2022 LONDON HYDRO ANNUAL REPORT ON FINANCE

LETTER FROM THE CEO AND CHAIR

Dear Stakeholders,

This is our annual Report on Finance for 2022, with a healthy balance sheet, excellent operating performance and steady growth in shareholder equity. The corporate value of London Hydro continues to grow at a steady rate of 4.6%, with an Ontario Energy Board approved rate base of $391 million and a potential market value of more than half a billion dollars. Over the years, London Hydro has maintained a stable dividend of $5 million annually to the City of London.

In anticipation of increasing electrification and decarbonization of the local economy, London Hydro continued with its investment, which in 2022 was approximately $33 million, in building a robust, secure and resilient electric grid. In 2022, London Hydro further continued to modernize by converting the 4 kV system to 27 kV and in the process, continued to reduce the system losses and enhance the grid capacity to integrate electric vehicle charging systems, energy storage systems and renewable energy distributed resources. London Hydro welcomed about 1,800 new residential customers and 120 new commercial and industrial customers to our grid, investing about $11 million in connecting these new customers. We also assisted our large customers in energy savings programs, which yielded $6.4 million in savings to businesses. This was achieved by London Hydro providing advice, guidance and data analysis to our larger customers, enabling them to manage their peak demand. Electricity has become the fuel of choice to power our future economy and communities; today, we provide electrical connections to about 212,000 facilities.

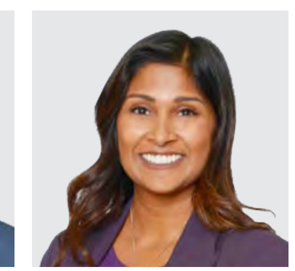
Vinay Sharma
CEO

Connie Graham
Board Chair

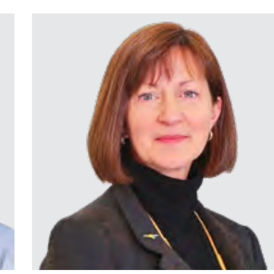
JACK SMIT
VICE CHAIR

GABE VALENTE
BOARD MEMBER

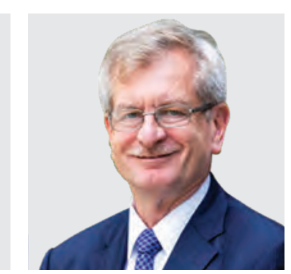
CORRINE RAHMAN
BOARD MEMBER



GUY HOLBORN
BOARD MEMBER



TANIA GOODINE
BOARD MEMBER



ANDY HRYMAK
BOARD MEMBER

2022 BOARD OF DIRECTORS

London Hydro continues with its innovation programs. In 2022, we finally completed the functional design of a 1 MW battery and solar microgrid system which is now in the detailed design and installation phase. A microgrid like this will provide the benefits of managing the peak kilowatt demand on the feeder, as well as provide continuous power to the community during an outage. This microgrid has the capability to island when the grid is experiencing an outage as well as have "black start" capabilities. Our investment in technology also continues to grow at a steady pace as we provide increasing channels of communication and services to our customers, including 24/7 online service and automated tools. London Hydro is the only utility in Ontario offering a free of charge payment option to customers using both Mastercard and Visa credit card programs. In 2022, we embarked upon another ambitious technology program for a new SAP S4/HANA customer information and billing system that requires an investment of $19 million.

Our leadership to the Ontario electrical industry continues unabated. We led the province in developing the Green Button program and in 2022, we assisted 10 utilities to adopt the Green Button standard and comply with the new regulatory requirement for standardizing their legacy customer and consumption data. The Green Button innovation, once implemented across the province by November 2023, will pave the way for future innovation in achieving energy savings and, hence, the net zero objectives of our customers.

To our shareholder, which are the citizens of London and their City Council representatives, we have been a fiduciary and financially responsible organization. In 2022, London Hydro successfully achieved its Purpose, lived out its Vision and fully delivered on all its objectives. London Hydro maintained its low-cost utility position among Ontario utilities and earned net income of $11.3 million, excluding unrealized mark-to-market adjustment, on total revenue of about $473 million, resulting in a return on deemed equity of 7.2%.

London Hydro continues to be a strong, reliable, community-owned utility. Our customers have once again given us a 94% customer satisfaction rating as measured by an independent polling company. For the sixth year in a row, we have maintained an A/Stable credit rating by Standard & Poor's. London Hydro modernized its corporate governance, adopting new processes and procedures to become a more effective community organization. At present, London Hydro is continuing to develop its Environmental, Social and Governance (ESG) program to reduce its footprint on resources including land, water, environment, and energy. London Hydro's accomplishments are a direct result of the dedication and commitment of our employees, stakeholders and Board of Directors. On behalf of all of them, we submit this report fully recognizing their continued support and valuable contributions in making London Hydro a successful corporation.

1,800

NEW RESIDENTIAL CUSTOMERS

120

NEW COMMERCIAL & INDUSTRIAL CUSTOMERS

$6.4 M

IN ENERGY SAVINGS FOR LARGE CUSTOMERS

10

UTILITIES TRANSITIONED TO GREEN BUTTON STANDARD

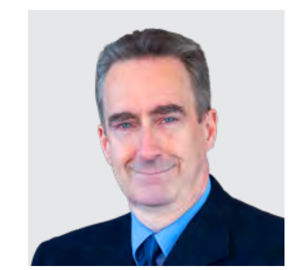
94%

CUSTOMER SATISFACTION RATING

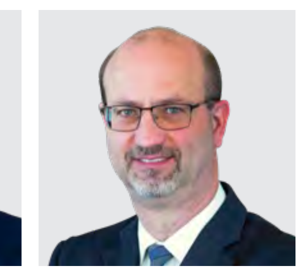
SENIOR LEADERSHIP TEAM

DAVID ARNOLD
CHIEF FINANCIAL OFFICER, VICE-PRESIDENT OF FINANCE, CORPORATE SECRETARY

SYED MIR
CHIEF INFORMATION OFFICER, VICE-PRESIDENT CORPORATE SERVICES



JAC VANDERBAAN
VICE-PRESIDENT, OPERATIONS & PLANNING



ALLAN VANDAMME
VICE-PRESIDENT, ENGINEERING & CONSTRUCTION

ELIZABETH CARSWELL
VICE-PRESIDENT HR & STRATEGIC PLANNING

MANAGEMENT DISCUSSION AND ANALYSIS

The following discussion and analysis are of London Hydro's (also referred to as the Company) financial position, results from operations, and cashflow. It should be read in conjunction with the Financial Statements for the year ended December 31, 2022.

The results reported herein have been prepared in accordance with International Financial Reporting Standards (IFRS) and are expressed in Canadian dollars. As a rate regulated entity, the Company has elected to adopt the IFRS14 standard that allows for reporting of certain transactions as regulatory assets and liabilities, which would otherwise not be allowed under IFRS. Such transactions, and the resulting impacts, are described in notes 2, 3, and 10 to the Statement of Financial Position for the year ended December 31, 2022.

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

The Company Overview

London Hydro Inc. is a wholly owned subsidiary of the Corporation of the City of London, established pursuant to Section 141 (1) of the Electricity Act, 1998 Ontario. The Company has been issued operating license ED 2002 0557 by the Ontario Energy Board (OEB) to distribute electricity within the service territory of the City of London. The Company owns and maintains a distribution grid to distribute electricity to about 166,000 residential and commercial customers in the City of London with a population base of approximately 450,000. As one of the larger electrical distribution companies in Ontario, London Hydro Inc. employs over 300 hardworking individuals who help to deliver a highly reliable and safe distribution of electricity to its customers.

London Hydro continues to be a strong, reliable, community-owned utility

London Hydro procures electricity (MW) from the Independent Electricity System Operator (IESO) operated market. London Hydro drew a peak demand of 685MW this summer season (2021 – 677MW) and about 463MW during this past winter (2021 – 459MW). London Hydro also procures wholesale market services from the IESO and transmission services from Hydro One at regulated prices. The price for electricity comprises the Hourly Ontario Energy Price (HOEP) and Global Adjustment.

Strategic Priorities

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

The Company also continues to advance the application of Green Button standards and technologies for managing and analyzing customers' energy consumption data, customer care, and customer billing. The OEB has granted special approval to the Company until May 2025, pursuant to Section 71(4) of the amended OEB Act, to market its Green Button related technology to other Ontario utilities and customers. The Company has had initial success with nine distribution companies in Ontario signing contracts with London Hydro to develop and provide Green Button services.

THE COMPANY'S PURPOSE

To provide safe, reliable electricity and related services.

