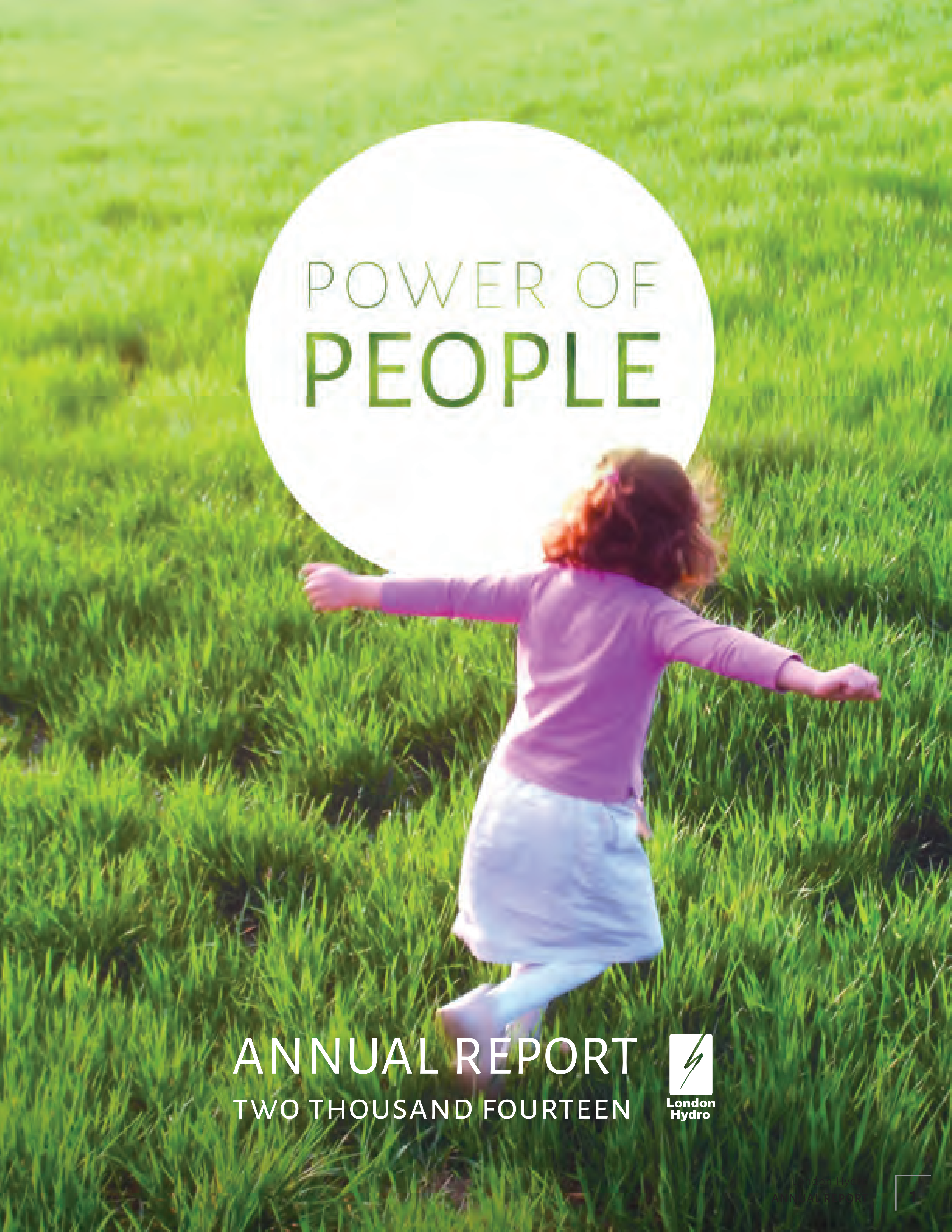


POWER OF PEOPLE

ANNUAL REPORT
TWO THOUSAND FOURTEEN

London Hydro

Through the pursuit of innovation & growth, we will provide leadership in customer services and add value to the corporation & community.

LETTER TO OUR STAKEHOLDERS

A YEAR OF NATIONAL RECOGNITION

Building upon our past success, our 2014 Annual Report is a story of celebration of numerous awards London Hydro won for its extraordinary performance. Without a doubt, these awards and achievements are evidence to the perseverance, dedication and sincerity of the 300 plus men and women of London Hydro.

We are a local distributor of electricity. We take our service to our customers seriously and are thankful to them for their appreciation of our services. We achieve great results and attain strong financial performance for our customers, who are our owners as well. In 2014, London Hydro was nationally recognized for safety and employee health and wellness. As an electricity distributor, the safety of all of our employees and the public is paramount to us; and, achieving national recognition for our safety procedure, protocol and processes is a testament to our commitment to safety. "Safety Starts with ME" is our emblem of safe practices; and, our continuous recognition by the Infrastructure Health and Safety Association for safe operation without a lost time injury is a manifestation of our employees' commitment to safety.

STRONG FINANCIAL PERFORMANCE

London Hydro's earnings for 2014 are $12.5 million with an above average return on equity of 8.6%. This performance is a result of focused management, prudent cost control and innovation. Among the 16 benchmarks established by the regulator, London Hydro ranked among the most efficient in 13 of the 16 benchmarks; our cost remains among the lowest and our performance among the best. Historically, our cost and our rates to our customers have increased at a rate much below the Ontario average.

Electricity distribution is a capital intensive industry and we reinvest more than 250% of our net income back into our infrastructure to continuously improve service.

Our steady investment in distribution infrastructure, including $27 million in capital additions in 2014, has contributed directly to the continuous improvement of our reliability performance. In 2014, we had the third best performance in Ontario in frequency of outages, with 1.23 per customer (SAIFI) and fourth best performance in duration of outages with 1.05 hours per customer (SAIDI). These results represent improvement over the previous years and are much better than the regulator's benchmark.

BOARD MEMBERS:

Peter Johnson - *BOARD MEMBER*, Gabe Valente - *BOARD MEMBER*,
City Councillor Michael van Holst - *BOARD MEMBER*,
Mohan Mathur - *CHAIR*, Marilyn Sinclair - *BOARD MEMBER*,
Bernard Borschke - *VICE-CHAIR*, Vinay Sharma - *CHIEF EXECUTIVE OFFICER*,
Connie Graham - *BOARD MEMBER*

Elizabeth Carswell - *SENIOR DIRECTOR HR*,
Ken Walsh - *CHIEF ENGINEER & VP OPERATIONS*,
David Arnold - *CFO, VP FINANCE & CORPORATE SECRETARY*,
Syed Mir - *CIO & VP CORPORATE SERVICES*

LEADERS

RECOGNIZED FOR TECHNOLOGICAL LEADERSHIP

The digital age and the internet of everything are revolutionizing an otherwise staid electricity distribution business. From smart meters to smart grid to smart devices, we have embraced the deployment of technology to enhance our operation and efficiency. Starting in 2014, we vigorously adopted a standard based approach to technology. London Hydro became a leading North American utility in founding the Green Button Alliance and deploying Green Button standard technologies. We did this with a view to provide customers universal solutions – our "Passport to Innovation." Our Green Button standard approach was recognized by Ontario's Ministry of Energy, Medical and Related Sciences (MaRS) Discovery District as well as the U.S. Department of Energy and the U.S. National Institute of Standards and Technologies. As such, the U.S. Department of Energy tweeted London Hydro as "the only utility with cloud based Green Button application."

The standard based approach to technology accords London Hydro to develop cost effective services and universal, innovative and user friendly programs for customers. London Hydro takes pride in having almost 57,000 of its customers – more than one-third – interact electronically with MyLondonHydro and nearly 30,000 customers using e-billing. As well, nearly 7,000 customers are using our online outage management portal, and 176 property owners/managers of 14,150 rental units are using our online property management portal. These outcomes reflect the innovation of London Hydro's employees, which is a core value of the corporation.

