

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

15. Post-employment benefits (continued)

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

Actuarial assumptions:

	2017	2016
Discount (interest) rate	3.4%	3.9%
Salary levels	4.0%	4.0%
Immediate medical costs	5.7%	6.0%
Ultimate medical costs	4.5%	4.5%
Dental cost rate	4.5%	4.5%
Year ultimate rate reached	2037	2028

A 1% increase in the assumed discount rate would result in the defined benefit obligation decreasing by $2.0 million. A 1% decrease in the assumed discount rate would result in the defined benefits obligation increasing by $2.2 million.

16. Share capital

	2017	2016
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 30, 2017 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 2017.

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

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

17. Other revenue

		2017		2016
City of London services	$	4,009	$	4,009
Late payment charges		1,543		1,915
Other services, recoveries and sundry revenues		1,056		632
Occupancy charges		649		634
Customer billing service fees		647		587
Income tax incentive credits		493		462
Sale of scrap		488		588
Collection charges		443		687
Pole and other rental income		417		414
Renewable generation revenue		341		355
Amortization of deferred revenue		280		173
Gain on disposal of property, plant and equipment		138		234
	$	10,504	$	10,690

18. Operating expenses

		2017		2016
Labour and benefits	$	25,886	$	25,088
Professional services		5,359		5,884
Computer hardware and software		2,261		1,755
Rental, regulatory and other expenses		1,970		1,967
Facilities maintenance and repair		1,602		1,673
Postage		1,259		1,269
Property tax and insurance		1,182		1,173
Corporate training and employee expenses		1,182		1,140
Materials and supplies		1,001		1,049
Fleet operations and maintenance		872		904
Bad debts		840		700
Office equipment services and maintenance		463		526
Allocations to capital and billable activities		(1,944)		(1,961)
	$	41,933	$	41,167

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

19. Finance (income) and expenses

		2017		2016
Finance income				
Interest income on bank deposits	$	(94)	$	(80)
Finance expenses				
Interest on long-term debt		2,985		2,813
Interest on short-term debt		49		28
Interest on funds used for construction project		(126)		(77)
Other		98		73
		3,006		2,837
Change in interest rate swap				
Unrealized gain on interest rate swap		(3,519)		(1,529)
Net finance (income) / expense	$	(607)	$	1,228

20. Commitments and contingencies

General

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

General Liability Insurance

The Company is a member of the Municipal Electric Association Reciprocal Insurance Exchange ("MEARIE"). MEARIE is a pooling of public liability insurance risks of many of the LDCs in Ontario. All members of the pool are subjected to assessment for losses experienced by the pool for the years in which they were members, on a pro-rata basis based on the total of their respective service revenues. As at December 31, 2017, no assessments have been made.

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

20. Commitments and contingencies (continued)

Letters of credit

At December 31, 2017, the Company had provided $6.6 million (2016 – $6.6 million) in bank standby letters of credit to the IESO.

Vendor commitments

The Company has commitments in connection with Information Systems projects of approximately $1.9 million (2016 - $2.3 million), Infrastructure projects of $21.3 million (2016 – $2.0 million) and new vehicle acquisitions of nil (2016 - $0.3 million).

Operating leases

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

		2017		2016
Less than one year	$	303	$	299
Between one and five years		710		824
More than five years		113		191
	$	**1,126**	**$**	**1,314**

Operating lease expense incurred during the year ended December 31, 2017 was of $0.3 million (2016 - $0.3 million).

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

21. Due to shareholder

Trade balances due to shareholder

		2017		2016
Water consumption	$	8,688	$	8,405
Non-interest bearing trade balance due to shareholder, without stated repayment terms		36		266
	$	8,724	$	8,671

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, 2017, the Company billed customers for water related service on behalf of the shareholder and remitted funds to the shareholder in the amount of $163.9 million (2016 – $158.7 million). The shareholder paid $3.9 million (2016 - $3.9 million) for this service.

During the year ended December 31, 2017, the Company performed water meter replacement administrative services on behalf of the shareholder. The shareholder paid $0.1 million (2016 – $0.1 million) for this service.

22. Joint venture agreement

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

23. Financial instruments and risk management

Fair value disclosure

The carrying values of cash, accounts receivable, unbilled revenue, due 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, 2017 is $88 million (2016 - $92 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, 2017 was 2.65% (2016 – 2.16%). 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.

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, 2017 is $2.7 million (2016 - $2.6 million). During the year ended December 31, 2017, bad debt expense was $0.8 million (2016 - $0.7 million).

23. Financial instruments and risk management (continued)

a) Credit risk (continued)

At December 31, 2017, approximately $0.8 million (2016 - $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, 2017, approximately $2.8 million (2016 - $2.2 million) is considered 60 days past due. The Company has approximately 157 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, 2017, the Company held deposits in the amount of $6.8 million (2016 - $6.0 million). Additionally, if presented with substantial credit losses, the Company would make an application to the regulator for recovery of those losses through distribution rate adjustments in future years.

b) Market risk

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

A 1% increase in the interest rate at December 31, 2017 would have increased interest expense on the long-term debt by $0.3 million (2016 - $0.2 million), assuming all other variables remain constant. A 1% decrease in the interest rate would have an equal but opposite effect.

23. Financial instruments and risk management (continued)

c) Liquidity risk

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

The Company has an uncommitted operating revolving line of credit facility of $40.0 million with the Toronto Dominion Bank. At December 31, 2017 the amount drawn by the Company under this line of credit was nil (2016 - 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, 2017 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 (2016 - $20.0 million). The $30.0 million loan was repaid subsequent to year end. Under the terms of this agreement, the loan has a maturity date of March 31, 2019. 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 (2016 - nil).

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

23. Financial instruments and risk management (continued)

d) Capital disclosures

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

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

		2017		2016
Long-term debt	$	118,826	$	111,130
Shareholder's equity		159,833		150,781
	$	278,659	$	261,911

24. Subsequent event

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.

London Hydro