THE COMPANY'S VISION

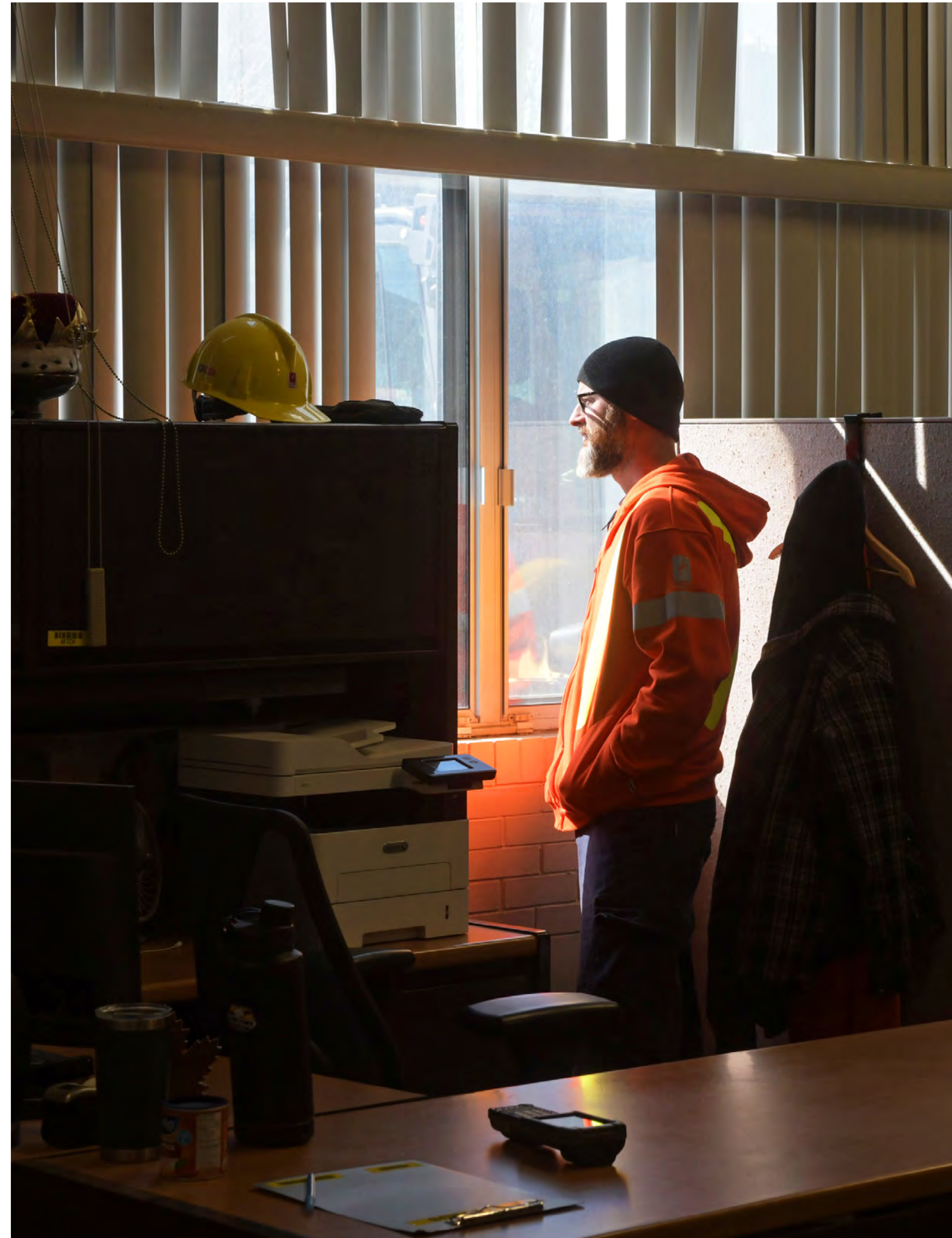
London Hydro is a high performing electricity distributor, achieved through innovation, customer focus and operational excellence.

OPERATIONS OVERVIEW

The financial performance of the Company for the year ended December 31, 2022 is summarized in the following table. For the purpose of comparison to budgeted performance, and to provide a historical perspective, the Company's actual results are presented alongside the budgeted performance for December 31, 2022, and the performance for the year ending December 31, 2021.

YTD RESULTS FOR THE PERIOD ENDED

FINANCIAL HIGHLIGHTS	ACTUAL 31-Dec-22	ACTUAL 31-Dec-21	CHANGE	PLAN 31-Dec-22	PLAN VARIANCE %
Energy distributed - gigawatt hrs	3,269.5	3,192.2	77.3	3,224.8	1.4%
(in thousands of $'s)					
Sale of energy	$384,773	$381,901	$2,872	$481,078	(20.0)%
Distribution revenue	75,335	73,691	1,644	80,704	(6.7)%
Other revenue	12,481	13,347	(866)	10,991	13.6 %
Cost of power	390,970	385,324	5,646	477,378	(18.1)%
Operating expenses	49,387	47,109	2,278	47,934	3.0 %
Amortization expenses	22,738	22,094	644	23,484	(3.2) %
Net finance costs	(22,811)	(8,887)	(13,924)	146	(15,724)%
Income taxes	10,468	6,574	3,894	4,612	127.0%
Net earnings before regulatory adjustments	21,837	16,725	5,112	19,219	13.6 %
Regulatory adjustment	9,610	3,731	5,879	(3,619)	(365.5)%
Net earnings after regulatory adjustments	$31,447	$20,456	$10,991	$15,600	101.6 %
Operating expenses as a % of distribution revenue	65.6%	63.9%			
Annualized Return on Equity	15.2%	11.2%			
Energy distributed - gigawatt hrs	3,269.5	3,192.2	2.4%		
Number of customers	166,044	164,138	1.2%		
(in thousands of $'s)					
Operating cash flow	$29,942	$25,902			
Investing cash flow	(41,520)	(29,715)			
Financing cash flow	(5,035)	(10,034)			
Cash flow	(16,613)	(13,847)			
(Bank indebtedness) / Cash - end of period	$(2,162)	$14,451			



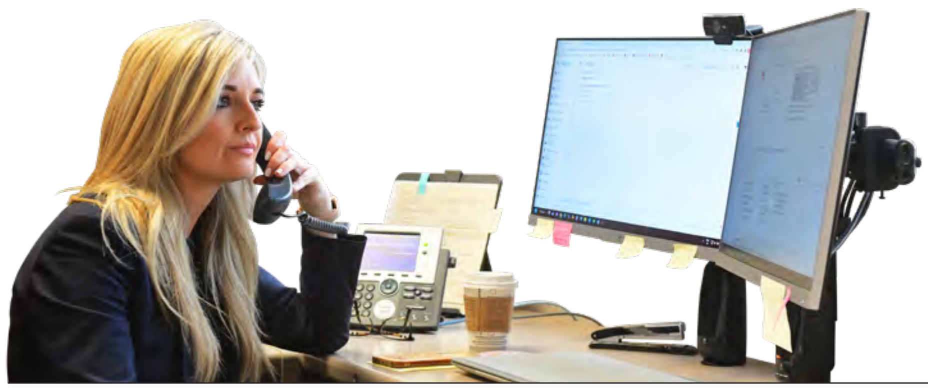
Energy Quantities Distributed

Total energy distributed to our customers increased from 3,192.2 gigawatt hours (GWh) for the year ended December 31, 2021 to 3,269.5 GWh for the same period in 2022, an overall increase of 2.4%. This increase in energy consumption is usually attributed to factors such as customer growth and weather; however, energy usage continues to fluctuate due to the COVID-19 pandemic.

Distribution Revenues

London Hydro is compensated by regulated distribution rates as approved by the OEB. The annual revenue requirement of London Hydro is established as per the regulated rate making mechanism. Thus, the distribution rates for various classes of customers are determined by considering factors such as the number of customers, their energy (kWh) consumption and power demand (KW).

The distribution rates, up to April 30, 2022, were a result of the Company's previous Cost of Service application effective as of May 1, 2017 with annual interim increases to account for inflationary costs, while being reduced by a stretch factor, approved by the OEB. The Company received approval for the 2021 factors with a net adjustment of 1.9% effective as of May 1, 2021. The Company had their 2022 Cost of Service rates approved in February 2022 for new rates, which went into effect on May 1, 2022.



Approximately 76% of distribution revenues are derived from a monthly fixed charge, as compared to 77% for 2021, while the remaining is derived on the basis of a volumetric rate for energy consumption (kWh) and power demand (KW). The distribution rates paid by residential customers are 100% fixed charges.

As of December 31, 2022, London Hydro serves 166,044 customers compared to 164,138 as of December 31, 2021. While the number of customers increased by 1.2%, the composition of distribution revenue remained relatively unchanged at 65% from residential customers (2021 – 64%), 33% from general service customers (2021 – 33%) and 2% from large users and other customers (2021 – 3%).

Total distribution revenues for the year ending December 31, 2022 increased from the same period in 2021 to $75.3 million (2021 – $73.7 million).

