Tom Mawlam
Electric Meter Technician

2018
Report on Financials

London Hydro

Dear Stakeholders,

At the core of its value, London Hydro remains a strong "hometown" utility and is recognized nationally and internationally for its many technological innovations. 2018 was another award winning year including a special recognition from Corporate Knights on being the third best Responsible Corporate Leader in Canada.

We continued with our commitment to enhance the safety, contingency and security of the electricity distribution system by undertaking the company's largest capital investment program in 2018, with a special focus on bolstering service in the downtown core as well as converting 4 kV and 13.8 kV systems to 27 kV throughout the city. The transition to higher voltages helps reduce the system losses and enhance overall system reliability. London Hydro's costs and rates that it charges for its distribution services have again remained in the lowest quartile among all Ontario utilities, which is evidence of our prudent capital investment and management.

In 2018, London Hydro yet again demonstrated its leadership by launching two unique pilot projects, under the OEB's oversight, concerning the Critical Peak Pricing of electricity for residential customers. In one pilot project there are about 600 customers with active load controls who can reduce the electricity usage during the critical peak conditions by automatically powering down home appliances. In this program, London Hydro has deployed Internet of Things devices/appliances in customers' premises, which can be controlled by in-house developed smart phone applications, available on iOS and Android. In the second pilot project about 1,400 customers are provided with real-time electricity consumption and pricing information to help them make their own decisions to reduce their electricity usage. The former project is an active control and the latter is a passive control, both using the smart technologies, helping customers in reducing energy usage and savings on hydro bills.

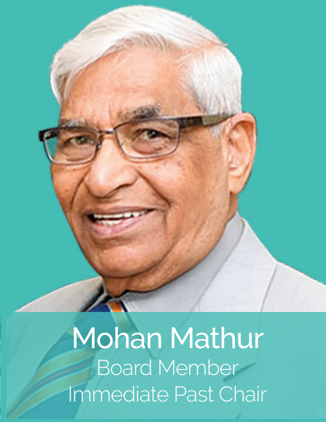
Having built a strong foundation for a technology and innovation strategy over the last five years, London Hydro is now reaping the benefits of increased on-line customer engagement, efficiency in its operation as well as increasing the number of computer and mobile applications for its customers; helping them self-manage their energy consumption and enhance our service levels. Out of London Hydro's 159,000 customers, nearly 95,000 customers now use on-line tools and applications; 56,000 customers have signed up for paperless billing; 20,000 customers use the on-line delegation option; and, nearly 100% of rental property owners use on-line tools to manage their tenancies. In 2018, we are proud to have launched an on-line tool for our contractors to manage all their property development related needs as well as an advanced smart vegetation management application. The latter, together with an increased automation network, has helped London Hydro reduce its system outages. Our continued investment in technology has also afforded us the opportunity to expand our shared services business model and offerings with other utilities including ENWIN in Windsor and ENMAX in Calgary.

Gabe Valente,
Chair

Vinay Sharma,
CEO

Board Members


Connie Graham
Vice Chair


Mohan Mathur
Board Member
Immediate Past Chair


Marilyn Sinclair
Board Member


Michael van Holst
Board Member


Jack Smit
Board Member


Guy Holborn
Board Member

Senior Management Team


David Arnold
CFO, VP Finance & Corporate Secretary


Syed Mir
CIO & VP Corporate Services


William Milroy
VP Engineering & Operations


Elizabeth Carswell
Senior Director HR

Also in 2018, London Hydro put into full production its most innovative distribution network called "ring-bus" for the downtown London area, serving approximately 15 MW of the electricity load. Additionally, London Hydro committed a $13.5 million investment to upgrade its infrastructure along the newly developed flex street on Dundas St. In 2018, London Hydro began a three year capital infrastructure plan which would see it invest $104 million to increase the resiliency and capacity of the distribution grid. These investments will allow London Hydro to meet growth demands and further reduce the frequency and the duration of outages. Also in 2018, London Hydro helped about 1,500 of its commercial and industrial customers in making their operations more energy efficient. In support of such programs, London Hydro brought about $5.4 million in energy efficient incentives to help customers achieve significant energy reduction. Overall, London Hydro helped accomplish 31,000 MWh of energy savings during the year – the equivalent of the electrical consumption of 3,000 homes for one year.

After five strong years of leadership, hard work and significant time commitment, Mohan Mathur, P.Eng., Ph.D., FCAE, has decided to relinquish the Board Chair responsibilities. Mohan has also elected to retire from the London Hydro Board after having served for over 13 years. Former Dean of Western Engineering, Mohan was instrumental in shaping the technology innovation culture and in nurturing the safety culture at London Hydro. All of us profoundly thank him for his contributions to the success of London Hydro and wish him the very best in the future.

London Hydro remains a valuable community organization earning a net income of $12.9 million in 2018 resulting in a return on shareholder equity of about 8%. Our asset base in 2018 grew by 8% and our balance sheet remains strong with a debt-to-equity ratio of 46%. We also continue to enjoy an 'A/stable' credit rating by Standard & Poor's. The continued success of London Hydro and its strong 2018 performance is recognition of the hard work and dedication of its 324 strong employees and sound governance by an experienced Board of Directors. On behalf of all of them, we submit our Report on Financials to all of our stakeholders and we thank them for their role in making London Hydro a successful "hometown" utility.

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 year ended December 31, 2018.

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, 2018.

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.

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.

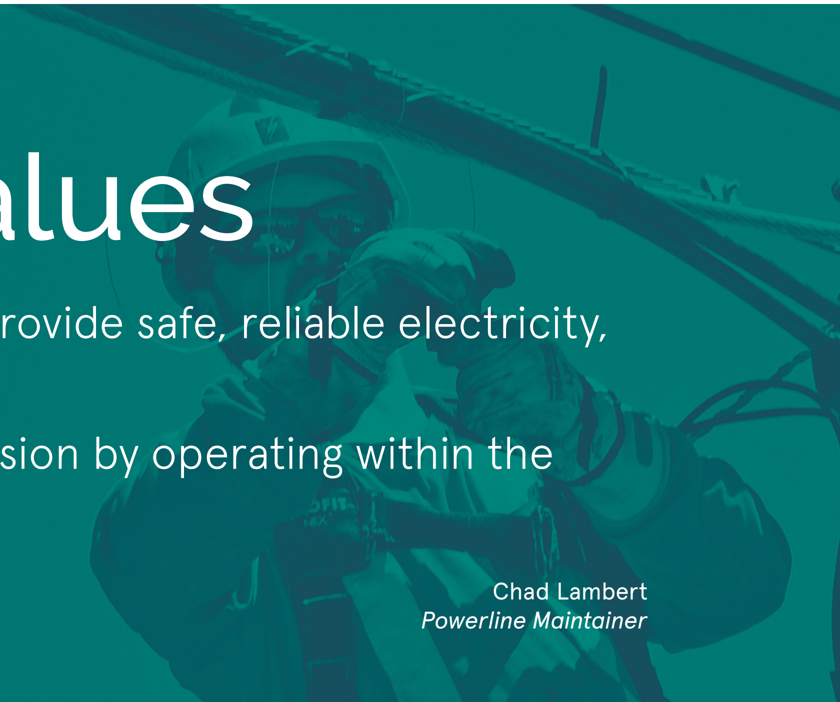
The Company is regulated by the Ontario Energy Board ("OEB"), and operates under the authority granted by the Ontario Energy Board Act (1998). The Company is one of the larger distribution companies in Ontario employing a workforce of 324 personnel servicing 159,040 customers and a population base of approximately 384,000.