"The only utility with cloud based Green Button application.

U.S. Department of Energy

READY TO FACE CHALLENGES

As detailed in this annual report, London Hydro's success in 2014 is unparalleled. Much of this can be credited to a corporate culture change which has been underway for the past several years. This cultural change reflects employees' commitment to respect each other, trust each other and be cooperatively competitive. We are tremendously proud of our employees whose dedication helps us deliver the promises of our Mission and Vision. London Hydro's family of employees also value our community. In 2014, employees contributed $30,650 through the Employee Charity Chest Organization to benefit over 30 charities, the majority of them local. On behalf of our community, London Hydro increased its commitment by 50% to $150,000 towards the erstwhile THAW program, now called the Housing Stability Bank. As a local corporation, London Hydro provides significant employment opportunities. In 2014, we hired 18 new full time employees, 3 apprentices as well as provided 32 summer/co-op students, temporary and contract jobs. This demonstrates our intent on developing the younger generation for the future.

2014 was an excellent year; however, greater changes and challenges are in the offing. The electricity utility industry in Ontario is facing significant strategic and structural changes and London Hydro remains mindful of the potential effects these changes might bring. We will continue to evolve and adapt to any changes the utility sector experiences and to explore and evaluate any and all strategic options, while respecting the Shareholder's goals and objectives.

In summary, the accompanying audited financial statements for the period ending December 31, 2014 reflect the outstanding performance of London Hydro in 2014. This is a direct result of the contribution of London Hydro's employees. On behalf of our Board of Directors and the Executives of London Hydro, we recognize our employees, our customers and our stakeholders whose continued support underpins London Hydro's success.

Mohan Mathur
Chair

Vinay Sharma
Chief Executive Officer

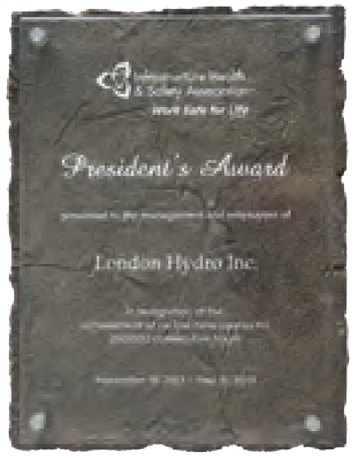
2014 ACHIEVEMENTS

STATEMENT OF CORPORATE GOVERNANCE PRACTICES

Early in 2014, London Hydro published a "Statement of Corporate Governance Practices," which outlines the Board's activities and the role it plays in fostering the success of the corporation, as well as the qualifications required to serve on the Board. The governance document also outlines the Enterprise Risk Management framework developed by London Hydro to chronicle the corporation's risk management policies and practices as well as the ways we mitigate and/or manage significant risks. These changes to corporate governance and oversight have led to the achievement of the best financial performance ever, in spite of the fact that 2014 was an Incentive Rate Making (IRM) year, which causes a regulatory lag in the recovery of costs.

PRESIDENT'S AWARD

Once again, London Hydro was the recipient of the Infrastructure Health and Safety Association's President's Award for milestones achieved in working without a compensable injury. In 2014 we received two of these awards: for 250,000 and 500,000 hours. This year marks the 10th year that we have achieved an extended period with no lost time accidents and received a President's Award in recognition of our efforts. Although we have received these awards regularly, we do not take them lightly. This award reminds us of the importance of working safely every day. When we do have a lost time incident, it is natural to feel that we have failed in our efforts to work safely. However, it is important to remember that in the last 10 years, despite the occasional incident, London Hydro employees have worked over 5,000,000 hours safely, and we are proud of their continued focus on their own safety and the safety of their co-workers.



CANADA'S SAFEST EMPLOYER

ELECTRICAL & UTILITIES SAFETY ASSOCIATION OF ONTARIO

CANADA'S SAFETY CHAMPION

MENTAL HEALTH AWARENESS INITIATIVE

In 2014, London Hydro completed a needs assessment of the Mental Health Awareness of our organization to introduce a comprehensive program for all employees. With the help of a mental health consultant, we have embarked on a three-year plan to create a program through which we can demonstrate that we **CARE**:

- We will build a **C**ommunication plan that builds trust.
- We will **A**ccommodate mental health challenges.
- We will learn to **R**ecognize the signs and symptoms of mental wellness issues.
- We will **E**ducate our employees in order to build an organization that promotes positive mental wellness and support at all levels.

London Hydro also delivered leadership training to all supervisory staff that focuses on dispelling myths and reducing the stigma associated with mental illness. Supervisors learned what mental illness is and is not, learned about the resources that are available within the organization and the community to help employees who may be experiencing difficulties, and understanding how the CARE model will apply within the organization.

EDA'S CUSTOMER SERVICE EXCELLENCE AWARD

London Hydro's property management portal won the Electricity Distributors' Association Customer Service Excellence Award. Working with the Property Management Association in London and property owners, London Hydro designed a self–service program available through the website. This program allows property managers to gain secure access to their accounts around the clock and manage their moves from old tenant to new tenant. Using this portal, property managers can elect to receive emails regarding move requests and service disconnections for each of their properties in real time. Many of these property managers are managing over 1,000 properties, by receiving these notifications and to have all this information in one place where it is easy to find and interpret is very helpful. In addition, these customers have full control to sign up, assign and remove access to designated delegates, such as superintendents or office staff, allowing them to view all the information related to the delegated properties. When property managers have questions, our customer service representatives can see exactly what the customer sees on their screen to answer questions and quickly resolve any issues. The portal is directly linked to our website where customers can access all of their account information.

BENEFITS CANADA — GOLD AWARD

Third time's a charm. After winning Silver for two years in a row (2012-13), London Hydro was awarded Gold for Best Wellness Programming by Benefits Canada Magazine for organizations with fewer than 1,000 employees. The award recognizes organizations that have demonstrated leadership and innovation in wellness programming and, in so doing, have made a noticeable difference in the benefits industry. For London Hydro, reducing absenteeism and improving productivity is a tangible result of our ever-growing wellness offerings, ranging from activities to information resources. Equally important are the increases in job satisfaction, engagement and morale experienced by employees who participate. Our success in this area is only possible because of the active involvement of London Hydro employees, who serve on the Wellness Committee and those who participate in the wellness initiatives offered.

COMMUNITY RECOGNITION — FIRE MARSHAL'S AWARD

London Hydro was recognized for providing fire safety upgrades to Home Assistance Program (HAP) customers with the 2014 Fire Marshal's Safety Award for its "outstanding contribution to fire protection and prevention in Ontario." London Hydro's involvement results in enhancements to both the Fire Department's Educational program as well as the Home Assistance Program.

As a result of this collaboration,

- Over **1,500 homes were assessed** in London
- **371** customers received **smoke detectors**
- Installed **2,100 batteries**

GREEN4GOOD

In addition to the Conservation and Demand Management initiatives listed above, London Hydro's IT Department participates in the Green4Good program, which helps Canadian companies dispose of their unused IT devices such as printers, phones and old computers. One hundred percent of the items are recycled and the raw materials that are yielded from the process are used for new products. To date London Hydro has sent out over 1,527 kg of e-waste, including 171 phones, 57 cell phones, 55 CPUs and many other electronic devices.

SUSTAINABILITY

London Hydro is committed to the triple bottom line of environmental, social and economic sustainability. In 2014, we submitted our first Sustainability Report based on the protocols set out by the Global Reporting Initiative (GRI). We are proud to report that the GRI organization agreed with our self-assessed application level "A."

The report highlights London Hydro's

- Investments in new technologies and renewable projects that minimize our environmental impact,
- Waste diversion and management program that has resulted in only 9% of waste leaving London Hydro going to landfill, and our
- Comprehensive Environmental Management System.