Cost of Service Rate Making Process

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

London Hydro serves 166,044 customers

In the case where any capital expenditures are denied, the Company would have a corresponding amount of impaired assets, which could result in a write-off and, thus, negatively impact annual net income. In the case where an increase in operating expenses is denied, the Company might not earn the revenue to achieve the regulated net income. The Company's previous cost of service was in 2017. In the intervening periods from 2018 through 2021, London Hydro implemented a rate adjustment pursuant to Incentive Rate Making (IRM) rules in connection with inflationary factors and reducing stretch factors as mentioned above.

The Company submitted a 2022 Cost of Service application in August of 2021 for new rates effective May 1, 2022. On February 24, 2022, the OEB approved these new rates, the Company's rate base of $379.6 million and a revenue requirement of $76.9 million. The total bill impact for a residential customer was an increase of approximately $1.41 (1.17%) per month as compared to rates on April 30, 2022.

Other Revenue

Other revenue earned by the Company decreased from $13.3 million in 2021 to $12.5 million for 2022. This decrease in 2022 is primarily a result of a reduction in the sale of scrap of approximately $1.4 million and a reduction of pole rental revenue of $0.2 million. There were offsetting increases in other revenues for items such as late payment charges of $0.4 million, and amortization of deferred revenue of approximately $0.1 million.

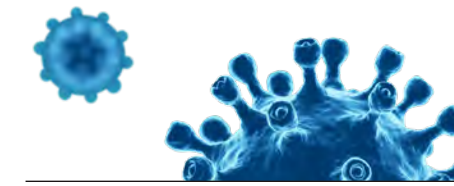
COVID-19 Related Deferral Account

On March 25, 2020, the OEB authorized the use of deferral accounts in order to track the additional costs associated with billing system changes as well as other incremental costs resulting from COVID-19. Moreover, the OEB also authorized the use of a variance account to track lost revenues. On June 17, 2021, the OEB clarified the guidance as to the treatment of potential recoveries associated with COVID-19. As part of the 2022 Cost of Service settlement agreement, the Company agreed to not dispose of the values until its next Cost of Service application for 2027.

As of December 31, 2022, the total amount eligible for recovery is $1.3 million, which is made up of $0.6 million of incremental costs and $0.7 million of lost revenues. Any differences between the amount recorded and the amounts ultimately awarded by the OEB will be recorded in the statement of comprehensive income in a future period.

Operating Expenses and Amortization

Total operating expenses for the year ending December 31, 2022 increased from the same period in 2021 to $49.4 million (2021 – $47.1 million). The increase relates to a variety of reasons such as increases to labour of $0.6 million, professional services of $0.2 million, computer hardware and software expenses of $0.3 million and bad debts of $0.3 million for 2022. Additionally, a one-time $0.4 million recovery was realized in 2021 pertaining to the OEB Regulated Price Plan (RPP) Roadmap Project, which resulted in lower operating expenses in 2021.



Amortization expenses increased by approximately $0.6 million from $22.1 million in 2021 to $22.7 million for 2022. This increase is the result of the Company's ongoing commitment to invest in its aging infrastructure and leading information technology to enhance the distribution grid and deliver increasing convenience to our customers.

Net Finance Costs

The Company's interest income for the year ending December 31, 2022 was $22.8 million, compared to an interest income of $8.9 million for the same period in 2021.

This change is the result of the unrealized gain associated with the Company's swap agreements[1] being $27.4 million in 2022 as compared to an unrealized gain of $13.9 million in 2021. It should be noted that these unrealized gains are adjustments reported for the purpose of the financial statements only and, so long as the debt agreements are not cancelled early, these gains are not realized. Thus, excluding these adjustments related to the swap agreements, the real interest expense should be adjusted to $4.6 million for the year ending December 31, 2022 and $5.0 million for the same period in 2021.

Once the unrealized gain amounts are normalized, the net finance costs in 2022 are slightly lower due to the lower debt rates for 2022 compared to those in 2021.

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

Income Tax Expense

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

The PILs expense for the year ended December 31, 2022 amounted to $10.5 million, as compared to income tax expense of $6.6 million for the same period in 2021. The increase is a result of higher net income for 2022 as compared to 2021, which is mostly due to the change in the unrealized gain on the swap agreements.

London Hydro also has Deferred Tax Liabilities of $25.9 million. This represents the temporary net difference between financial reporting carrying amounts for Property, Plant, Equipment, and Intangibles, which are in excess of their tax values, and the Deferred Taxes Receivable for Employee Future Benefits expenses that have not yet been deducted for income tax purposes.

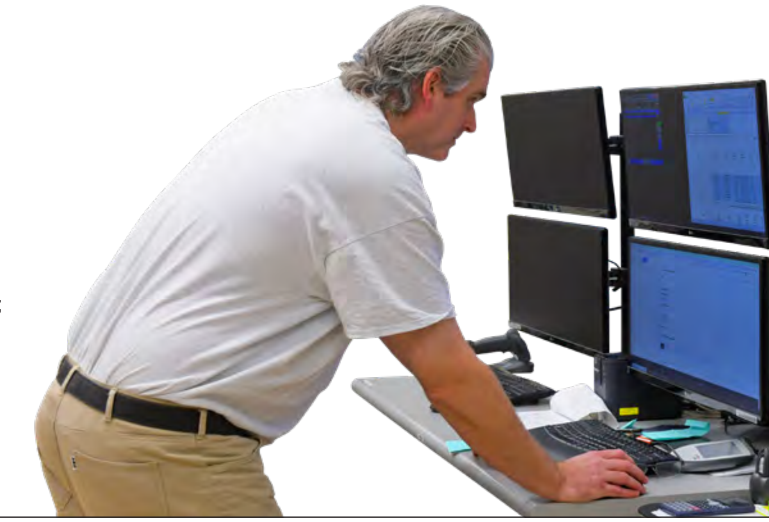
The tax impact of unrealized gains and losses associated with the Company's swap agreements and corporate minimum taxes are also considered in this liability.

As a rate-regulated corporation, Deferred Tax Liabilities (excluding swap agreements and corporate minimum tax), which will be paid on behalf of customers, will be recovered as they are paid. Therefore, increases or decreases in these Future Income Tax Liabilities are offset by regulatory assets and have no impact on the net profit of the Company.

Regulatory Assets/Liabilities

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

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



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

As of December 31, 2022, the Company had regulatory assets of $35.0 million, compared to $28.6 million as of December 31, 2021. The increase of $6.4 million is primarily attributed to the difference between the amount paid by the Company for electricity and the amount charged to customers. Also impacting the regulatory asset balance is the deferred income tax asset associated with timing differences pertaining to Property, Plant, Equipment and Intangibles and Post Employment Benefits.

The Company also had regulatory liabilities in the amount of $1.2 million as of December 31, 2022, compared to $5.8 million as of December 31, 2021. The $4.6 million decrease is the result of balances being approved for disposition pursuant to the 2022 Cost of Service Rate Application.

CAPITAL RESOURCES

London Hydro has debt agreements that total $200.0 million as of December 31, 2022, the same as at December 31, 2021. Additionally, the Company has a letter of credit.

The Company has a $75.0 million interest rate swap agreement for an unsecured loan with Toronto Dominion Bank. Interest only payments are due monthly and commenced December 2020, while the principal is due at maturity. The agreement is a fixed rate swap and matures June 2032, which effectively converts variable interest rates on unsecured Bankers' Acceptances to an effective interest rate of 1.53%, plus a stamping fee of 0.44%, for an all-in rate of 1.97%.

The Company has a second swap agreement with Toronto Dominion Bank for $125.0 million that became effective on June 30, 2022 and was used to repay the $40.0 million and $85.0 million Royal Bank of Canada fixed rate swaps that matured in June 2022.

The $125.0 million interest rate swap agreement is an unsecured loan with Toronto Dominion Bank, has interest only payments due monthly which commenced in July 2022, while the principal is due at maturity. The agreement is a fixed rate swap and matures June 2032, which effectively converts variable interest rates on unsecured Bankers' Acceptances to an effective interest rate of 1.69%, plus a stamping fee of 0.44%, for an all-in rate of 2.13%.

The Company also has an uncommitted revolving bank credit facility of $20.0 million and $4.3 million (December 31, 2021 – $4.3 million) in Standby Letters of Credit issued to the IESO as security. In the event that the maturity date of the committed bank loan facility is not extended, payment of this loan must be made within one year from the date of maturity.

The amount drawn by the Company on the uncommitted facility as of December 31, 2022 was $1.7 million (December 31, 2021 – $nil).

Dividend Policy

The Company's dividend policy provides for an annual dividend, subject to satisfactory cashflow. At the meeting on March 22, 2022, the Board of Directors declared a $5.0 million dividend to be paid to its Shareholder on a quarterly basis throughout the 2022 calendar year. On March 30, 2021, the Board of Directors declared a $5.0 million dividend payable to the sole shareholder, the Corporation of the City of London, to be paid by the end of 2021.