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.

Mission & 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:



Chad Lambert
Powerline Maintainer

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.

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.

1. ***Safety*** – Safety is our first priority.
2. ***People*** – Our employees are our greatest strength. Our customers are our primary focus.
3. ***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.
4. ***Agility*** – We are open and adaptable as we embrace the industry's future.
5. ***Corporate and Social Responsibility*** – We are committed to being a financially, socially, and environmentally sustainable company.

2018 Year to Date Operations Overview

The Company's 2018 results for the year ended December 31, 2018 as compared to historical and planned performance is summarized in the following tables:

YTD RESULTS FOR THE PERIOD ENDED

FINANCIAL HIGHLIGHTS	ACTUAL 31-Dec-18	ACTUAL 31-Dec-17	CHANGE	PLAN 31-Dec-18	%OF PLAN
Energy Distributed - Gigawatt Hrs	3,310.8	3,178.4	4.2%	3,197.5	3.5%
Number of Customers	159,040	157,245	1.1%		
(in thousands of $'s)					
Sale of Energy	$342,046	$371,392	$(29,346)	$376,721	(9.2)%
Distribution revenue	68,676	66,862	1,814	67,485	1.8%
Other revenue	13,121	10,504	2,617	10,329	27%
Cost of power	356,921	373,466	(16,545)	382,360	(6.7)%
Operating expenses	43,809	41,933	1,876	44,822	(2.3)%
Amortization expenses	19,110	18,321	789	19,389	(1.4)%
Net finance costs	3,811	(607)	4,418	4,111	(7.3)%
Income taxes	4,312	4,553	(241)	731	489.9%
Net earnings before regulatory adjustments	(4,120)	11,092	(15,212)	3,122	(232.0)%
Regulatory adjustment	17,066	3,544	13,522	6,832	149.8%
Net earnings after regulatory adjustments	$12,946	$14,636	$(1,690)	$9,954	30.1%
Operating Expenses as a % of Distribution Revenue	63.8%	62.7%			
Return on Equity	7.9%	9.4%			
(in thousands of $'s)					
Operating Cash flow	14,419	33,287			
Investing Cash flow	(35,185)	(32,332)			
Financing Cash flow	17,696	2,696			
Cash flow	(3,070)	3,651			
Cash and equivalents - end of period	1,294	4,364			

Energy Quantities Distributed

Total energy distributed on the system for the year increased by 4.2% to 3,310.8 gigawatt hours (2017 – 3,178.4 gigawatt hours). The first three months of the year were colder than the comparable period in 2017 while the last nine months have been warmer than 2017 which all led to increased consumption. In addition to the increased consumption per individual because of weather, the number of customers grew by 1.1% over the course of the year.

Energy Revenue and Cost of Power

Revenue from the sale of energy decreased during the year to $342.0 million (2017 - $371.4 million). The decrease of $29.4 million or 7.9% 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 year ended December 31, 2018 to $356.9 million (2017 - $373.5 million). The decrease of $16.6 million or 4.4% usually represents the electricity changes 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 66% (2017 – 60%) of revenues are derived from a monthly fixed customer charge, while the remaining 34% (2017 – 40%) 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 on May 1, 2019. This is the most significant factor contributing to the increased percentage of fixed revenues in 2018 as compared to 2017.

Total customers as at December 31, 2018 were 159,040 (2017 – 157,245). Distribution revenue composition remained unchanged from the prior year with approximately 63% from residential customers (2017 – 63%), 33% from general service customers (2017 – 33%), and the remaining 4% from large users and other customers (2017 – 4%).

Total distribution revenues for the year increased by $1.8 million (2.7%) to $68.7 million (2017 – $66.9 million) primarily from both new customers as well as the change in approved distribution rates.

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. Each subsequent year between rebasing periods, the Company can apply for an Incentive Regulation Mechanism ("IRM") resulting in a formulaic adjustment to the distribution rates. The Company's 2017 IRM application was approved by the OEB resulting in a 1.05% increase in rates effective May 1, 2018. The Company's 2018 IRM application has been approved which will result in rates increasing by 1.20% effective May 1, 2019.

Operating Expense and Amortization

Total operating expenses increased during the year to $43.8 million (2017 - $41.9 million). The overall increase is $1.9 million or 4.5%, comprised mostly of increased labour expenses, computer hardware and software expenses and regulatory costs. 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. The Company has not had a significant change in bad debt expenses as a result of active monitoring of overdue accounts combined with various programs to provide various repayment options to meet customer needs.

Amortization expense increased slightly to $19.1 million (2017 - $18.3 million). The Company continues to invest in infrastructure and information technology to maintain reliability for its users.

Lee Springer
SSM Technician

Other Revenue

Other revenue increased to the amount of $13.1 million (2017 - $10.5 million). The Company received payment for one-time conservation incentives from the IESO in the amount of $2.0M for conversation related projects completed between 2015 and 2018. The Company provided external IT services which resulted in revenue of $0.3 million (2017 - $0.1 million).