RECOGNITION FOR GREEN BUTTON: WHITE HOUSE & MEDIA COVERAGE

In 2014, London Hydro was invited to attend the White House Energy event to recognize our leadership role in advancing the Green Button standard. The day-long event highlighted innovators, such as London Hydro, who are working on harnessing the power of data to build a clean energy economy.

2014 LPGA SPONSORSHIP

London Hydro's sponsorship of the LPGA Canadian Pacific Women's Open, held at the Hunt Club from August 18-24, provided some unique opportunities for London Hydro to connect with many volunteers and spectators. As a corporate sponsor, London Hydro provided electricity throughout the tournament using silent generator, representing a donation of $20,000. At the event, customers viewed demonstrations of the new Green Button programs and mobile apps to help customers learn how to use new technology to manage their electricity usage.

EDA WESTERN DISTRICT "POWER OF GOLF FORE CHARITY"

London Hydro was pleased to host the 2014 annual EDA Western District (Local Electric Distribution Companies) charity golf tournament. The "Power of Golf Fore Charity" event provided London Hydro with an exciting way to recognize the collective efforts of Local Distribution Companies and Industry Partners in support of a common goal – to improve and enhance the communities we serve.

The event was a tremendous success and raised over $50,000 for Wellspring London and Region. Wellspring is a community-based cancer support centre that offers over 20 different programs and services to help cancer patients, their families and caregivers cope with the emotional, social, psychological and spiritual impact of cancer at no cost and without need of a referral.

LONDON REGIONAL CHILDREN'S MUSEUM

In 2014, London Hydro worked closely with the exhibit development team at the Ontario Science Centre to build an interactive electricity education exhibit for the London Regional Children's Museum. The exhibit gives children the hands-on opportunity to learn about the differences between incandescent light bulbs and the more efficient LED and CFL varieties, as they are asked to pedal to light rooms in a six-room model house: the same amount of energy is required to light one room using an incandescent bulb as is used to light the whole house using the higher efficiency lighting. This exhibit is the first of three that London Hydro is developing to educate children, parents, teachers and visitors about effective electricity conservation.

CUSTOMER ENGAGEMENT & CUSTOMER SERVICES

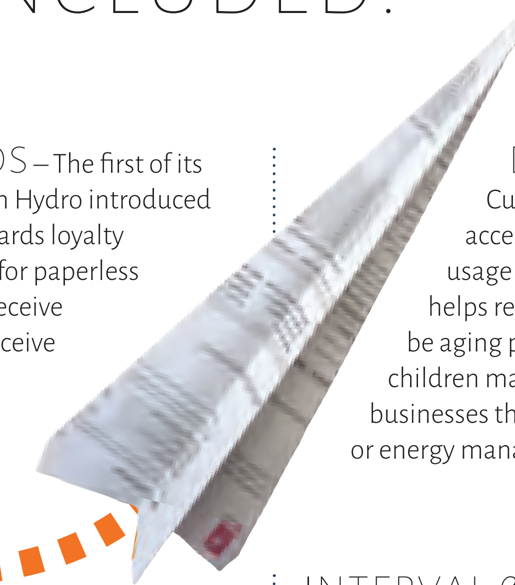
37% OF OUR CUSTOMERS HAVE MYLONDONHYDRO ONLINE BILLING PORTALS

CUSTOMER SATISFACTION SURVEY – Each year, London Hydro participates in a survey that benchmarks London against other electric utilities in Ontario and Canada. The survey helps us to understand and identify any issues that customers may have, new self-serve options on our website they feel may be helpful and their level of satisfaction with their interactions with London Hydro, the quality of our service, the reliability of service and many other areas. The information derived from the survey is then reviewed and action plans are developed to respond to any issues and develop enhancements to our service. As always our goal is to ensure customers have the best service available and have the flexibility to select self-service options that can be accessed when it is convenient for them, 24 hours a day, 7 days a week from wherever they have access to the internet. We are pleased to report that London Hydro received an overall score of 'A' on the survey.

CUSTOMER ENGAGEMENT – As customer expectations continue to change and the demand on self-service features and convenience rises, London Hydro is empowering its customers with powerful self-serve functionality within its dynamic and mobile friendly website. MyLondonHydro's online billing portal provides customers with the tools they need to perform their most common transactions. 37% have MyLondonHydro online billing portals and 19% of our customers have enrolled in paperless billing.

TOP SELF-SERVE FEATURES OF MYLONDONHYDRO IN 2014 INCLUDED:

AEROPLAN REWARDS – The first of its kind for a utility in Canada, London Hydro introduced its customers to the Aeroplan Rewards loyalty program. Customers who register for paperless billing through MyLondonHydro receive 100 Miles. Account holders who receive invoices electronically through paperless billing receive five rewards points for every invoice delivered.



DELEGATE ACCESS – Customers may assign delegate access to their billing and energy usage information. Delegate access helps residential consumers who may be aging parents who prefer to have their children manage their account information, or businesses that contract their financial accounts or energy management services to third parties.

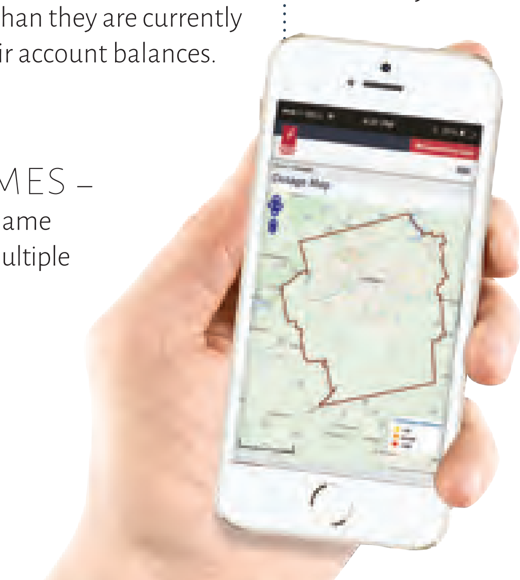
PAYMENT ARRANGEMENTS AND NOTIFICATIONS – Customers may notify London Hydro's customer services department instantly of a payment or the intention to make a payment. The online billing portal automatically determines the payment amount and enables the customer to record the bank transaction number quickly and conveniently.

INTERVAL & DEMAND CUSTOMER ENERGY USAGE – MyLondonHydro's My Energy Use portal now includes graphical energy demand information for London Hydro's interval metered and demand customers. This feature complements the more detailed and powerful Interval Data Centre 2 site, that provides greater power factor analysis tools and energy usage statistics and reports.

BUDGET BILLING – Payment arrangements and amounts may be created by customers and adjusted at any time to a higher amount if they feel that they are using more energy than they are currently paying to help them manage their account balances.

OUTAGE NOTIFICATIONS & ESTIMATED RESTORATION TIMES – A sophisticated notifications system within MyLondonHydro's portal enables customers to choose whether they want to be notified of an outage at their service address by phone, text or email. Additionally, a live outage map displays instant updates on the state of the distribution system and estimated restoration times if they are available.

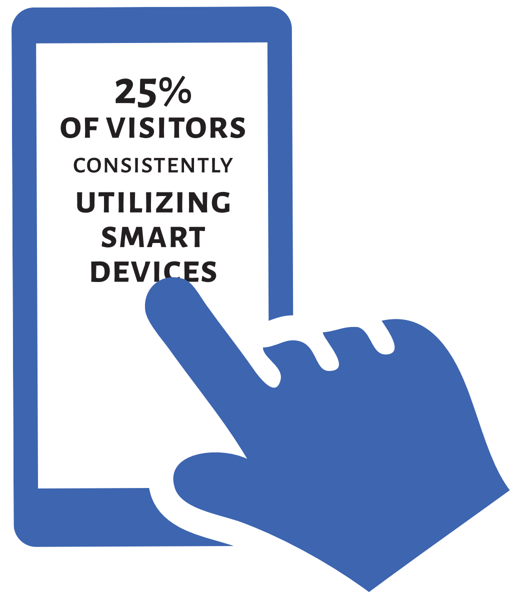
ACCOUNT NICKNAMES – MyLondonHydro's Account Nickname feature enables customers with multiple properties or service addresses to nickname their accounts for greater clarity and convenience.