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

Credit Rating

London Hydro maintains an "A/Stable" long-term corporate credit rating, which was reaffirmed by Standard & Poor's in June 2022. This rating reflects the Company's low risk as a distribution company with regulated cash flows.

Liquidity and Cashflow

Cash generated from operating activities increased to $29.9 million as of December 31, 2022, as compared to $25.9 million as of December 31, 2021. Cashflows primarily relate to amounts of:

- $31.4 million in net income
- $22.7 million non-cash adjustment from amortization expenses
- ($1.0) million non-cash adjustment from amortization of deferred revenue
- $10.5 million as a result of the change in income taxes payable
- ($9.6) million as a result of changes in regulatory balances
- $4.2 million as a result of changes in non-cash working capital, and
- ($27.4) million non-cash adjustment from the mark to market adjustment.

Cash used in investing activities increased to $41.5 million for 2022, as compared to $29.7 million for the same period in 2021, which primarily represents the net purchase of capital assets and intangible assets.

Cash used from financing activities decreased to $5.0 million, as compared to cash used of $10.0 million for the same period in 2021 as a result of the timing of dividend payments to the City of London.

The year-to-date change in cash is a decrease of $16.6 million leaving the Company with $2.2 million of bank indebtedness as at December 31, 2022.

FINANCIAL STATEMENTS
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INDEPENDENT AUDITOR'S 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, 2022
- 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, 2022, 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 **"Auditor's Responsibilities for the Audit of the Financial Statements"** section of our auditor's 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 auditor's 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 regard.

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.

Auditor's 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 auditor's report that includes our opinion.

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

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

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

We also:

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

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

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

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

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's 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 auditor's 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 30, 2023

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

December 31, 2022, with comparative amounts for December 31, 2021

	Note		2022		2021
ASSETS					
Current assets					
Cash		$	-	$	14,451
Accounts receivable	5		80,056		78,727
Materials and supplies	6		893		548
Prepaid expenses			3,842		2,430
Total current assets			84,791		96,156
Non-current assets					
Property, plant and equipment	7,15		389,432		369,130
Intangible assets	8		24,340		21,270
Unrealized gain on interest rate swap	13,24		33,016		6,750
Total non-current assets			446,788		397,150
Total assets			531,579		493,306
Regulatory balances	10		35,015		28,596
Total assets and regulatory balances		$	566,594	$	521,902
LIABILITIES					
Current liabilities					
Bank indebtedness		$	2,162	$	-
Accounts payable and accrued liabilities	11		46,931		38,270
Due to shareholder	21		5,695		5,706
Income tax payable			803		36
Current portion of lease liability	15		36		35
Current portion of long-term debt	13,24		-		125,000
Current portion of customer and other deposits			522		1,371
Current portion of deferred revenue	12		3,058		3,462
Total current liabilities			59,207		173,880
Non-current liabilities					
Long-term debt	13,24		200,000		75,000
Post-employment benefits	14		9,855		15,008
Customer and other deposits			797		1,274
Deferred revenue	12		44,285		40,340
Deferred tax liability	9		25,931		15,783
Lease liability	15		2,119		2,155
Unrealized loss on interest rate swap	13,24		-		1,131
Total non-current liabilities			282,987		150,691
Total liabilities			342,194		324,571
Equity					
Share capital	16		96,116		96,116
Retained earnings			122,149		95,702
Accumulated other comprehensive income (loss)			4,895		(293)
Total equity			223,160		191,525
Total liabilities and equity			565,354		516,096
Regulatory balances	10		1,240		5,806
Commitments and contingencies (Note 22), Subsequent event (Note 25)					
Total liabilities, equity and regulatory balances		$	566,594	$	521,902

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, 2022, with comparative amounts for 2021

	Note		2022		2021
Revenues					
Electricity sales	17	$	384,773	$	381,901
Distribution revenue	17		75,335		73,691
Other	18		12,481		13,347
			472,589		468,939
Operating expenses					
Electricity purchased			390,970		385,324
Operating expenses	19		49,387		47,109
Depreciation and amortization	7,8		22,738		22,094
			463,095		454,527
Income from operating activities			9,494		14,412
Net finance income	13,20		(22,811)		(8,887)
Income before income taxes			32,305		23,299
Income tax expense	9		10,468		6,574
Income for the year			21,837		16,725
Movement of regulatory balances					
Net movement of regulatory balances			7,133		1,384
Income taxes	9		2,477		2,347
	10		9,610		3,731
Net income for year and net movement in regulatory balances			31,447		20,456
Other comprehensive income					
Items that will not be reclassified to profit or loss:					
Remeasurements of post-employment benefits	14		5,188		1,153
Tax on remeasurements	9		(1,375)		(306)
Net movement in regulatory balances, net of tax	10		1,375		306
Other comprehensive income			5,188		1,153
Total comprehensive income for the year		$	36,635	$	21,609

The accompanying notes are an integral part of these financial statements

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

	Note	Share Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance at January 1, 2021		$ 96,116	$ 80,246	$ (1,446)	$ 174,916
Net income and net movement in regulatory balances		-	20,456	-	20,456
Other comprehensive income		-	-	1,153	1,153
Dividends	16	-	(5,000)	-	(5,000)
Balance at December 31, 2021		$ 96,116	$ 95,702	$ (293)	$ 191,525
Balance at January 1, 2022		$ 96,116	$ 95,702	$ (293)	$ 191,525
Net income and net movement in regulatory balances		-	31,447	-	31,447
Other comprehensive income		-	-	5,188	5,188
Dividends	16	-	(5,000)	-	(5,000)
Balance at December 31, 2022		$ 96,116	$ 122,149	$ 4,895	$ 223,160

The accompanying notes are an integral part of these financial statements

	Note	2022	2021
Operating activities			
Net income and net movement in regulatory balances		$ 31,447	$ 20,456
Adjustments for:			
Depreciation and amortization	7,8	22,738	22,094
Amortization of deferred revenue	18	(938)	(792)
Post-employment benefits	14	35	61
(Gain) loss on disposal of property, plant and equipment	18	(111)	102
Net finance income	20	(22,811)	(8,887)
Income tax expense	9	10,468	6,574
		40,828	39,608
Change in non-cash working capital:			
Accounts receivable		(1,329)	5,982
Materials and supplies		(345)	(90)
Prepaid expenses		(1,412)	(169)
Accounts payable and accrued liabilities		8,661	(7,734)
Due to shareholder		(11)	(43)
Customer and other deposits		(1,326)	(2,303)
		4,238	(4,357)
Other:			
Regulatory balances	10	(9,610)	(3,731)
Income tax paid		(1,153)	(609)
Income tax received		225	-
Interest paid	20	(4,791)	(5,161)
Interest received	20	205	152
		(15,124)	(9,349)
Net cash from operating activities		29,942	25,902
Investing activities			
Purchase of property, plant and equipment	7	(37,767)	(33,405)
Purchase of intangible assets	8	(8,588)	(3,981)
Capital contributions received from customers		4,479	7,175
Proceeds on disposal of property, plant and equipment		356	496
Net cash used in investing activities		(41,520)	(29,715)
Financing activities			
Dividends paid	16	(5,000)	(10,000)
Proceeds from long-term debt	13	125,000	-
Lease liability	15	(35)	(34)
Repayment of long-term debt	13	(125,000)	-
Net cash from financing activities		(5,035)	(10,034)
Change in cash		(16,613)	(13,847)
Cash, beginning of year		14,451	28,298
(Bank indebtedness) / cash, end of year		$ (2,162)	$ 14,451

The accompanying notes are an integral part of these financial statements

1. Reporting entity

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

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

2. Basis of presentation

a) Statement of compliance

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

b) Approval of financial statements

These financial statements were approved by the Board of Directors on March 30, 2023.

c) Basis of measurement

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

d) Functional and presentation currency

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

e) Use of estimates and judgments

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

2. Basis of presentation (continued)

e) Use of estimates and judgments (continued)

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

(i) 3(b) – measurement of unbilled revenue

(ii) 3(b) – determination of the performance obligation for contributions from customers and the related amortization period

(iii) 3(d), 3(e), 7, 8 – estimation of useful lives of its property, plant and equipment and intangible assets

(iv) 3(e), 8 – capitalization of configuration and customization costs in Software-as-a-Service ("SaaS") arrangements and determining whether services are distinct from the SaaS access

(v) 5 – estimation for allowance for doubtful accounts

(vi) 7, 15 – leases: whether an arrangement contains a lease

(vii) 10 – recognition and measurement of regulatory balances

(viii) 14 – measurement of defined benefit obligations: key actuarial assumptions

(ix) 22 – recognition and measurement of provisions and contingencies

Critical accounting estimates and judgments for leases

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

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

2. Basis of presentation (continued)

e) Use of estimates and judgments (continued)

Critical accounting estimates and judgments for SaaS arrangements

Capitalization of configuration and customization costs in SaaS arrangements - Part of the customization and configuration activities undertaken in implementing SaaS arrangements may entail the development of software code that enhances, modifies, or creates additional capability to the existing on-premise software to enable it to connect with the cloud-based software applications. This is referred to as bridging modules or application programming interfaces (APIs). Judgement was applied in determining whether the additional code meets the definition of and recognition criteria for an intangible asset in IAS 38, *Intangible Assets*. During the year, the Company recognized $nil (December 31, 2021 – $0.4 million) as intangible assets in respect of customization and configuration costs incurred in implementing SaaS arrangements.