Net Finance Costs

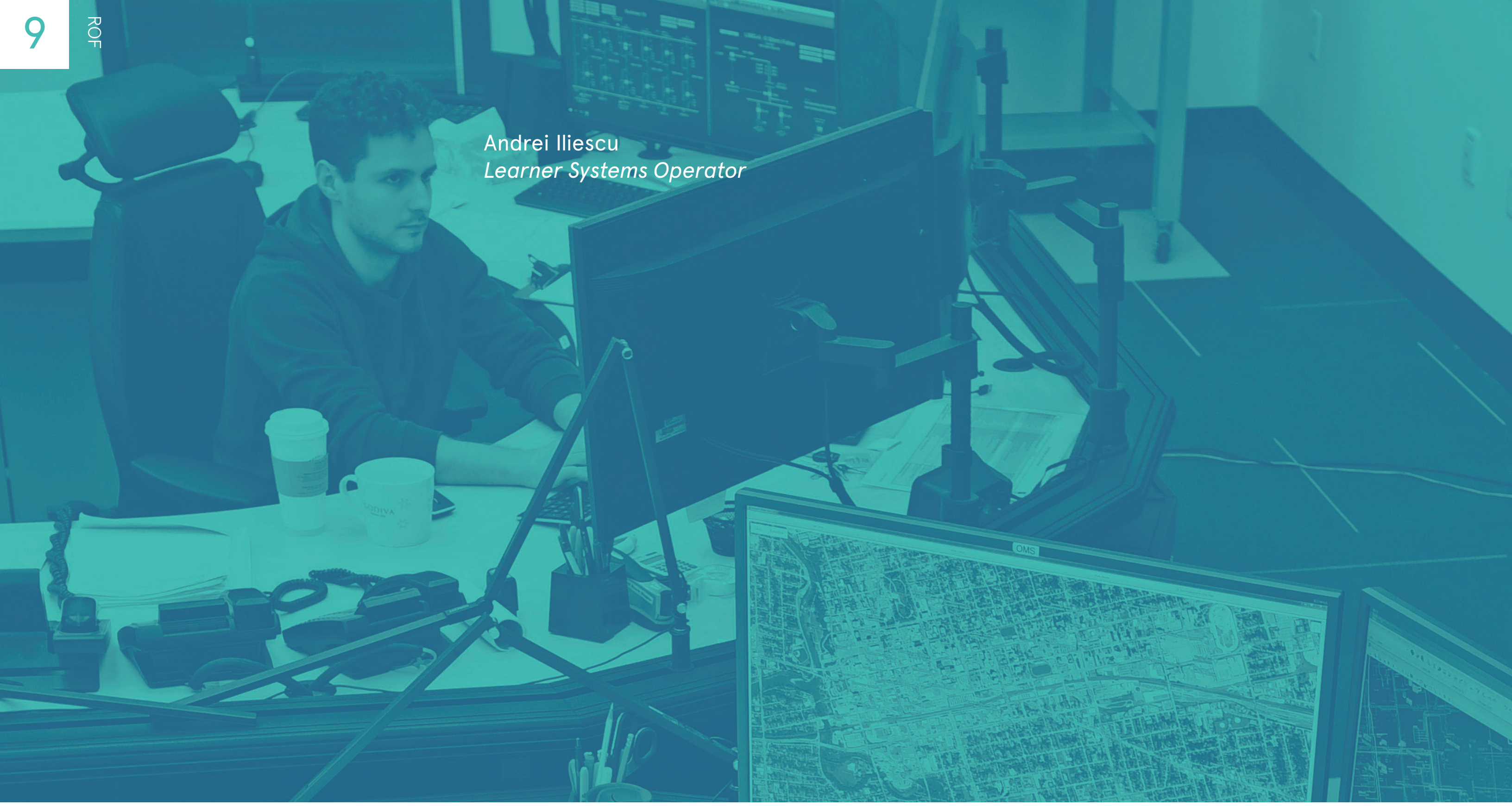
Interest expense increased significantly to $3.8 million (2017 - $(0.6) million) as the result of two factors. The first is that the Company had a higher average debt balance compared to the prior year which resulted in an increase of interest expenses of $0.6 million. Second, the unrealized loss associated with the Company's swap agreement was $0.3 million compared to a gain in the prior year of $3.5 million. Excluding the mark-to-market expense incurred for financial statement purposes relating to the three swap agreements, the interest expense would have increased slightly to $3.5 million (2017 - $2.9 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, 2018, the total outstanding on this agreement is $1.5 million (2017 - $3.8 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, 2018, the total outstanding on this agreement is $85 million (2017 - $85 million) with interest only payments made on a quarterly basis.

The third agreement is a 4.4-year interest rate swap agreement in the amount of $40 million, obtained February 1, 2018, maturing 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. As of December 31, 2018, the total outstanding on this agreement is $40 million (2017 - $nil) with interest only payments made on a quarterly basis.

A total unrealized loss on the interest rate swap of $1.2 million, recorded on the Statement of Financial Position, represents what the Company's cost would be to unwind these agreements as at December 31, 2018. Currently, the Company plans to maintain these agreements until the maturity dates.



Andrei Iliescu
Learner Systems Operator

Income Tax Expense

The Company is required to make payments in lieu of tax ("PILs") to the Ontario Electricity Financial Corporation. The PILs required to be paid is intended to be 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 year ended December 31, 2018 was $4.3 million (2017 - $4.6 million) slightly decreased due to the decrease in net income compared to the prior year.

The Company has a deferred tax liability of $5.6 million (2017 - $3.8 million) as a result of temporary differences related to financial reporting carrying amounts of Property, Plant, Equipment and Intangibles in excess of their tax values, net of deferred taxes receivable for employee future benefits expenses that have 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, 2018, the Company had regulatory assets of $17.2 million (2017 - $5.8 million), representing an increase of $11.4 million, which relates primarily to the cost of energy paid by the Company being higher than the amount charged to ratepayers through distribution rates, along with an increase in deferred income taxes receivable. 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.

Capital Resources

Capital Structure and Dividend Policy

The Company has three debt agreements which account for total debt of $126.5 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 that was paid in quarterly installments during fiscal 2018.

Subsequent to year end, the Board of Directors approved a dividend of $5.0 million to be paid in quarterly installments during fiscal 2019.

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, 2021, and $6.6 million in Standby Letters of Credit issued to the IESO as security. In the event that the maturity date of the committed 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, 2018, the Company has drawn down $15.0 million (2017 - $30.0 million) on its committed loan facility and $nil (2017 - $nil) on the uncommitted facility.

The Company's 'A/stable' long-term corporate credit rating was reaffirmed by Standard & Poor's in April 2018. This rating reflects the Company's low-risk as a distribution company with regulated cash flows.