INNOVATION

"MOBILIZING" OUR CUSTOMERS

As we anticipated, in 2014 we started to see our customers increasing their use of mobile devices to access our self service features. Our "responsive design" which automatically reformats our website depending on the smart device used e.g. smartphone, tablets etc., creates an engaging, easy to use application right in our customer's hands. Use of mobile devices averaged 19% in the first half of the year and increased to 25% in the last half of the year. We will continue to focus on mobile app development as we anticipate this trend to continue.



EMERGING TECHNOLOGY

London Hydro has been recognized in its unique approach to extending Smart Meter/Grid Infrastructure to enable Customer Engagements by industry leaders.

POWER TO THE PEOPLE

London Hydro is opening the door to a number of new programs that will allow customers to get real-time information on energy usage, email alerts if their air conditioner is using too much energy and the ability to remotely turn off lights and appliances.

"London Hydro has been leading the way with innovative solutions to engage customers. One of the advantages of smart meters is that they can permit homeowners to download their home's electricity usage data using Green Button. This can help homeowners manage their electricity bill...

Bob Chiarelli, ONTARIO MINISTER OF ENERGY

COMMERCIAL - IDC2

"Providing us the ability to create custom groups of schools and view their aggregated data or compare one school to another enables us to see what's working well or needs improvement and dig deeper into how we can improve our energy portfolio at that school.

Mike Colquhoun, ENERGY MANAGEMENT COORDINATOR, THAMES VALLEY DISTRICT SCHOOL BOARD

CONTINUING JOURNEY OF CUSTOMER ENGAGEMENT

PEAK SAVER PROGRAM SUPPORT

Our recent experience demonstrates that our customers enjoy tools that help them manage their energy consumption. We believe that the more timely the data, the more valuable this information. During 2014, London Hydro piloted a number of Green Button related initiatives to determine the level of interest and ease of use from our customers' perspective. The early results from these pilot programs suggest that customers enjoy taking control of their energy use. They quickly adapt to applications that allow them to remotely control simple tasks such as turning on lights and adjusting the thermostat through their smart devices.

THE "GREEN BUTTON" INITIATIVE

London Hydro continues to be recognized for its leadership role in the development and adoption of the Green Button Standard not only in Ontario but throughout North America. Among the many conferences and speaking engagements that London Hydro was invited to during 2014, was an invitation to participate in the 2014 White House 'Datapolooza' in Washington D.C.

CUSTOMER SERVICE INITIATIVES

There are many reasons why our customers call London Hydro as part of daily business activities, but we always see an increase in those calls during inclement weather when frequent power outages are imminent. In power outage situations, London Hydro is reaching its customers before they contact us, and we are accomplishing this in several ways: using a complex Outage Management System, a new Interactive Voice Response phone system, customer solution software and social media.

INTERACTIVE VOICE RESPONSE (IVR)

In 2014, we implemented a new 'cloud based' IVR service that provides 115 concurrent inbound lines with a burst capability of up to 1000. The objective is to never give our customers a busy signal. The automated IVR system will sort the incoming call by either confirming that an outage event is occurring based on the incoming customer phone number; by allowing customers to notify London Hydro of the outage event; or by connecting the customer to a London Hydro representative. The IVR system aligns with London Hydro's Outage Management System, which has reduced the number of outage related calls, enabling customer service representatives to focus on billing related issues or services. London Hydro created a Customer Relationship Manager program to compliment its SAP billing system to ensure quicker and improved handling of incoming phone calls.

INTERVAL DATA CENTRE 2

London Hydro believes in providing customers with the tools they need to put them in control of their energy usage. Through our dedication to the pursuit of excellence in efficiency and reliability, London Hydro continues to be a driving force in the development of energy monitoring applications. In August 2014 London Hydro launched the Interval Data Centre 2 web-based data analysis and display system. The system was designed for commercial and industrial use with features that include a simple dashboard, consumption reports, meter grouping, annotations, facility comparisons and power factor analysis.

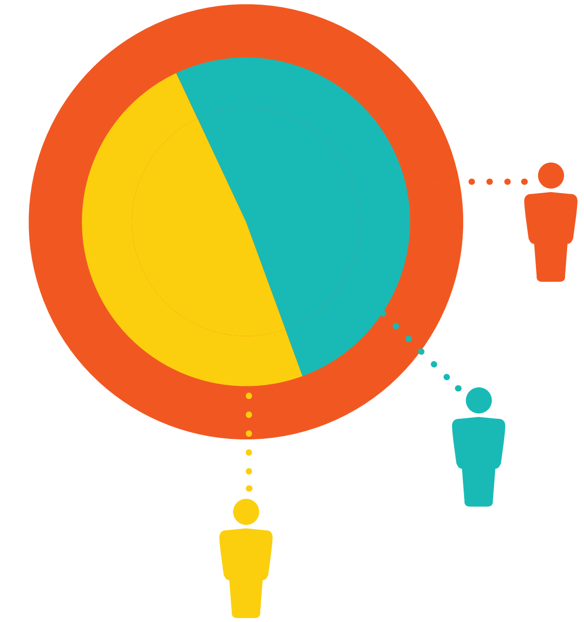
This system is accessible through MyLondonHydro's online customer portal and provides users the option to display several reports and select their desired level of detail. Some of the available reports include a 24-hour profile, daily peaks and totals and load duration graphs.

The functions of this system are made possible through the advancements that London Hydro has made with Green Button technology. By giving customers secure access to their energy usage information, they are able to use systems such as Interval Data Centre 2 to monitor their energy usage and make educated choices on where and how they can save on their electricity costs.

> *"The knowledge we can gain from the data is enormous and having it online is a great asset for us.* Mary Quintana, COMPLIANCE COORDINATOR, ENERGY & WATER PROJECTS, FACILITIES MANAGEMENT, WESTERN UNIVERSITY

LONDON HYDRO'S SMARTMETER VALIDATION TEST BENCH

London Hydro's Validation Test Bench for smart meter-to-customer end-to-end functionality testing is now fully operational. As new versions of smart meter firmware, wireless system hardware and IT system software emerge, this facility provides an environment to find defects before the new technology impacts customers. Today there are more than 70 different meter software technologies deployed in London. The Test Bench is designed for safety and is fully automated to conduct repeated testing and features real loads. Also the Test Bench uses variable power transformers to control the voltages and power outages. In the future this Test Bench will be used for Interoperability and Energy Management standards (i.e. Green Button, OpenADR) industry, academic and utility collaboration.



503,178 total visits
TO THE WEBSITE *(JAN. 27 – DECEMBER 31, 2014)*

256,468 new visitors
TO THE WEBSITE *(JAN. 27 – DECEMBER 31, 2014)*

284,143 returning visitors
TO THE WEBSITE *(JAN. 27 – DECEMBER 31, 2014)*

TWITTER

On Nov 15th, 2014, London Hydro implemented its automated Twitter notification for unplanned outages. London Hydro now sends automated tweets for any unplanned outage that impacts more than 50 customers. These tweets identify affected neighbourhoods and customers with a link to our website's live outage map.

"Our partnership with the London Fire Department is unique. It helps to expand our service from energy conservation to ensuring customers are well protected and we are delighted to receive the Fire Marshal's award."