Determination whether configuration and customization services are distinct from the SaaS access - Costs incurred to configure or customize the cloud provider's application software are recognised as operating expenses when the services are received. In a contract where the cloud provider provides both the SaaS configuration and customization, as well as the SaaS access over the contract term, the Company applied judgement to determine whether these services are distinct from each other or not, and therefore, whether the configuration and customization costs incurred are expensed as the software is configured or customized (i.e. upfront), or over the SaaS contract term.

Specifically, where the configuration and customization activities significantly modify or customize the cloud-based software, these activities will not be distinct from the access to the cloud software over the contract term. Judgement has been applied in determining whether the degree of customization and modification of the cloud-based software that would be deemed significant. During the year, the Company recognized $0.0 million (December 31, 2021 – $nil) as prepayments in respect of customization and configuration activities undertaken in implementing SaaS arrangements which are considered not to be distinct from the access to the SaaS access over the contract term.

2. Basis of presentation (continued)

f) Rate regulation

The Company is regulated by the Ontario Energy Board (“OEB”), under the authority granted by the *Ontario Energy Board Act, 1998*. Among other things, the OEB has the power and responsibility to approve or set rates for the distribution of electricity, providing continued rate protection for electricity consumers in Ontario, and ensuring that 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.

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 ultimately approved by the OEB after the review and revisions have been completed.

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

2. Basis of presentation (continued)

f) Rate regulation (continued)

Rate setting – Distribution revenue (continued)

The Company previously filed a COS application in August 2016 for rates effective May 1, 2017 to April 30, 2022. The GDP IPI-FDD for 2021 was 2.2%, the OEB applied productivity factor was 0.0% and the OEB determined stretch factor was (0.3)%, resulting in a net adjustment of 1.9% to the previous year's rates effective May 1, 2021.

In August 2021, the Company filed a Cost of Service application which was approved by the OEB on February 24, 2022 for rates effective May 1, 2022. The monthly total bill impact of the new rates for a typical residential customer was an increase of approximately $1.41 or 1.17% before taxes.

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 once 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.

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.

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

3. Significant accounting policies (continued)

c) Materials and supplies

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

d) Property, plant and equipment

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

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

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

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

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

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

3. Significant accounting policies (continued)

d) Property, plant and equipment (continued)

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

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

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

The estimated useful lives are as follows:

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

3. Significant accounting policies (continued)

e) Intangible assets

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

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

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

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

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

Intangible assets in progress consist of application software under development at December 31, 2022.

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

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

3. Significant accounting policies (continued)

f) Impairment

Financial assets measured at amortized cost

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

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

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

Non-financial assets

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

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

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

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

3. Significant accounting policies (continued)

g) Customer and other deposits

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

h) Provisions

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

i) Regulatory balances

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

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

The probability of recovery of the regulatory deferral account debit balances is assessed annually based upon the likelihood that the OEB will approve the change in rates to recover the balance. The assessment of likelihood of recovery is based upon previous decisions made by the OEB for similar circumstances, policies or guidelines issued by the OEB, etc. Any resulting impairment loss is recognized in the Statement of Comprehensive Income in the year incurred.

3. Significant accounting policies (continued)

i) Regulatory balances (continued)

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.

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) Leases

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

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

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

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

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

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

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

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

3. Significant accounting policies (continued)

l) Software-as-a-Service arrangements

SaaS arrangements are service contracts providing the Company with the right to access the cloud provider's application software over the contract period. Costs incurred to configure or customize, and the ongoing fees to obtain access to the cloud provider's application software, are recognized as operating expenses when the services are received.

Some of these costs incurred are for the development of software code that enhances, modifies, or creates additional capability to existing on-premise systems and meets the definition of and recognition criteria for an intangible asset. These costs are recognized as intangible software assets and amortized over the useful life of the software on a straight-line basis. The useful lives of these assets are reviewed at least at the end of each financial year, and any changes are accounted for prospectively as a change in accounting estimate.

m) 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.

3. Significant accounting policies (continued)

n) 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.

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4. Standards issued not yet adopted

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

i. Classification of Liabilities as Current or Non-current (Amendments to IAS 1)
ii. Definition of Accounting Estimates (Amendments to IAS 8)
iii. Disclosure Initiative – Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)

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

On January 23, 2020, the IASB issued amendments to IAS 1 Presentation of Financial Statements (the 2020 amendments), to clarify the classification of liabilities as current or non-current. On October 31, 2022, the IASB issued Non-current Liabilities with Covenants (Amendments to IAS 1) (the 2022 amendments), to improve the information a company provides about long-term debt with covenants. The 2020 amendments and the 2022 amendments (collectively "the Amendments") are effective for annual periods beginning on or after January 1, 2024. Early adoption is permitted. A company that applies the 2020 amendments early is required to also apply the 2022 amendments.

For the purposes of non-current classification, the Amendments removed the requirement for a right to defer settlement or roll over of a liability for at least twelve months to be unconditional. Instead, such a right must exist at the end of the reporting period and have substance. The Amendments reconfirmed that only covenants with which a company must comply on or before the reporting date affect the classification of a liability as current or non-current. Covenants with which a company must comply after the reporting date do not affect a liability's classification at that date. The Company intends to adopt this standard in its financial statements for the annual period beginning January 1, 2024. The extent of the impact of adoption of the standard has not yet been determined.

ii. Definition of Accounting Estimates (Amendments to IAS 8)

On February 12, 2021, the IASB issued Definition of Accounting Estimates (Amendments to IAS 8). The amendments are effective for annual periods beginning on or after January 1, 2023. Early adoption is permitted. The amendments introduce a new definition for accounting estimates, clarifying that they are monetary amounts in the financial statements that are subject to measurement uncertainty. The amendments also clarify the relationship between accounting policies and accounting estimates by specifying that a company develops an accounting estimate to achieve the objective set out by an accounting policy. The Company intends to adopt these standards in its financial statements for the annual period beginning January 1, 2023. The extent of the impact of adoption of the standard has not yet been determined.

4. Standards issued not yet adopted (continued)

iii. Disclosure Initiative – Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)

On February 12, 2021, the IASB issued Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements). The amendments are effective for annual periods beginning on or after January 1, 2023. Early adoption is permitted. The amendments help companies provide useful accounting policy disclosures. The key amendments include:

- requiring companies to disclose their material accounting policies rather than their significant accounting policies;
- clarifying that accounting policies related to immaterial transactions, other events or conditions are themselves immaterial and as such need not be disclosed; and
- clarifying that not all accounting policies that relate to material transactions, other events or conditions are themselves material to a company's financial statements.

The Company intends to adopt these standards in its financial statements for the annual period beginning January 1, 2023. The Company does not expect these standards to have a material impact on the financial statements.

5. Accounts receivable

		2022		2021
Trade receivables	$	43,727	$	42,326
Unbilled revenue		37,221		35,077
Other		4,992		5,856
Allowance for doubtful accounts		(5,884)		(4,532)
	$	80,056	$	78,727

Included in accounts receivable is approximately $13.3 million (December 31, 2021 – $13.6 million) of customer receivables for water consumption that the Company bills and collects on behalf of the Corporation of the City of London. As the Company does not assume liability for collection of these amounts, any amount relating to water consumption that is determined to be uncollectible is charged to the Corporation of the City of London.

Also, included in the accounts receivable is $1.4 million (December 31, 2021 – $1.6 million) of energy, water, and sundry receivables due from the Corporation of the City of London.

6. Materials and supplies

Amounts written down due to obsolescence during the year ended December 31, 2022 was $0.1 million (December 31, 2021 – $0.1 million).