Powerline Maintainers:
Chris Albright, Clarke Ellah, Bryan Snyder, Rolston Long (L to R)

Liquidity and Cash flow

Cash generated from operating activities decreased to $14.4 million (2017 - $33.3 million). Cash flows primarily relate to amounts of $12.9 million from net income after regulatory adjustments, $19.1 million from amortization expenses, and decreases of $3.4 million as a result of a change in non-cash working capital and the repayment of regulatory balances totalling $17.1 million.

Cash used in investing activities increased to $35.2 million (2017 - $32.3 million) which primarily represents the net purchase of capital assets and intangible assets.

Cash related to financing activities generated $17.7 million (2017 - $2.7 million) due to the proceeds of long-term debt, repayment of debt payments and dividend payments of $5.0 million.

The year-to-date change in cash is a decrease of $3.1 million. The cash balance as of December 31, 2018 was $1.3 million.

Line Supervisor:
Jeff Orchard

Financial Table of Contents

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London ON N6A 5P2
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INDEPENDENT AUDITORS' REPORT

To the Shareholder of London Hydro Inc.

Opinion

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

- the statement of financial position as at December 31, 2018
- the statement of comprehensive income for the year then ended
- the statement of changes in equity for the year then ended
- the statement of cash flows for the year then ended
- and notes to the financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the “financial statements”).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at December 31, 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

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

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

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

Other Information

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

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

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

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

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

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

We have nothing to report in this.

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

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

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

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

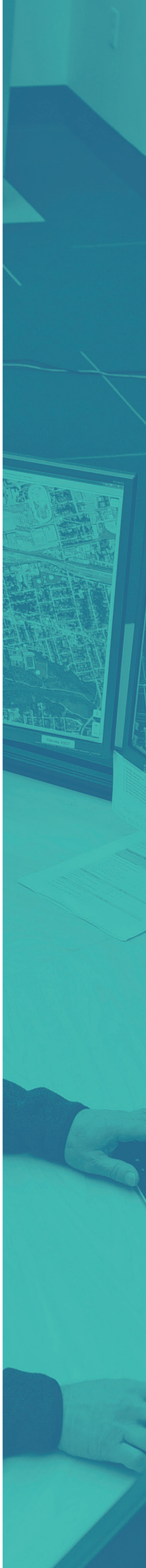
Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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



KPMG

We also:

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

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

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

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

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

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

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

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

London, Canada

March 27, 2019

London Hydro Inc. / Statement of Financial Position / IN THOUSANDS OF DOLLARS
December 31, 2018, with comparative amounts at December 31, 2017

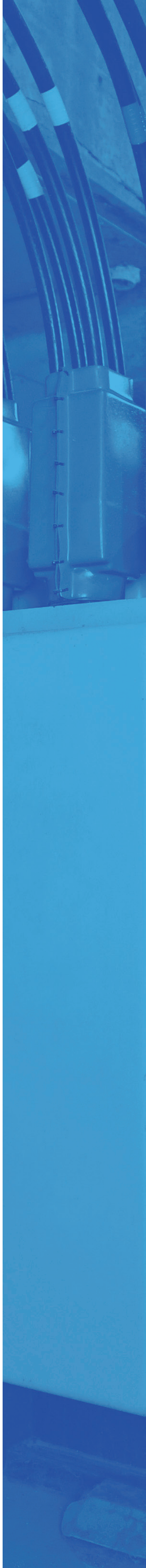
	Note	2018	2017
ASSETS			
Current assets			
Cash	5	$ 1,294	$ 4,364
Accounts receivable	6	74,985	75,047
Materials and supplies	7	617	647
Prepaid expenses		2,667	2,461
Total current assets		79,563	82,519
Non-current assets			
Property, plant and equipment	8	306,439	286,584
Intangible assets	9	22,836	19,583
Total non-current assets		329,275	306,167
Total assets		408,838	388,686
Regulatory balances	11	17,166	5,832
Total assets and regulatory balances		$ 426,004	$ 394,518
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	12	$ 48,209	$ 48,304
Due to shareholder	21	6,451	8,724
Income tax payable		2,197	736
Current portion of long-term debt	14	1,522	2,304
Customer and other deposits		2,415	932
Deferred revenue	13	2,336	1,799
Total current liabilities		63,130	62,799
Non-current liabilities			
Long-term debt	14,24	140,000	116,522
Post-employment benefits	15	13,895	15,213
Customer and other deposits		3,509	5,896
Deferred revenue	13	27,192	21,328
Deferred tax liability	10	5,590	3,766
Unrealized loss on interest rate swap	14,24	1,228	887
Total non-current liabilities		191,414	163,612
Total liabilities		254,544	226,411
Equity			
Share capital	16	96,116	96,116
Retained earnings		72,833	64,887
Accumulated other comprehensive income (loss)		380	(1,170)
Total equity		169,329	159,833
Total liabilities and equity		423,873	386,244
Regulatory balances	11	2,131	8,274
Commitments and contingencies (Note 22), Subsequent events (Notes 25)			
Total liabilities, equity and regulatory balances		$ 426,004	$ 394,518

On behalf of the Board:

Director

Director

The accompanying notes are an integral part of these financial statements



London Hydro Inc. / Statement of Comprehensive Income / IN THOUSANDS OF DOLLARS
For the year ended December 31, 2018, with comparative amounts for 2017

	Note	2018	2017

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, 2018, with comparative amounts for 2017

	Note	Share Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total

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, 2018, with comparative amounts for 2017

	Note	2018	2017

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 27, 2019.

c) Basis of measurement

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

d) Functional and presentation currency

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

e) Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses and disclosure of contingent assets and liabilities. Actual results may differ from those estimates.

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

2. Basis of presentation (continued)

e) Use of estimates and judgments (continued)