Vinay Sharma, CEO LONDON HYDRO

PARTNERS

London Fire Department
Captain Brent Shea
Brad Tanner
Simon Mackintosh

Salvation Army Centre of Hope
Martha Ludlow
Nancy Power

London Hydro
Brad Sipila
Shawn Wehring
Jeff Orchard
Jason Forster
Karen Stewart
Jeff Floyd

London residents are safer thanks to a unique and forward thinking community partnership between London Hydro and the London Fire Department. London Hydro and the Ontario Power Authority jointly manage the Home Assistance Program to help Ontario residents make their homes more energy efficient and comfortable. The program focuses on assisting less fortunate individuals and families in the community by providing free and safer appliances and, in some cases, rewiring electrical services.

A few years ago, London Hydro contacted the London Fire Department to propose including a fire safety assessment as part of the Home Assistance Program (HAP). The fire department thought it was a great opportunity and partnered in this venture by training the assessors in basic fire safety education, including installing and maintaining smoke alarms.

In 2014, London Hydro assessed over 1,500 homes in the City. It was discovered that more than 61% of those homes were not adequately protected by working smoke alarms. As a result, the Home Assistance teams installed 371 smoke alarms and 2,100 batteries and provided fire safety brochures and materials supplied by London Fire Department and supported by the Salvation Army.

London's Home Assistance Program is an excellent example of three customer-focused organizations joining forces to enhance safety and quality of life in the community.

Recognizing outstanding contributions to fire protection and prevention in Ontario, London Hydro was the recipient of the Fire Marshal's Public Fire Safety Council's, Fire Safety Award.

"Given the amount of resources available, it is important for the London Fire Department to have community partnerships such as this one with London Hydro. These partnerships allow the Department to enhance our ability to educate the public about fire safety, and ensure a greater number of homes have the fire detection systems installed in the event of a fire."

Gary Bridge, DEPUTY FIRE CHIEF LONDON FIRE DEPARTMENT

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis is of London Hydro Inc.'s ("the Company's") financial position, results from operations, and cashflow and should be read in conjunction with the audited Financial Statements for the year ended December 31, 2014.

The results reported herein have been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP") and are expressed in Canadian dollars. Certain regulatory practices and direction may result in deviations from generally accepted accounting principles. The Company's process for assessing the impact of such regulatory practices and direction on reported financial results are more fully described in notes 2, 3 and 7 to the audited Financial Statements for the year ended December 31, 2014.

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

OVERVIEW

THE COMPANY & ITS STRATEGY

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

The Company is regulated by the Ontario Energy Board ("OEB"), and operates under the authority granted by the Ontario Energy Board Act (1988). London Hydro is one of the larger distribution companies in Ontario, with a workforce of 314 personnel servicing 152,549 customers and a population base of approximately 367,000.

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

CORPORATE VISION & STRATEGY

The Company's vision is to provide leadership in customer services through the pursuit of innovation and growth, while adding value to the corporation and community. The Company's strategy is to be a leading energy services provider through the aggressive and innovative pursuit of customer focus, social and environmental responsibility, and financial health. Through the implementation of viable and economical technology, renewable generation projects and expanding application of green technologies in the community, the Company achieves its vision and strategy and adds value for its customers.

MISSION & VALUES

The Company's mission is to be an electricity distributor dedicated to the pursuit of excellence in safety, reliability, customer service, and competitive rates.

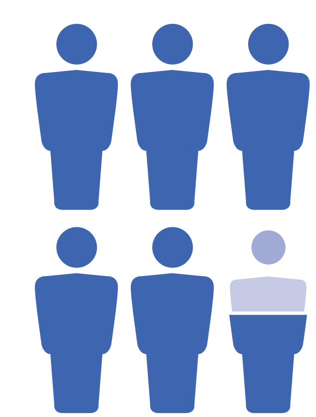
The Company achieves its mission by operating within a set of core values, including

Integrity: to exhibit trust in all relationships by acting openly and honestly in all matters and by treating people fairly and respectfully.

Innovation: to foster an exciting working environment that inspires employees to think creatively.

Accountability: to be truly accountable to our customers, our employees, our shareholder, and our community.

Social and Environmental Responsibility: to act as a positive influence on our employees, society and the environment.



56,484 MyLondonHydro SUBSCRIBERS

STRATEGIC PRIORITIES

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

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

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

The Strategic Plan focuses on improvements to customer service, customer communications and customer interactions with the Company, with due regard for controlling customer costs and other financial and regulatory constraints. The Company plans to further increase communication with its customers as it prepares the Distribution System Plan for the year as required by the OEB.

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

FISCAL 2014 OPERATIONS OVERVIEW *($ millions)*

THE COMPANY'S 2014 RESULTS IN COMPARISON TO HISTORICAL AND PLANNED PERFORMANCE ARE SUMMARIZED IN THE FOLLOWING TABLE:

Financial Highlights	2013 Actual	2014 Planned	2014 Actual	2015 Planned
Energy Quantity - Distributed - Gigawatt Hours	3,346.5	3,286.4	3,286.8	3,312
Revenue:				
Energy and Distribution	404.9	415.6	426.8	458.2
Cost of Power	-341.1	-353.2	-363.4	-393.5
Distribution Revenue	63.8	62.4	63.4	64.7
Net Earnings	13.8	9.3	12.5	11.4
Average Return on Shareholder's Equity	10.2%	6.5%	8.6%	7.3%
Annual Investments:				
Capital Assets	27.7	28.4	27.0	30.2
Regulatory Capital Initiatives	0.0	0.4	0.3	0.6
Financial Position:				
Total Assets	318.8	320.9	335.9	357.4
Shareholder's Equity	140.4	146.2	150.0	158.1
Distributions to the City of London:				
Interest Paid	4.2	4.2	3.9	0.0
Dividends Declared/Paid	3.0	3.0	3.0	5.0
S&P Credit Rating	A/Stable	A/Stable	A/Stable	A/Stable

THE COMPANY SUCCESSFULLY COMPLETED ITS LAST COST OF SERVICE IN 2013.

ENERGY QUANTITIES DISTRIBUTED

Total energy distributed on the system decreased by 1.8% to 3,286.8 gigawatt hours (2013 – 3,346.5 gigawatt hours). Although the population grew by 1.1% over the course of the year, customers are continuing to conserve electricity through active conservation efforts. The other contributing factor to the decrease was the reduced consumption per customer as a result of the unusually cool summer.

ENERGY REVENUE & COST OF POWER

The cost of power increased during the year to $363.4 million (2013 - $341.1 million). The overall increase of $22.3 million or 6.5% (2013 – 7.7%) is attributable to increases in commodity and non-commodity pricing, fluctuations in the spot market price and global adjustment rates determined by the Independent Electricity System Operator ("IESO"). In accordance with regulations, purchased power costs are billed to customers on a flow-through cost recovery basis. All variances due to timing of customer billing or regulated pricing are recorded in retail settlement variance accounts ("RSVA"), which are recovered from or returned to customers in accordance with regulatory directives.

CUSTOMERS ARE CONTINUING TO CONSERVE ELECTRICITY

DISTRIBUTION REVENUES

The Company is compensated by a regulated distribution rate based on the number of customers connected to the distribution system and their energy consumption and demand levels. Approximately 49% of revenues are derived from a monthly fixed customer charge, while the remaining 51% is dependent upon the customers' energy consumption and demand levels.

Total customers as at December 31, 2014 were 152,549 (2013 – 150,918). Distribution revenue composition remained relatively unchanged from the prior year with approximately 62% from residential customers (2013 – 62%), 33% from general service customers (2013 – 32%), and the remaining 5% from large users and other customers (2013 – 6%).

Total distribution revenues for the year decreased by $0.4 million (0.7%) to $63.4 million (2013 – $63.8 million) due primarily to the reduction of energy consumption in 2014.