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7. Property, plant and equipment

a) Cost or deemed cost:

	Land and buildings	Distribution substation equipment	Other distribution equipment	Other equipment	Construction in progress	Total
Balance at January 1, 2021	$ 21,286	$ 10,436	$ 361,845	$ 30,807	$ 12,536	$ 436,910
Additions	638	217	28,322	3,896	332	33,405
Disposals / retirements	(370)	(476)	(1,608)	(1,751)	-	(4,205)
Balance at December 31, 2021	$ 21,554	$ 10,177	$ 388,559	$ 32,952	$ 12,868	$ 466,110
Balance at January 1, 2022	$ 21,554	$ 10,177	$ 388,559	$ 32,952	$ 12,868	$ 466,110
Additions	1,795	277	31,539	3,631	525	37,767
Disposals / retirements	(663)	(164)	(1,585)	(1,246)	-	(3,658)
Balance at December 31, 2022	$ 22,686	$ 10,290	$ 418,513	$ 35,337	$ 13,393	$ 500,219

b) Accumulated depreciation:

	Land and buildings	Distribution substation equipment	Other distribution equipment	Other equipment	Construction in progress	Total
Balance at January 1, 2021	$ 4,157	$ 2,050	$ 64,554	$ 13,157	$ -	$ 83,918
Depreciation	778	386	12,277	3,228	-	16,669
Disposals / retirements	(335)	(123)	(1,525)	(1,624)	-	(3,607)
Balance at December 31, 2021	$ 4,600	$ 2,313	$ 75,306	$ 14,761	$ -	$ 96,980
Balance at January 1, 2022	$ 4,600	$ 2,313	$ 75,306	$ 14,761	$ -	$ 96,980
Depreciation	763	377	12,835	3,245	-	17,220
Disposals / retirements	(601)	(40)	(1,538)	(1,234)	-	(3,413)
Balance at December 31, 2022	$ 4,762	$ 2,650	$ 86,603	$ 16,772	$ -	$ 110,787

c) Carrying amounts:

Balance at	Land and buildings	Distribution substation equipment	Other distribution equipment	Other equipment	Construction in progress	Total
December 31, 2021	$ 16,954	$ 7,864	$ 313,253	$ 18,191	$ 12,868	$ 369,130
December 31, 2022	$ 17,924	$ 7,640	$ 331,910	$ 18,565	$ 13,393	$ 389,432

Property, plant and equipment includes a right-of-use asset with a carrying value of $2.0 million (December 31, 2021 – $2.1 million) associated with property rented from the City of London with an initial measurement of $2.3 million, amortized on a straight-line basis over 40 years commencing with the 2018 fiscal year (see Note 15).

8. Intangible assets

a) Cost or deemed cost:

	Land rights	Capital contributions	Computer software	Work in progress	Total
Balance at January 1, 2021	$ 506	$ 8,343	$ 24,735	$ 931	$ 34,515
Additions	23	(1,739)	5,004	693	3,981
Disposals / retirements	(78)	-	(4,437)	-	(4,515)
Balance at December 31, 2021	$ 451	$ 6,604	$ 25,302	$ 1,624	$ 33,981
Balance at January 1, 2022	$ 451	$ 6,604	$ 25,302	$ 1,624	$ 33,981
Additions	341	-	4,478	3,769	8,588
Disposals / retirements	(23)	-	(3,146)	-	(3,169)
Balance at December 31, 2022	$ 769	$ 6,604	$ 26,634	$ 5,393	$ 39,400

b) Accumulated amortization:

	Land rights	Capital contributions	Computer software	Work in progress	Total
Balance at January 1, 2021	$ 146	$ 629	$ 11,026	$ -	$ 11,801
Amortization	30	172	5,223	-	5,425
Disposals / retirements	(78)	-	(4,437)	-	(4,515)
Balance at December 31, 2021	$ 98	$ 801	$ 11,812	$ -	$ 12,711
Balance at January 1, 2022	$ 98	$ 801	$ 11,812	$ -	$ 12,711
Amortization	25	166	5,327	-	5,518
Disposals / retirements	(23)	-	(3,146)	-	(3,169)
Balance at December 31, 2022	$ 100	$ 967	$ 13,993	$ -	$ 15,060

c) Carrying amounts:

Balance at	Land rights	Capital contributions	Computer software	Work in progress	Total
December 31, 2021	$ 353	$ 5,803	$ 13,490	$ 1,624	$ 21,270
December 31, 2022	$ 669	$ 5,637	$ 12,641	$ 5,393	$ 24,340

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9. Income tax expense

Income tax expense (recovery) is comprised of:	2022	2021
Current income tax		
Current year income tax expense	$ 1,640	$ 557
Amendment for prior period income tax credits	-	(12)
Adjustment for subseqently enacted legislation	(277)	-
Adjustment for prior period income tax expense	332	-
	1,695	545
Deferred tax		
Change in recognized deductible temporary differences:		
Gain on interest rate swap	7,260	3,682
Corporate minimum tax	(964)	
Property, plant, equipment and intangible assets	2,095	3,055
Post-employment benefits	(10)	(16)
Deferred revenue	392	(692)
	8,773	6,029
Total current and deferred income tax in profit and loss, before movement of regulatory balance	10,468	6,574
Other comprehensive income		
Post-employment benefits	1,375	306
Total current and deferred income tax, before movement of regulatory	11,843	6,880
Net movement in regulatory balances	(3,852)	(2,653)
Income tax expense recognized in the Statement of Comprehensive Income	$ 7,991	$ 4,227

Reconciliation of effective tax rate:	2022	2021
Income before taxes	$ 44,626	$ 25,836
Canada and Ontario statutory income tax rates	26.5%	26.5%
Expected tax provision on income at statutory rates	11,826	6,847
Increase (decrease) in income taxes resulting from:		
Adjustment for prior years	-	(12)
Net movement in regulatory balances	(3,852)	(2,653)
Other items	17	45
	$ 7,991	$ 4,227

Significant components of the Corporation's deferred tax balances:	2022	2021
Property, plant, equipment and intangible assets	$ (22,965)	$ (20,870)
Post-employment benefits	2,611	3,976
Deferred revenue	2,208	2,600
Future income taxes to be realized by customers	(18,146)	(14,294)
Corporate minimum tax	964	-
Gain on interest rate swap	(8,749)	(1,489)
	$ (25,931)	$ (15,783)

10. Regulatory balances

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

Regulatory assets:

Regulatory deferral account debit balances	January 1, 2021	Changes	(Recovery)/ reversal	December 31, 2021	Remaining years
Group 1 deferred accounts	$ 5,400	$ 2,015	$ -	$ 7,415	-
Regulatory settlement account	-	3,833	(2,032)	1,801	0.3
Other regulatory accounts	5,894	(310)	(496)	5,088	-
Income tax	11,641	2,651	-	14,292	-
	$ 22,935	$ 8,189	$ (2,528)	$ 28,596	

Regulatory deferral account debit balances	January 1, 2022	Changes	(Recovery)/ reversal	December 31, 2022	Remaining years
Group 1 deferred accounts	$ 7,415	$ 7,115	$ -	$ 14,530	-
Regulatory settlement account	1,801	164	(1,678)	287	0.3
Other regulatory accounts	5,088	(3,034)	-	2,054	-
Income tax	14,292	3,852	-	18,144	-
	$ 28,596	$ 8,097	$ (1,678)	$ 35,015	

Regulatory liabilities:

Regulatory deferral account credit balances	January 1, 2021	Changes	Recovery/ (reversal)	December 31, 2021	Remaining years
Other regulatory accounts	$ 4,182	$ 1,624	$ -	$ 5,806	0.3
	$ 4,182	$ 1,624	$ -	$ 5,806	

Regulatory deferral account credit balances	January 1, 2022	Changes	Recovery/ (reversal)	December 31, 2022	Remaining years
Other regulatory accounts	$ 5,806	$ (4,771)	$ 205	$ 1,240	-
	$ 5,806	$ (4,771)	$ 205	$ 1,240	

10. Regulatory balances (continued)

The regulatory balances are recovered or settled through fixed and/or volumetric rate riders approved by the OEB. The volumetric rate riders are determined using estimates of future consumption of electricity by its customers. Future consumption is impacted by various factors including the economy and weather. The Company has received approval from the OEB to establish its regulatory balances. Regulatory balances attract interest at OEB prescribed rates, which are based on Bankers' Acceptances three-month rate plus a spread of 25 basis points. The rate was set at 0.57% in the first quarter, 1.02% in the second quarter, 2.20% in the third quarter and 3.87% in the fourth quarter of 2022 (March, June, September and December 2021 – 0.57%).

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.

b) Regulatory settlement account

During 2020, the Company filed its 2021 IRM rate application in which it proposed the disposition of its Group 1 account balances as at December 31, 2019 via rate riders. These accounts included amounts accumulated between January 1, 2017 and December 31, 2019, with the exception of the Capacity Based Recovery Amount Variances, which accumulated between January 1, 2016 and December 31, 2019. The Company also proposed the recovery of the LRAMVA balance accumulated between January 1, 2017 and December 31, 2017 via rate riders. The OEB authorized the refund/recovery of these balances over a one-year period commencing May 1, 2021.

10. Regulatory balances (continued)

b) Regulatory settlement account (continued)

In February of 2022, the OEB approved the Company's 2022 Cost of Service rate application which included the disposition of its Group 1 account balances as at December 31, 2020 via rate riders. These accounts included amounts accumulated between January 1, 2020 and December 31, 2020. The OEB authorized the refund/recovery of these balances over a one-year period commencing May 1, 2022.