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

(i) 3(b) – measurement of unbilled revenue
(ii) 3(b) – determination of the performance obligation for contributions from customers and the related amortization period
(iii) 3(d), 3(e), 8, 9 – estimation of useful lives of its property, plant and equipment and intangible assets
(iv) 6 – estimation for allowance for doubtful accounts
(v) 8 – leases: whether an arrangement contains a lease
(vi) 11 – recognition and measurement of regulatory balances
(vii) 15 – measurement of defined benefit obligations: key actuarial assumptions
(viii) 22 – recognition and measurement of provisions and contingencies

f) Rate regulation

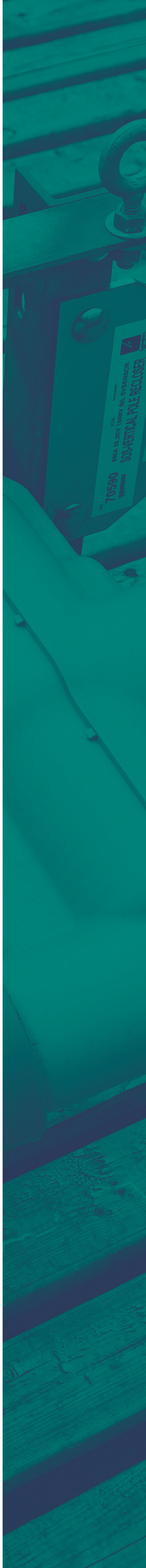
The Company is regulated by the Ontario Energy Board (“OEB”), under the authority granted by the *Ontario Energy Board Act, 1998*. Among other things, the OEB has the power and responsibility to approve or set rates for the transmission and distribution of electricity, providing continued rate protection 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 was required to bill customers for the debt retirement charge set by the province. The Company may file to recover uncollected debt retirement charges from Ontario Electricity Financial Corporation (“OEFC”). The debt retirement charge ended effective April 1, 2018 as set out in section 85(4) of the Electricity Act, and the Company no longer bills it to its customers.

Rate setting

Distribution revenue

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



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 2017. 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 the previous year's rates effective May 1, 2017. The GDP IPI-FDD for 2018 was 1.2%, the OEB applied productivity factor was 0.0% and the OEB determined stretch factor was (0.15)%, resulting in a net adjustment of 1.05% to the previous year's rates effective May 1, 2018.

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

Electricity rates

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

3. Significant accounting policies

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

a) Financial instruments

Non-derivative

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

Derivative

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

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

b) Revenue recognition

Sale and distribution of electricity

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

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

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

3. Significant accounting policies (continued)

b) Revenue recognition (continued)

Capital contributions

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

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

Other revenue

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

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

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.

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

3. Significant accounting policies (continued)

d) Property, plant and equipment (continued)

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

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

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

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

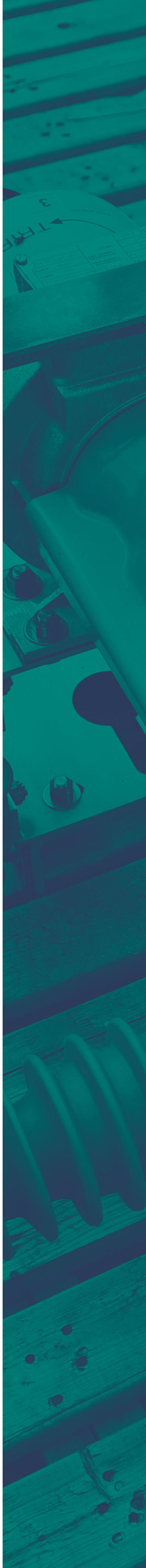
The cost of replacing a part of an item of PP&E is recognized in the net book value of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. In this event, the replaced part of PP&E is written off, and the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

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

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

The estimated useful lives are as follows:

	Years
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.

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

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

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

Intangible assets in progress consist of application software under development at December 31, 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
Land rights	25
Computer software	3 - 5
Capital contributions	30 - 45

3. Significant accounting policies (continued)

f) Impairment

Financial assets measured at amortized cost

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

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

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

Non-financial assets

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

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

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

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

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

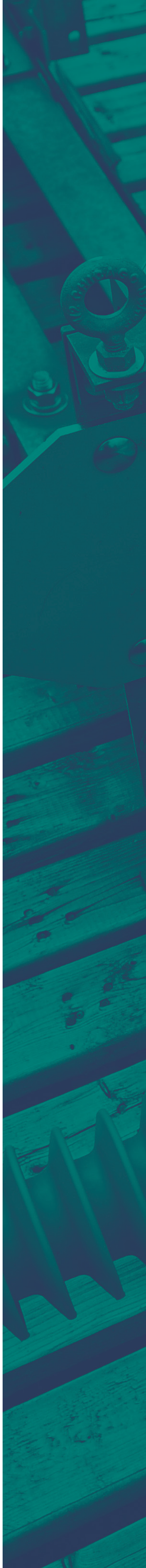
The Company provides a pension plan for all its full-time employees through Ontario Municipal Employees Retirement System ("OMERS"). OMERS is a multi-employer pension plan which operates as the Ontario Municipal Employees Retirement Fund ("the Fund"), and provides pensions for employees of Ontario municipalities, 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.

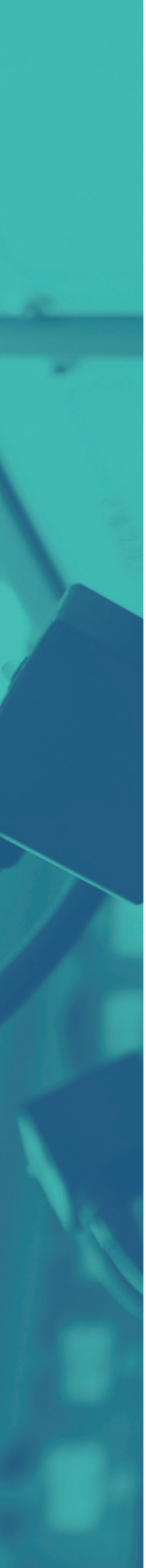
l) Income taxes

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, 2018:

i. IFRS 15 Revenue from Contracts with Customers

ii. IFRS 9 Financial Instruments

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

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 new standard did not result in a material impact on the financial statements.

3. Significant accounting policies (continued)

m) Change in accounting policies (continued)

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 new standard did not result in a material impact on the financial statements.

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 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.

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

4. Standards issued not yet adopted

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

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

i. IFRS 16 Leases

In January 2016, IASB issued IFRS 16 to establish principles for the recognition, measurement, presentation, and disclosure of leases, with the objective of ensuring that lessees and lessors provide relevant information that faithfully represents those transactions. IFRS 16 replaces IAS 17 and it is effective for annual periods beginning on or after January 1, 2019. The 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 the lessor. Other areas of the lease accounting model have been impacted, including the definition of a lease. Transitional provisions have been provided.

The Corporation intends to adopt IFRS 16 in its financial statements for the annual period beginning January 1, 2019. The Corporation does not expect the standard to have a material impact on the financial statements.