The Company successfully completed its last Cost of Service in 2013. The Cost of Service is a process where the Company applies for the revenue requirement in order to cover the costs of the operating expenditures, amortization of capital assets and a regulated profit. This process occurs once every four years and therefore the next Cost of Service application is expected to occur in 2017. The current rates are a result of the last cost of service application and were effective as of May 1, 2013.

OPERATING EXPENSE & AMORTIZATION

(Excluding Cost of Power)

Total operating expenses, excluding interest, amortization and cost recoveries, increased during the year to $36.2 million (2013 - $35.5 million). The overall increase of $0.7 million or 2.0% is primarily attributable to increased labour and benefits costs and bad debt expenses.

Amortization expense increased significantly to $17.7 million (2013 - $16.9 million) due to the continued investments in both distribution system assets as well as technology. As capital asset expenditures continue to increase at a rate higher than amortization, it is expected that the future amortization expenses will also continue to increase.

Cost recoveries for billable services, including City of London customer billing services, remained consistent at $3.9 million (2013 – $3.9 million) as there were no changes to the service agreement with the City of London. The agreement was last modified January 1, 2013.

INTEREST AND OTHER REVENUE

Interest and other revenue increased to $8.9 million (2013 - $5.1 million). The most significant reason for the increase relates to one-time funding received, in the amount of $2.6 million, relating to Conservation Demand Management projects from 2009 to 2011 which were approved in 2014 and paid by the Ontario Power Authority ("OPA") during the year.

INTEREST EXPENSE

Interest expense for the year decreased slightly to $4.8 million (2013 - $5.1 million) for two reasons; firstly, the principal balance on third party debt continues to decline and therefore there is less interest expense paid; and secondly, on November 30, 2014 the Company revised their long-term debt arrangement with the City of London from a rate of 6% to a swap agreement at an all-in rate of 2.65%.

Interest expense is composed of interest payable on customer security and developer deposits, regulatory liabilities, smart meter financing and interest of $3.85 million (2013 – $4.2 million) payable to The Public Utility Commission of the City of London ("PUC") on the promissory note.

A total unrealized loss on the interest rate swap of $2.6 million (2013 - $0.2 million gain) was recorded on the statement of operations between the two swap agreements held by the Company.

The first agreement is a 7 year interest rate swap agreement maturing on March 31, 2020, having an all-in rate of 3.33%. The total outstanding as of December 31, 2014 on this agreement is $10.7 million (2013 - $13.0 million) with monthly installments of $192,000 plus interest.

The second agreement is a 7.5 year interest rate swap agreement maturing on June 30, 2022 having an all-in rate of 2.65%. The total outstanding as of December 31, 2014 on this agreement is $85 million (2013 - $nil) with interest only payments made on a quarterly basis.

The unrealized loss of $2.8 million, recorded on the balance sheet, represents what the Company's cost would be to unwind these agreements as at December 31, 2014. Currently, the Company plans to maintain these agreements until the maturity dates.

INCOME TAX EXPENSE

The Company is required to make payments in lieu of tax ("PILs") to the Ontario Electricity Financial Corporation. The amount of PILs is approximately equivalent to the income taxes that would be paid if the Company was a taxable corporation under the Income Tax Act (Canada). Income tax expense for the year ended December 31, 2014 was $2.4 million (2013 - $1.6 million).

The Company has accumulated future tax assets of $0.9 million (2013 - $2.5 million) as a result of temporary differences related to tax values of property, plant and equipment in excess of their carrying amount for financial reporting purposes, and also expenses incurred for accounting purposes for employee future benefits but not yet deducted for tax.

CICA 3465.103 recognizes that, as a rate regulated entity, Future Income Tax Assets paid on behalf of customers will be returned to customers as they are recovered and therefore increases or decreases in Future Income Tax Assets are offset by a Regulatory Liability.

REGULATORY ASSETS/LIABILITIES

As a regulated distributor of electricity, the Company is obligated to provide energy to all customers at the Regulated Price Plan ("RPP") or at the Hourly Ontario Energy Price ("HOEP"), 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 RPP.

28,795
PAPERLESS BILLING SUBSCRIBERS

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

At December 31, 2014, the Company had regulatory assets of $7.2 million (December 31, 2013 - $2.3 million), representing an increase of $4.9 million, the majority of which relates to the increase associated with power cost variances as the cost of energy continues to rise.

The Company also had regulatory liabilities of $0.6 million at December 31, 2014, compared to $9.3 million as of December 31, 2013. This reduction is a combination of decreasing RSVA liabilities (becoming assets) as well as the settlement of RSVA liabilities back to customers through approved rates.

NET EARNINGS

Net earnings decreased by $1.3M to $12.5M compared to the prior year as a result of various factors, some of which are one-time in nature.

The two most significant one-time items relate to the OPA revenue received which increased from the prior year by approximately $3.4M, as well as the unrealized loss on the interest rate swap of $2.6M which decreased net earnings.

While other revenue increased by $0.3M as late payment charges increased during the year, this was offset by increased operating expenses of approximately $0.6M due to payroll costs, increased amortization expenses of $0.7M due to continued investment in infrastructure, and increased income tax expenses of $0.8M for the year.

CAPITAL RESOURCES

CAPITAL STRUCTURE & DIVIDEND POLICY

The Company has two debt agreements which account for total debt of $95.7 million.

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

The Company's dividend policy provides for an annual dividend amount equivalent to 40% of the Company's prior year's net earnings, subject to satisfactory cashflow. In accordance with that policy, during the year the Board of Directors declared a dividend in the amount of $3.0 million which was paid in quarterly installments during fiscal 2014.

Subsequent to the year end, the Board of Directors declared a dividend in the amount of $5.0 million payable quarterly, in fiscal 2015.

EXTERNAL CREDIT FACILITIES & CREDIT RATING

The Company has an uncommitted revolving bank credit facility of $20.0 million, a committed 364 day extendable revolving bank loan facility of $15.0 million maturing on March 31, 2017 and $6.6 million in Standby Letters of Credit issued to the IESO as security. In the event that the maturity date of the committed extendable operating loan facility is not extended, the due date for repayment of this loan facility is 1 year from the date of maturity.

As at December 31, 2014, the Company has drawn down nil (2013 - nil) on its committed loan facility and $nil (2013 - $2.0 million) on the uncommitted facility.

The Company's 'A/stable' long-term corporate credit rating was reaffirmed by Standard & Poor's in May 2014. This rating reflects the Company's low-risk as a distribution company with regulated cashflows. The Company's current credit rating provides for a reduction in the IESO prudential requirement by approximately $59.0 million.

LIQUIDITY & CASHFLOW

Cash generated by operating activities increased to $34.8 million (2013 - $31.7 million). Cashflows primarily relate to amounts of $12.5 million from net income, $17.7 million from amortization expenses and $2.6 million from the non-cash loss on the interest rate swap. The remaining $2.0 million relates primarily to changes in non-cash working capital balances.

Cash used in investing activities increased to $38.9 million (2013 - $33.6 million) as a result of a change in the regulatory liability balance between 2013 and 2014. The change is due to the increases to regulatory purchased power variances as the cost of energy was higher than the regulated price charged to customers.

Cash generated from financing activities increased to $13.4 million (2013 – $2.8 million used) due primarily to the debt acquired in 2014.

CASH PROVIDED BY OPERATING ACTIVITIES
INCREASED TO $34.8 MILLION

2015 OUTLOOK

NET EARNINGS FOR 2015, BASED UPON INTERNATIONAL FINANCIAL REPORTING STANDARDS, ARE PROJECTED TO BE $11.4 MILLION AFTER REGULATORY ADJUSTMENTS.