The 2022 Cost of Service rate application also included a request for the disposition of the other regulatory account balances as at December 31, 2020 via rate riders. The LRAMVA balance proposed for recovery accumulated between January 1, 2018 and December 31, 2019. The OEB authorized the refund/recovery of the true-up of the funding of capital projects under the Advanced Capital Module, non-cash OPEB adjustments, Retail Cost Variances, Pole Attachment Revenue variances, tax savings as a result of changes to CCA rates and the LRAMVA balances over a one-year period commencing May 1, 2022.

c) Other regulatory accounts

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

Distribution revenue repayable to customers representing tax savings as a result of increased capital cost allowance provided for through the Accelerated Investment Incentive introduced in Bill C-97 effective November 2018 is also included in other regulatory account credit balances.

d) Income tax

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

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11. Accounts payable and accrued liabilities

		2022		2021
Due to Independent Electricity System Operator	$	28,682	$	23,979
Harmonized sales tax		962		-
Payroll and benefits payable		4,102		4,371
Other		13,185		9,920
	$	46,931	$	38,270

12. Deferred revenue

		2022		2021
Capital contributions for completed projects	$	36,013	$	33,065
Deposits held		11,330		10,737
		47,343		43,802
Less: Current portion		3,058		3,462
	$	44,285	$	40,340

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.

13. Long-term debt

		2022		2021
Unsecured, non-revolving term instalment loan bearing interest at the 7.6 year Bankers' Acceptance rate of 2.5% plus a stamping fee of 0.37%, interest only payments, due June 2022	$	-	$	85,000
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 10 year Bankers' Acceptance rate of 1.69% plus a stamping fee of 0.44%, interest only payments, due June 2032		125,000		-
Unsecured, non-revolving term instalment loan bearing interest at the 11.6 year Bankers' Acceptance rate of 1.5% plus a stamping fee of 0.44%, interest only payments, due June 2032		75,000		75,000
		200,000		200,000
Less: current portion		-		125,000
	$	200,000	$	75,000

The Company had an interest rate swap agreement with the Royal Bank of Canada for an unsecured loan in the amount of $85 million. Interest only payments were due quarterly and commenced December 2014. The principal was due at maturity on June 30, 2022. The agreement was a fixed rate swap which effectively converted variable interest rates on unsecured Bankers' Acceptances to an effective interest rate of 2.46%, plus a stamping fee of 0.37%, for an all-in rate of 2.83%.

The Company had an interest rate swap agreement with the Royal Bank of Canada for an unsecured loan in the amount of $40 million. Interest only payments were due quarterly and commenced March 2018. The principal was due at maturity on June 30, 2022. The agreement was a fixed rate swap which effectively converted 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 entered into a futures contract with Toronto Dominion Bank on December 4, 2020 for $125 million. The contract was converted into a swap agreement on June 30, 2022 to repay the $40 million and $85 million Royal Bank of Canada fixed rate swaps that matured June 30, 2022. Interest only payments are due monthly and commenced July 2022. The principal is due at maturity. The swap agreement is a fixed rate swap and matures June 2032, which effectively converts variable interest rates on unsecured Bankers' Acceptances to an effective interest rate of 1.69%, plus a stamping fee of 0.44%, for an all-in rate of 2.13%.

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13. Long-term debt (continued)

The Company has an interest rate swap agreement with the Toronto Dominion Bank for an unsecured loan in the amount of $75 million. Interest only payments are due monthly and commenced December 2020. The principal is due at maturity. The agreement is a fixed rate swap and matures June 2032, which effectively converts variable interest rates on unsecured Bankers' Acceptances to an effective interest rate of 1.53%, plus a stamping fee of 0.44%, for an all-in rate of 1.97%.

The swap agreements entered into with Royal Bank of Canada and Toronto Dominion Bank do not meet the standard to apply hedge accounting. Accordingly, the interest rate swap contracts are recorded at their fair value at the end of the period with the unrealized gain or loss recorded in the Statements of Comprehensive Income as finance expenses. The unrealized gain for the year ended December 31, 2022 was $27.4 million (December 31, 2021 – $13.9 million).

At December 31, 2022, the Company would be entitled to collect $33.0 million (December 31, 2021 – $6.7 million) if it decided to cancel the swap agreements with the Toronto Dominion Bank.

During the year ended December 31, 2022, interest on long-term debt was incurred in the amount of $4.6 million (December 31, 2021 – $5.1 million).

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

		2022		2021
Balance, beginning of year	$	200,000	$	200,000
Add: Advances		125,000		-
Less: Repayments		125,000		-
		200,000		200,000
Less: Current portion		-		125,000
	$	200,000	$	75,000

14. 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, 2022, the Company made employer contributions of $3.3 million to OMERS (December 31, 2021 – $3.2 million), of which $0.8 million (December 31, 2021 – $0.8 million) has been capitalized as part of PP&E and the remaining amount of $2.5 million (December 31, 2021 – $2.4 million) has been recognized in the Statement of Comprehensive Income. The Company estimates that a contribution of $3.6 million to OMERS will be made during the next fiscal year.

As at December 31, 2022, OMERS had approximately 559,000 members, of whom 336 are employees of the Company. The most recently available OMERS annual report is for the year ended December 31, 2022, which reported that the plan was 95% funded, with an unfunded liability of $6.7 billion. This unfunded liability is likely to result in future payments by participating employers and members.

b) Post-employment benefits other than pension

The Company pays certain medical and life insurance benefits on behalf of some of its retired employees. The Company recognizes these post-employment benefits in the year in which employees' services were rendered. The Company is recovering its post-employment benefits in rates based on the expense and remeasurements recognized for post-employment benefit plans.

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14. Post-employment benefits (continued)

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

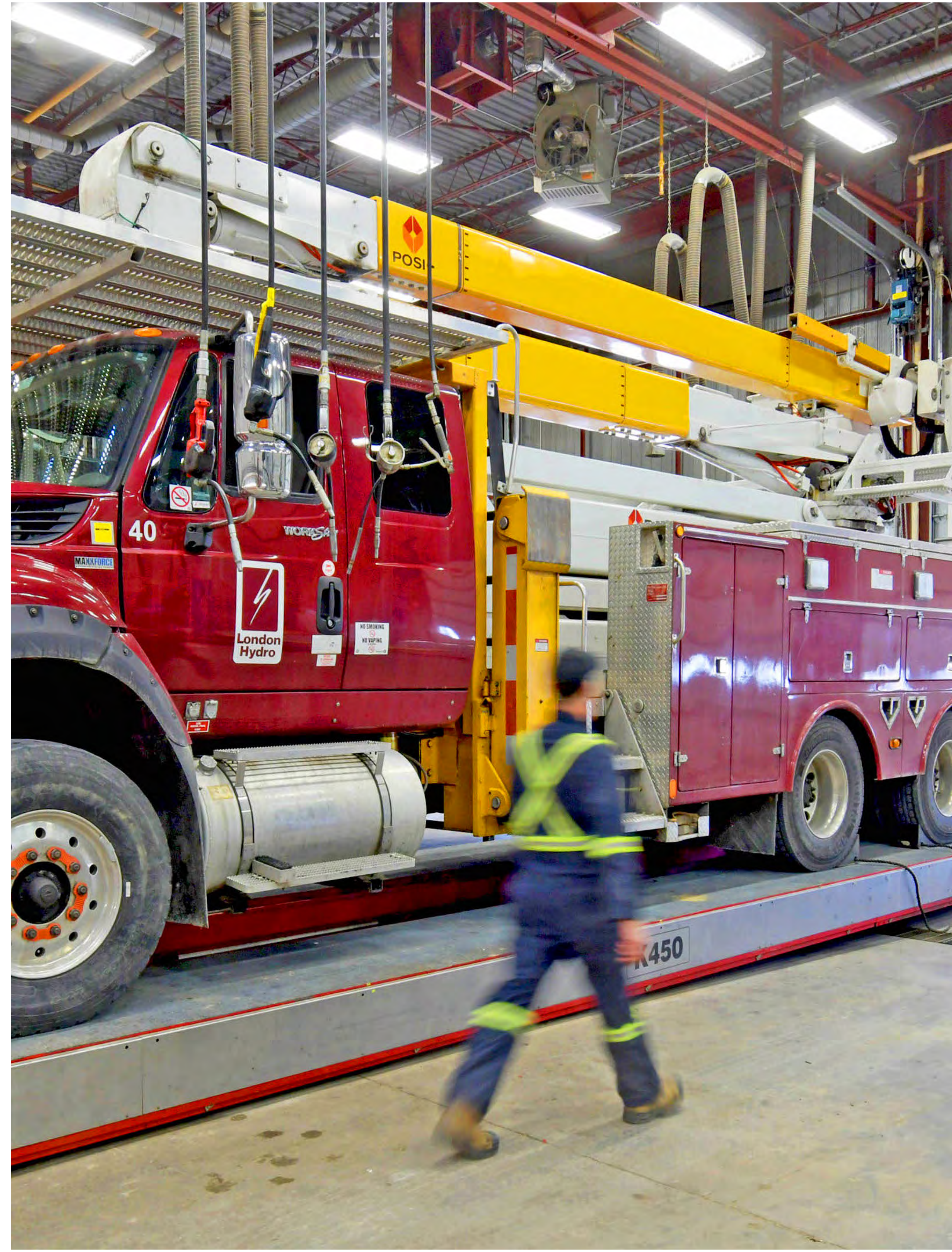
Reconciliation of the obligation:

		2022		2021
Defined benefit obligation, beginning of year	$	15,008	$	16,100
Included in profit or loss:				
Current service costs		517		568
Past service costs		-		-
Interest cost		432		386
Other benefits		(33)		(55)
		916		899
Benefits paid		(881)		(838)
		35		61
Actuarial (gains) / losses included in OCI:				
Changes in demographic assumptions		(1,582)		-
Changes in financial assumptions		(3,676)		(1,170)
Effect of experience adjustments		70		17
		(5,188)		(1,153)
Defined benefit obligation, end of year	$	9,855	$	15,008

Actuarial assumptions:

	2022	2021
Discount (interest) rate	5.1%	3.0%
Salary levels	4.0%	4.0%
Immediate medical costs	4.9%	5.0%
Ultimate medical costs	4.0%	4.0%
Dental cost rate	4.0%	4.0%
Year ultimate rate reached	2040	2040

A 1% increase in the assumed discount rate would result in the defined benefit obligation decreasing by $1.1 million. A 1% decrease in the assumed discount rate would result in the defined benefits obligation increasing by $1.1 million.



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15. Lease liability

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

Right-of-use-asset:

		2022		2021
Cost:				
Balance, beginning of year	$	2,319	$	2,319
Balance, end of year	$	2,319	$	2,319
Accumulated depreciation:				
Balance, beginning of year	$	232	$	174
Depreciation		58		58
Balance, end of year	$	290	$	232
Carrying amount	$	2,029	$	2,087

Lease liability:

		Future minimum lease payments		Interest		Present value of minimum lease payments
Less than one year	$	100	$	64	$	36
Between one and five years		400		246		154
More than five years		3,000		1,035		1,965
	$	3,500	$	1,345	$	2,155

16. Share capital

		2022		2021
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 holder of the common shares is entitled to receive dividends as declared from time to time. On March 22, 2022, the Board of Directors declared a $5.0 million dividend payable to the sole shareholder, the Corporation of the City of London, to be paid by the end of 2022. On March 30, 2021, the Board of Directors declared a $5.0 million dividend payable to the sole shareholder, the Corporation of the City of London, to be paid by the end of 2021.

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:

		2022		2021
Residential	$	145,359	$	147,012
Commercial		224,852		219,976
Large users		12,003		12,158
Other		2,559		2,755
	$	384,773	$	381,901

Distribution revenue:

		2022		2021
Residential	$	48,693	$	47,495
Commercial		24,822		24,006
Large users		514		804
Other		1,306		1,386
	$	75,335	$	73,691

18. Other revenue

		2022		2021
City of London services	$	4,028	$	4,027
Late payment charges		2,503		2,147
Other services, recoveries and sundry revenues		1,423		1,220
Amortization of deferred revenue		938		792
Customer billing service fees		859		934
Pole and other rental income		763		931
Occupancy charges		588		650
Income tax incentive credits		509		590
Sale of scrap		428		1,817
Renewable generation revenue		331		341
Gain (loss) on disposal of property, plant and equipment		111		(102)
	$	12,481	$	13,347

19. Operating expenses

		2022		2021
Labour and benefits	$	29,819	$	29,247
Professional services		6,524		6,276
Computer hardware and software		3,963		3,640
Facilities maintenance and repair		1,713		1,609
Rental, regulatory and other expenses		1,702		1,329
Bad debts		1,604		1,305
Property tax and insurance		1,412		1,299
Corporate training and employee expenses		1,216		1,047
Materials and supplies		1,119		1,042
Fleet operations and maintenance		1,119		996
Postage		1,064		1,013
Office equipment services and maintenance		452		417
Allocations to capital and billable activities		(2,320)		(2,111)
	$	49,387	$	47,109

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20. Finance income

		2022		2021
Finance income				
Interest income on bank deposits	$	(205)	$	(152)
Finance expenses				
Interest on long-term debt		4,581		5,064
Interest on short-term debt		73		1
Lease liability interest		65		66
Other		72		30
		4,791		5,161
Change in interest rate swap				
Unrealized gain on interest rate swap		(27,397)		(13,896)
Net finance income	$	(22,811)	$	(8,887)

21. Due to shareholder

Trade balances due to shareholder:

		2022		2021
Water consumption	$	5,307	$	5,509
Non-interest bearing trade balance due to shareholder, without stated repayment terms		388		197
	$	5,695	$	5,706

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, 2022, the Company billed customers for water related service on behalf of the shareholder and remitted funds to the shareholder in the amount of $200.5 million (December 31, 2021 – $191.2 million). The shareholder paid $3.9 million (December 31, 2021 – $3.9 million) for this service.

During the year ended December 31, 2022, the Company performed water meter data management services on behalf of the shareholder. The shareholder paid $0.1 million (December 31, 2021 – $0.1 million) for this service.

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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, 2022, no assessments have been made.

Letters of credit

At December 31, 2022, the Company had provided $4.3 million (December 31, 2021 – $4.3 million) in bank standby letters of credit to the IESO.

Vendor commitments

The Company has commitments in connection with Infrastructure projects of $0.2 million (2021 - $nil), Information Systems projects of $12.0 million (2021 - $nil) and new vehicle acquisitions of $1.0 million (2021 – $0.8 million).

Operating leases

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

	2022	2021
Less than one year	$ 221	$ 309
Between one and five years	486	587
More than five years	117	20
	$ 824	**$ 916**

The Company does not recognize right-of-use assets and lease liabilities for leases of low-value assets or leases with lease terms that are less than 12 months. Lease payments associated with these arrangements are instead recognized as an expense over the term on either a straight-line basis, or another systematic basis if more representative of the pattern of benefit. Operating leases expensed during the year ended December 31, 2022 was of $0.3 million (2021 – $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, 2022 is $168 million (2021 – $198 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, 2022 was 4.13% (2021 – 1.41%).

Financial risks

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

a) Credit risk

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

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24. Financial instruments and risk management (continued)

a) Credit risk (continued)

The carrying amount of accounts receivable relating to energy sales 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 within operating expenses. Subsequent recoveries of receivables previously provisioned are credited to operating expenses. The balance of the allowance for impairment loss at December 31, 2022 is $5.9 million (December 31, 2021 – $4.5 million). During the year ended December 31, 2022, bad debt expense was $1.6 million (December 31, 2021 – $1.3 million).

At December 31, 2022, approximately $2.4 million (December 31, 2021 – $1.8 million) is included in the allowance for doubtful accounts for uncollectible amounts relating to water consumption. No uncollectible accounts in connection with water consumption are realized in the Statement of Comprehensive Income since 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, 2022, approximately $5.2 million (December 31, 2021 – $4.0 million) is considered 60 days past due. The Company has approximately 166 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 25% of amounts billed to customers with the remaining 75% 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, 2022, the Company held deposits in the amount of $1.3 million (December 31, 2021 – $2.6 million). If presented with substantial credit losses, the Company has the ability to make an application to the regulator for recovery of those losses through distribution rate adjustments in future years.

b) Market risk

Market risks primarily refer to the risk of loss that result from changes in commodity prices, foreign exchange rates, and interest rates. The Company currently does not have significant commodity or foreign exchange risk. The Company is exposed to fluctuations in interest rates as the regulated rate of return for the Company's distribution business is derived using a complex formulaic approach which is in part based on the forecast for long-term Government of Canada bond yields. This rate of return is approved by the OEB as part of the approval of distribution rates. A 1% increase or decrease in the interest rate at December 31, 2022 would have no impact (2021 – $nil) on interest expense on the long-term debt as all debt instruments are fixed.

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 $20 million with the Toronto Dominion Bank. At December 31, 2022 the amount drawn by the Company under this line of credit was $1.7 million (December 31, 2021 – $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.

The Company also has a bilateral facility for $4.3 million for the purpose of issuing letters of credit mainly to support the prudential requirements of the IESO, of which $nil has been drawn and posted with the IESO (December 31, 2021 – $nil).

d) Capital disclosures

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

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

	2022	2021
Long-term debt	$ 200,000	$ 200,000
Shareholder's equity	223,160	191,525
	$ 423,160	$ 391,525

25. Subsequent event

On March 30, 2023, the Board of Directors declared a $5.0 million dividend payable to the sole shareholder, the Corporation of the City of London, to be paid by the end of 2023.

2022 LONDON HYDRO ANNUAL REPORT ON FINANCE

London Hydro

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