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

On December 12, 2017 the IASB issued narrow-scope amendments to three standards as part of its annual improvements process. The amendments are effective on or after January 1, 2019. Each of the amendments has its own specific transition requirements. The amendments were made to the following standards:

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

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

		2018		2017
Bank balances	$	1,294	$	4,364

6. Accounts receivable

		2018		2017
Trade receivables	$	32,929	$	33,256
Unbilled revenue		38,237		38,031
Other		6,159		6,476
Allowance for doubtful accounts		(2,340)		(2,716)
	$	74,985	$	75,047

Included in accounts receivable is approximately $8.5 million (2017 - $9.0 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 $2.8 million (2017 - $1.4 million) of energy, water, and sundry receivables due from the Corporation of the City of London.

7. Materials and supplies

Amounts written down due to obsolescence during the year ended December 31, 2018 was $0.1 million (2017 - $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, 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
Balance at January 1, 2018	$ 16,048	$ 10,092	$ 268,347	$ 24,370	$ 13,639	$ 332,496
Additions	1,279	91	30,609	2,321	(357)	33,943
Disposals / retirements	(30)	-	(933)	(1,196)	-	(2,159)
Balance at December 31, 2018	$ 17,297	$ 10,183	$ 298,023	$ 25,495	$ 13,282	$ 364,280

b) Accumulated depreciation:

	Land and buildings	Distribution substation equipment	Other distribution equipment	Other fixed assets	Construction in progress	Total
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
Balance at January 1, 2018	$ 2,708	$ 1,125	$ 34,429	$ 7,650	$ -	$ 45,912
Depreciation	777	293	10,274	2,668	-	14,012
Disposals / retirements	(30)	-	(870)	(1,183)	-	(2,083)
Balance at December 31, 2018	$ 3,455	$ 1,418	$ 43,833	$ 9,135	$ -	$ 57,841

c) Carrying amounts:

Balance at	Land and buildings	Distribution substation equipment	Other distribution equipment	Other fixed assets	Construction in progress	Total
December 31, 2017	$ 13,340	$ 8,967	$ 233,918	$ 16,720	$ 13,639	$ 286,584
December 31, 2018	$ 13,842	$ 8,765	$ 254,190	$ 16,360	$ 13,282	$ 306,439

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

9. Intangible assets

a) Cost or deemed cost:

	Land rights	Capital Contributions	Computer software	Intangible work in progress	Total
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
Balance at January 1, 2018	$ 277	$ 1,085	$ 22,331	$ 6,370	$ 30,063
Additions	81	7,258	6,464	(5,452)	8,351
Disposals / retirements	-	-	(5,227)	-	(5,227)
Balance at December 31, 2018	$ 358	$ 8,343	$ 23,568	$ 918	$ 33,187

b) Accumulated amortization:

	Land rights	Capital Contributions	Computer software	Intangible work in progress	Total
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
Balance at January 1, 2018	$ 74	$ 172	$ 10,234	$ -	$ 10,480
Amortization	22	49	5,027	-	5,098
Disposals / retirements	-	-	(5,227)	-	(5,227)
Balance at December 31, 2018	$ 96	$ 221	$ 10,034	$ -	$ 10,351

c) Carrying amounts:

Balance at	Land rights	Capital Contributions	Computer software	Intangible work in progress	Total
December 31, 2017	$ 203	$ 913	$ 12,097	$ 6,370	$ 19,583
December 31, 2018	$ 262	$ 8,122	$ 13,534	$ 918	$ 22,836

During the year ended December 31, 2018, borrowing costs of $0.2 million (2017 - $0.1 million) were capitalized as part of the cost of intangible assets. A capitalization rate of 2.89% (2017 – 2.62%) 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:

		2018		2017
Current income tax				
Current year	$	2,886	$	2,115
Amendment for prior period income tax credits		(408)		(307)
Adjustment for prior period income tax expense		421		(13)
		2,899		1,795
Deferred tax				
Change in recognized deductible temporary differences:				
(Loss) gain on interest rate swap		(90)		933
Property, plant, equipment and intangible assets		1,671		2,016
Post-employment benefits		(61)		(39)
Deferred revenue		(107)		(152)
		1,413		2,758
Total current and deferred income tax in profit and loss, before movement of regulatory balance		4,312		4,553
Other comprehensive income				
Post-employment benefits		411		(155)
Total current and deferred income tax, before movement of regulatory bala		4,723		4,398
Net movement in regulatory balances		(1,914)		(1,670)
Income tax expense recognized in Statement of Comprehensive Income	$	2,809	$	2,728

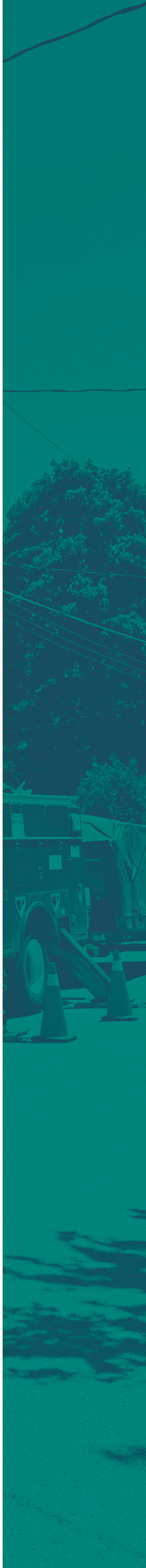
Reconciliation of effective tax rate:

		2018		2017
Income before taxes	$	17,305		16,780
Canada and Ontario statutory income tax rates		26.5%		26.5%
Expected tax provision on income at statutory rates		4,586		4,447
Increase (decrease) in income taxes resulting from:				
Net movement in regulatory balances		(1,914)		(1,670)
Other items		137		(49)
	$	2,809	$	2,728

Significant components of the Company's deferred tax balances:

		2018		2017
Property, plant, equipment and intangible assets	$	(10,028)	$	(8,357)
Post-employment benefits		3,681		4,031
Deferred revenue		432		325
Future income taxes to be realized by customers		(5,915)		(4,001)
Loss on interest rate swap		325		235
	$	(5,590)	$	(3,766)

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, 2018	Changes	Recovery/ reversal	December 31, 2018	Remaining years
Group 1 deferred accounts	$ -	$ 8,002	$ -	$ 8,002	
Other regulatory accounts	1,831	1,418	-	3,249	3.3
Income tax	4,001	1,914	-	5,915	
	$ 5,832	$ 11,334	$ -	$ 17,166	

Regulatory liabilities:

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

The regulatory balances are recovered or settled through fixed and/or volumetric rate riders approved by the OEB. The volumetric rate riders are determined using estimates of future consumption of electricity by its customers. Future consumption is impacted by various factors including the economy and weather. The Company has received approval from the OEB to establish its regulatory balances. Regulatory balances attract interest at OEB prescribed rates, which are based on Bankers' Acceptances three-month rate plus a spread of 25 basis points. The rate was set at 1.50% in the first quarter, at 1.89% in the second and third quarters and 2.17% in the fourth quarter of 2018.