THE PLAN FOR 2015 INCLUDES A FORECASTED INCREASE OF $1.3 MILLION IN DISTRIBUTION REVENUES FOR THE YEAR WHILE INTEREST EXPENSES ARE PROJECTED TO DECREASE BY $1.5 MILLION AS A RESULT OF THE REVISED DEBT AGREEMENT. CONTROLLABLE EXPENSES ARE EXPECTED TO INCREASE BY APPROXIMATELY $1.5 MILLION AS CONTINUED FOCUS IS PLACED ON CUSTOMER SERVICE INITIATIVES. AMORTIZATION EXPENSES ARE EXPECTED TO BE APPROXIMATELY $0.4 MILLION HIGHER IN 2015 DUE TO CONTINUED INVESTMENTS IN PLANT AND EQUIPMENT.

FISCAL 2015 CAPITAL SPENDING IS FORECASTED TO BE $30.2 MILLION. INVESTMENTS REQUIRED IN DISTRIBUTION INFRASTRUCTURE ($22.2 MILLION), CONTINUED UPGRADING OF INFORMATION TECHNOLOGY AND CAPABILITIES ($5.0 MILLION) AND OTHER CAPITAL EXPENDITURES ($3.9 MILLION) ARE THE PRIMARY COMPONENTS OF THE 2015 PLAN.

TO FACILITATE THE NECESSARY CAPITAL INVESTMENT AND REPAYMENT OF REGULATORY BALANCES, THE COMPANY EXPECTS TO BORROW APPROXIMATELY $11.0 MILLION DURING THE COURSE OF THE YEAR.

REGULATORY DEVELOPMENTS

During fiscal 2014, there were ongoing energy policy and regulatory developments in the industry that affected the Company's financial results and will continue to have an impact on future year operations. The following summarizes these developments and their impact:

ONTARIO CLEAN ENERGY BENEFIT

The Province introduced the Ontario Clean Energy Benefit Act, 2010, to assist Ontario electricity consumers in transitioning to a cleaner electricity system. Commencing January 1, 2011, eligible residential, farm and small business consumers began receiving financial assistance for a five year period on the costs of their electricity through the Ontario Clean Energy Benefit ("OCEB") program. The program is designed to pass some of the benefits of green energy investments onto the consumers in the form of a credit and to transition and mitigate the impact of rising electricity supply costs. Eligible consumers receive a 10% credit on the total cost of electricity on their bills, including tax. During 2014, the Company's customers received an aggregate reduction of more than $42 million off their electricity bills under the OCEB program.

TIME-OF-USE BILLING ("TOU")

During 2012, the Company successfully began billing customers under the mandated TOU billing program. There were a number of system advancements and developments over the past two to three years that were required for this initiative to be possible. Nevertheless, the system is operating appropriately and the bills have been issued with no significant issues since the program was launched in the spring of 2012.

ELIGIBLE RESIDENTIAL, FARM AND SMALL BUSINESS CONSUMERS BEGAN RECEIVING FINANCIAL ASSISTANCE FOR A FIVE YEAR PERIOD ON THE COSTS OF THEIR ELECTRICITY THROUGH THE ONTARIO CLEAN ENERGY BENEFIT ("OCEB") PROGRAM.

RENEWED REGULATORY FRAMEWORK FOR ELECTRICITY DISTRIBUTORS & TRANSMITTERS ("RRFE")

In 2012, the OEB finalized a process to review the regulatory framework for distributors. The OEB's objective is to encourage and facilitate greater efficiency through a focus on performance-based outcomes and a disciplined, long-term approach to network investment planning.

In addition, three options for future cost of service applications have been presented to provide local distribution company's ("LDC's") some flexibility. First option is that cost of service applications are to be filed on a five year cycle compared to the current four year cycle.

Second, LDC's have the option to file an application that sets rates for each year of the future five years, rather than the existing process in which rates are set for a single year and subsequently adjusted through the incentive rate making ("IRM") process until the next full cost of service.

Third option is for "stable" utilities experiencing insignificant growth to file a cost of service application which provides for an inflationary increase rather than going through the process to "rejustify" the appropriate revenue requirement.

EMERGING ACCOUNTING ISSUES

INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")

The Canadian Accounting Standards Board ("AcSB") has adopted a strategic plan that has Canadian GAAP converged with IFRS, effective January 1, 2011, which will require entities to restate, for comparative purposes, their interim and annual financialstatements and their opening financial position.

In October 2010, the AcSB approved the incorporation of IFRS 1 into Part 1 of the Canadian Institute of Chartered Accountants ("CICA") Handbook for qualifying entities with activities subject to rate regulation. Part 1 of the CICA Handbook specifies that first-time adoption is mandatory for interim and annual financial statements relating to annual periods beginning on or after January 1, 2012.

The amendment also requires entities that do not prepare its interim and annual financial statements in accordance with Part 1 of the Handbook during the annual periods beginning on or after January 1, 2011 to disclose that fact.

The AcSB has provided multiple deferrals and the most recent announcement indicates that rate regulated entities can wait until January 1, 2015 before being required to adopt IFRS.

The Company has elected to implement IFRS commencing on January 1, 2015.

The primary reason for the continued deferrals of the IFRS adoption date is due to the International Accounting Standard Board's ("IASB") agreement to examine rate regulated accounting. In the meantime, the IASB approved an interim standard that allows a rate regulated entity, who has yet to adopt IFRS, to follow their current framework for reporting rate regulated items. This interim standard allows regulatory assets and liabilities to remain on the balance sheet as they are currently treated under CGAAP, rather than be recorded through the income statement as the current IFRS rules require.

The Company continues to assess the impact of the conversion to IFRS on its operating results.

SIGNIFICANT RISKS

RATE REGULATION & REGULATORY UNCERTAINTY

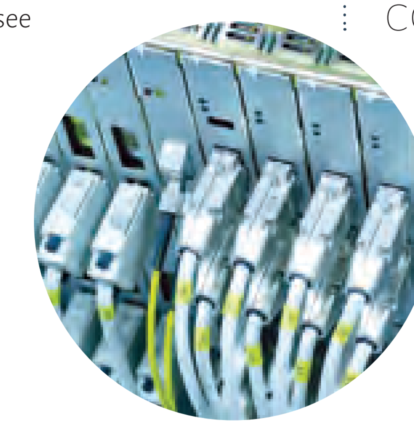
The Company's operating and capital spending programs are required to be submitted to the OEB for regulatory review and approval, allowing for recovery of these costs through approved distribution rates. There is an ongoing risk that certain amounts could be deemed ineligible for recovery from the ratepayer and would subsequently be borne by the Company, thereby adversely impacting future results.

Since the initial Provincial Government electricity market reforms, roughly 300 Ontario distribution entities have been reduced to approximately 77 through corporate consolidation efforts. In 2012, a report was published which suggested that utilities work together to form a total of 10 "shoulder-to-shoulder" utilities throughout Ontario. While the report proposed voluntary mergers, it is also suggested that if utilities do not merge voluntarily, then the government would impose mandated amalgamations. No legislation currently exists that would mandate amalgamations.

It is expected that there will continue to be a compression and consolidation of the distribution sector, driven by the need to achieve economies of scale and produce lower rates for customers. Should this continue as expected, and in conjunction with the regulator's focus on cost regulation by peer group benchmarking, utilities who do not achieve economies of scale may see future financial performance suffer and the ability to maintain the reliability of their distribution system may be affected.

CREDIT RISK

Distribution companies are responsible for collecting both the distribution and energy portions of the electricity bill. Unless the retailer elects to bill the customer directly for the energy portion of the bill, LDC's are exposed to a credit risk greater than the distribution portion of the electricity bill. Unlike an unregulated company, the Company cannot adjust pricing as a method of mitigating credit risk nor can it establish customer security requirements or collection policies exceeding those allowed by regulation. Hence, the Company could experience non-payment by customers that materially exceeds normalized levels of credit losses.