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. 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.

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, included the recovery of these IFRS-CGAAP transitional PP&E account differences.

11. Regulatory balances (continued)

c) Regulatory settlement account

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 authorized 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 proposed the disposition of the Group 1 account balances as at December 31, 2016 via rate riders. These accounts included amounts accumulated between January 1, 2016 and December 31, 2016. The OEB authorized the refund/recovery of these balances over a one-year period commencing May 1, 2018.

d) Other regulatory accounts

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

Other regulatory account credit balances include advanced funding for capital projects. The Company filed its 2017 COS rate application in 2016 which included a request for funding capital projects under the Advanced Capital Module and received an approval. During 2017, the Company filed its 2018 IRM rate application, which included a request for the recovery of such costs via rate riders. The OEB authorized the recovery of these costs via rate riders until the effective date of the next cost of service-based rate order.

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

		2018		2017
Due to Independent Electricity System Operator	$	33,694	$	34,839
Debt retirement charge payable		-		988
Harmonized sales tax		118		350
Payroll and benefits payable		3,060		2,979
Other		11,337		9,148
	$	48,209	$	48,304

13. Deferred revenue

		2018		2017
Capital contributions for completed projects	$	18,010	$	13,627
Deposits held		11,518		9,500
		29,528		23,127
Less: Current portion		2,336		1,799
	$	27,192	$	21,328

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

Included in deposits held is $3.7 million (2017 - $3.7 million) received from the Corporation of the City of London as contributions for the construction of capital assets.

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

14. Long-term debt

	2018	2017
Unsecured, committed extendible revolving loan bearing interest at prime, minus 0.5%, interest only payments due March 2021	$ 15,000	$ 30,000
Unsecured, non-revolving term instalment loan bearing interest at the 4.4 year Bankers' Acceptance rate of 2.7% plus a stamping fee of 0.28%, interest only payments due June 2022	40,000	-
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	1,522	3,826
	141,522	118,826
Less: Current portion	1,522	2,304
	$ 140,000	$ 116,522

The unsecured, committed extendible revolving loan in the amount of $30.0 million outstanding at December 31, 2017 was subsequently repaid with additional borrowing in the amount of $40.0 million obtained February 1, 2018. The additional borrowing is with the Royal Bank of Canada and under an interest rate swap agreement for an unsecured loan. Interest only payments are due quarterly and commenced March 2018. The principal is due at maturity. The agreement is a fixed rate swap and matures June 2022, which effectively converts variable interest rates on unsecured Bankers' Acceptances to an effective interest rate of 2.7%, plus a stamping fee of 0.28%, for an all-in rate of 2.98%.

The Company has an interest rate swap agreement with the Royal Bank of Canada for an unsecured loan in the amount of $85 million. Interest only payments are due quarterly and commenced December 2014. The principal is due at maturity. The agreement is a fixed rate swap and matures June 2022, which effectively converts variable interest rates on unsecured Bankers' Acceptances to an effective interest rate of 2.46%, plus a stamping fee of 0.19%, 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%.

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

14. Long-term debt (continued)

The swap agreements entered into with Royal Bank of Canada do not meet the standard to apply hedge accounting. Accordingly, the interest rate swap contracts are recorded at their fair value at the end of the period with the unrealized gain or loss recorded in the Statements of Comprehensive Income as finance expenses. The unrealized loss for the year ended December 31, 2018 was $0.3 million (2017 – unrealized gain $3.5 million).

At December 31, 2018, the Company would be required to pay $1.2 million (2017 - $0.9 million) if it wished to cancel the swap agreements.

During the year ended December 31, 2018, interest on long-term debt was incurred in the amounted of $3.6 million (2017 - $3.0 million) of which $0.2 million (2017 – $0.1 million) was capitalized as part of the cost of intangible assets.

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

	2018	2017
Balance, beginning of year	$ 118,826	$ 111,130
Add: Advances	55,000	10,000
Less: Repayments	32,304	2,304
	141,522	118,826
Less: Current portion	1,522	2,304
	$ 140,000	$ 116,522

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, 2018, the Company made employer contributions of $3.0 million to OMERS (2017 - $2.9 million), of which $0.7 million (2017 - $0.9 million) has been capitalized as part of PP&E and the remaining amount of $2.3 million (2017 - $2.0 million) has been recognized in the Statement of Comprehensive Income. The Corporation estimates that a contribution of $3.4 million to OMERS will be made during the next fiscal year.

As at December 31, 2018, OMERS had approximately 496,000 members, of whom 317 are employees of the Company. The most recently available OMERS annual report is for the year ended December 31, 2018, which reported that the plan was 96% funded, with an unfunded liability of $4.2 billion. This unfunded liability is likely to result in future payments by participating employers and members.

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

15. Post-employment benefits (continued)

b) Post-employment benefits other than pension

The Company pays certain medical and life insurance benefits on behalf of some of its retired employees. The Company recognizes these post-employment benefits in the year in which employees' services were rendered. The Company is recovering its post-employment benefits in rates based on the expense and remeasurements recognized for post-employment benefit plans. Based on the most recent actuarial valuation as at December 31, 2018, the following information has been determined:

Reconciliation of the obligation:

		2018		2017
Defined benefit obligation, beginning of year	$	15,213	$	14,481
Included in profit or loss:				
Current service costs		462		432
Interest cost		497		539
Other benefits		(13)		(101)
		946		870
Benefits paid		(714)		(722)
		232		148
Actuarial (gains) / losses included in OCI:				
Changes in demographic assumptions		-		(902)
Changes in financial assumptions		(1,465)		1,193
Effect of experience adjustments		(85)		293
		(1,550)		584
Defined benefit obligation, end of year	$	13,895	$	15,213

Actuarial assumptions:

	2018	2017
Discount (interest) rate	3.9%	3.4%
Salary levels	4.0%	4.0%
Immediate medical costs	5.4%	5.7%
Ultimate medical costs	4.0%	4.5%
Dental cost rate	4.5%	4.5%
Year ultimate rate reached	2040	2037

A 1% increase in the assumed discount rate would result in the defined benefit obligation decreasing by $1.7 million. A 1% decrease in the assumed discount rate would result in the defined benefits obligation increasing by $1.8 million.

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

16. Share capital

		2018		2017
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 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. 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.

17. Revenue from contracts with customers

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

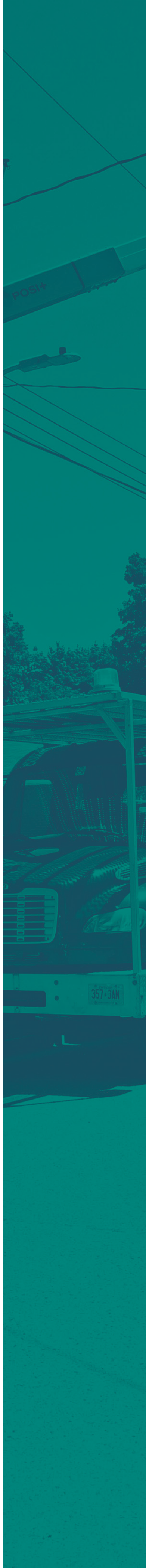
Electricity rates:

		2018		2017
Residential	$	112,145	$	120,565
Commercial		218,668		236,752
Large Users		8,714		10,889
Other		2,519		3,186
	$	342,046	$	371,392

Distribution revenue:

		2018		2017
Residential	$	43,601	$	41,996
Commercial		23,101		22,773
Large Users		651		724
Other		1,323		1,369
	$	68,676	$	66,862

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



18. Other revenue

		2018		2017
City of London services	$	4,009	$	4,009
IESO Conservation recoveries and incentives		1,966		-
Late payment charges		1,561		1,543
Other services, recoveries and sundry revenues		1,421		1,056
Customer billing service fees		717		647
Occupancy charges		608		649
Sale of scrap		552		488
Pole and other rental income		501		417
Income tax incentive credits		496		493
Amortization of deferred revenue		412		280
Collection charges		346		443
Renewable generation revenue		312		341
Gain on disposal of property, plant and equipment		220		138
	$	13,121	$	10,504

19. Operating expenses

		2018		2017
Labour and benefits	$	26,719	$	25,886
Professional services		5,867		5,359
Computer hardware and software		2,540		2,261
Rental, regulatory and other expenses		2,343		1,970
Facilities maintenance and repair		1,534		1,602
Postage		1,262		1,259
Corporate training and employee expenses		1,201		1,182
Property tax and insurance		1,195		1,182
Fleet operations and maintenance		1,028		872
Materials and supplies		972		1,001
Bad debts		703		840
Office equipment services and maintenance		492		463
Allocations to capital and billable activities		(2,047)		(1,944)
	$	43,809	$	41,933

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

20. Finance (income) and expenses

		2018		2017
Finance income				
Interest income on bank deposits	$	(180)	$	(94)
Finance expenses				
Interest on long-term debt		3,591		2,985
Interest on short-term debt		58		49
Interest on funds used for construction project		(188)		(126)
Other		189		98
		3,650		3,006
Change in interest rate swap				
Unrealized loss (gain) on interest rate swap		341		(3,519)
Net finance expense	$	3,811	$	(607)

21. Due to shareholder

Trade balances due to shareholder:

		2018		2017
Water consumption	$	5,604	$	8,688
Non-interest bearing trade balance due to shareholder, without stated repayment terms		847		36
	$	6,451	$	8,724

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, 2018, the Company billed customers for water related service on behalf of the shareholder and remitted funds to the shareholder in the amount of $174.2 million (2017 – $163.9 million). The shareholder paid $3.9 million (2017 - $3.9 million) for this service.

During the year ended December 31, 2018, the Company performed water meter replacement administrative services on behalf of the shareholder. The shareholder paid $0.1 million (2017 – $0.1 million) for this service.

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

22. 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, 2018, no assessments have been made.

Letters of credit

At December 31, 2018, the Company had provided $6.6 million (2017 – $6.6 million) in bank standby letters of credit to the IESO.

Vendor commitments

The Company has commitments in connection with Infrastructure projects of $0.5 million (2017 – $21.3 million), new vehicle acquisitions of $0.2 (2017 - nil) and Information Systems projects of nil (2017 - $1.9 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:

		2018		**2017**
Less than one year	$	421	$	303
Between one and five years		609		710
More than five years		74		113
	$	**1,104**	**$**	**1,126**

Operating lease expense incurred during the year ended December 31, 2018 was of $0.4 million (2017 - $0.3 million).

23. 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.

24. Financial instruments and risk management

Fair value disclosure

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

The fair value of the long-term debt at December 31, 2018 is $124 million (2017 - $88 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, 2018 was 3.34% (2017 – 2.65%). 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.

24. Financial instruments and risk management (continued)

a) Credit risk (continued)

The carrying amount of accounts receivable is reduced through the use of an allowance for impairment and the amount of the related impairment loss is recognized in the Statement of Comprehensive Income as bad debt expense. Subsequent recoveries of receivables previously provisioned are credited to the Statement of Comprehensive Income. The balance of the allowance for impairment loss at December 31, 2018 is $2.3 million (2017 - $2.7 million). During the year ended December 31, 2018, bad debt expense was $0.7 million (2017 - $0.8 million).

At December 31, 2018, approximately $0.8 million (2017 - $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, 2018, approximately $2.0 million (2017 - $2.8 million) is considered 60 days past due. The Company has approximately 159 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, 2018, the Company held deposits in the amount of $5.9 million (2017 - $6.8 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, 2018 would have increased interest expense on the long-term debt by $0.2 million (2017 - $0.3 million), assuming all other variables remain constant. A 1% decrease in the interest rate would have an equal but opposite effect.

24. 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, 2018 the amount drawn by the Company under this line of credit was nil (2017 - 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, 2018 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 $15.0 million (2017 - $30.0 million). Under the terms of this agreement, the loan has a maturity date of March 31, 2021. The Company has a one year period from the loan maturity date to repay any outstanding balances in the event the lender elects not to extend the loan for an additional 364 day period. Interest is at bank prime rate on prime based borrowings minus 0.5%, or at B/A rates plus a 0.75% stamping fee on B/A based borrowings.

The Company also has a bilateral facility for $6.6 million for the purpose of issuing letters of credit mainly to support the prudential requirements of the IESO, of which nil has been drawn and posted with the IESO (2017 - nil).

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

24. 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.

	2018	2017
Long-term debt	$ 141,522	$ 118,826
Shareholder's equity	169,329	159,833
	$ 310,851	$ 278,659

25. Subsequent event

On March 27, 2019, the Board of Directors declared a $5.0 million dividend payable to the sole shareholder, the Corporation of the City of London, in quarterly installments in 2019.

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