INFORMATION TECHNOLOGY

The Company's ability to operate effectively and comply with regulatory requirements is dependent upon the development and maintenance of a complex information technology systems infrastructure. Computer systems are employed to operate the Company's distribution system, financial and billing systems and business systems to capture data and produce timely and accurate information. Failure of the Company's financial, business and operating systems could have a material adverse effect on the Company's business, operating results and financial condition.

ELECTRICITY CONSUMPTION

The Company's distribution rates are comprised of a fixed monthly charge and variable charge based on the volume of electricity consumed by the customer. Electricity consumption by the customer may be significantly impacted by sustained periods of hot or cold weather patterns, conservation initiatives and general economic conditions. Accordingly, there is no assurance that the Company will achieve the revenue requirement approved by the regulator.

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To the Shareholder of London Hydro Inc.

We have audited the accompanying financial statements of London Hydro Inc. (the “Entity”), which comprise the balance sheet as at December 31, 2014 and the statements of operations and retained earnings, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, 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.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of London Hydro Inc. as at December 31, 2014, and the results of its earnings and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants
March 31, 2015
London, Canada

Notes to the Financial Statements
(in the thousands of dollars)
For the year ended December 31, 2014

	Note	2014	2013
ASSETS			
Current assets			
Cash	4	$ 6,703	$ –
Accounts receivable	5	71,122	71,046
Income tax receivable		–	80
Regulatory assets	7	165	1,483
Inventories	6	655	731
Prepaids		1,569	1,456
Total current assets		79,719	74,796
Non-current assets			
Regulatory assets	7	7,070	854
Property, plant and equipment	8	248,217	240,693
Future income tax assets	18	879	2,463
Total non-current assets		256,166	244,010
Total assets		$ 335,885	$ 318,806
LIABILITIES AND SHAREHOLDER'S EQUITY			
Current liabilities			
Bank indebtedness	4	$ –	$ 3,012
Accounts payable and accrued liabilities -			
Due to Independent Electricity System Operator		41,793	37,447
Other		10,805	14,003
Income taxes payable		1,352	–
Regulatory liabilities	7	–	3,829
Current portion of long-term debt	13	2,304	2,334
Customer and other deposits	10	1,728	1,626
Due to shareholder	11	7,265	6,577
Total current liabilities		64,667	68,798
Long-term liabilities			
Unrealized loss on interest rate swap	12	2,778	198
Regulatory liabilities	7	630	5,496
Customer and other deposits	10	8,824	7,419
Long-term debt	13	93,434	10,738
Due to shareholder	11	3,549	3,970
Due to related party	11,13	–	70,000
Employee future benefits	19	12,019	11,733
Total long-term liabilities		121,234	109,561
Total liabilities		165,901	178,359
Shareholder's equity			
Share capital	14	96,116	96,116
Retained earnings		53,869	44,331
Total shareholder's equity		149,984	140,447
Commitments	9, 23		
Total liabilities and shareholder's equity		$ 335,885	$ 318,806

On behalf of the Board

Director

Director

Notes to the Financial Statements
(in the thousands of dollars)
For the year ended December 31, 2014

	Note	2014	2013
Revenues			
Energy		$ 363,384	$ 341,136
Distribution		63,367	63,795
		426,751	404,931
Cost of power		(363,384)	(341,136
Distribution revenue		63,367	63,795
Operating expenses			
Plant operating and maintenance		12,174	12,613
General and administrative		23,979	22,955
Amortization of plant and equipment		17,655	16,938
		53,808	52,506
Less: Costs recovered	11	(3,904)	(3,904
		49,904	48,602
Operating income		13,463	15,193
Other income (expense)			
Interest and other revenue	16	8,894	5,085
Unrealized (loss) gain on interest rate swap	13	(2,579)	209
Interest expense	17	(4,838)	(5,082
		1,477	212
Earnings before income taxes		14,940	15,405
Income tax expense	18	2,403	1,566
Net earnings for the year		12,537	13,839
Retained earnings, beginning of year		44,331	33,492
Dividends		(3,000)	(3,000)
Retained earnings, end of year		$ 53,868	$ 44,331

Notes to the Financial Statements
(in the thousands of dollars)
For the year ended December 31, 2014

	Note	2014	2013
Cash flows from operating activities			
Net earnings for the year		$ 12,537	$ 13,839
Adjustments for:			
Depreciation and amortization		17,655	16,938
Gain on disposal of property, plant and equipment		(172)	(175)
Unrealized loss (gain) on interest rate swap		2,579	(209)
		32,599	30,393
Net change in non-cash working capital related to operations	15	1,867	890
Employee future benefits		286	431
Net cash provided by operating activities		34,752	31,714
Cash flows from investing activities			
Acquisition of property, plant and equipment		(26,954)	(27,712)
Proceeds on disposal of capital assets		194	231
Future income taxes	3 (g)	1,584	3,273
Regulatory assets and liabilities		(13,711)	(9,401)
Net cash used in investing activities		(38,887)	(33,609)
Financing activities			
Customer and other deposits		1,507	(1,488)
Contributions in aid of construction		1,871	2,419
Shareholder advances		281	1,590
Dividends paid		(3,000)	(3,000)
Long-term debt	13	82,696	(2,304)
Promissory note due to related party	11,13	(70,000)	-
Net cash used in financing activities		13,355	(2,783)
Net increase / (decrease) in cash and bank indebtedness during the year		9,220	(4,678)
Cash / (bank indebtedness), beginning of the year		(3,012)	1,666
Cash / (bank indebtedness), end of the year		$ 6,208	$ (3,012)
Supplemental cashflow information			
Interest paid		$ 4,699	$ 4,858
Income taxes paid		$ 1,900	$ 1,780

Notes to the Financial Statements
(in the thousands of dollars)
For the year ended December 31, 2014

1. Regulated Business Operations and Distribution Rates

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

The Company is regulated by the Ontario Energy Board ("OEB"), under the authority granted by the Ontario Energy Board Act (1998). The OEB has responsibility to set just and reasonable distribution rates and thereby approves all of the Company's distribution and ancillary rates. The Company's distribution revenue is determined by applying those regulated rates to customers and their consumption of electricity in the Company's distribution territory, as established by its distribution license granted by the OEB.

2. Financial Effects of Distribution Rate Regulation

The financial results presented are in accordance with Canadian generally accepted accounting principles and within that framework the Company accounts for the impact of regulatory actions in the following manner:

a) Regulatory decisions to adjust distribution rates

In the event that a regulatory decision is rendered, providing regulatory approval and certainty to the recognition of an asset, or creation of a liability, and culminating in an adjustment to the Company's distribution rates, such occurrences are immediately reflected in the Company's accounts.

b) Regulatory direction and practice

In the absence of a regulatory decision impacting rates, and where the Company is required by regulatory accounting practice or direction to accumulate balances for future rate recovery or create liabilities for future discharge, those amounts are recorded in accordance with that regulatory direction. Management assesses the future uncertainty with respect to the final regulatory disposition of those amounts, and to the extent required, makes accounting provisions to reduce the deferred balances accumulated or to increase the recorded liabilities. Upon rendering of the final regulatory decision adjusting distribution rates, the provisions are adjusted to reflect the final impact of that decision, and such adjustment is reflected in net earnings for the period.

Amounts currently confirmed by final regulatory decision, and amounts currently accounted for in the absence of final regulatory decision together with related provisions for future uncertainty, are more fully described in Note 7 to the financial statements.

Notes to the Financial Statements
(in the thousands of dollars)
For the year ended December 31, 2014

3. Summary of Significant Accounting Policies

a) Revenue recognition

The Company is licensed by the OEB to distribute electricity. 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. The Company is acting as a principal for the electricity distribution and therefore presents electricity revenues on a gross basis.

Revenue attributable to the delivery and consumption of electricity is based upon rates approved by the OEB and the Independent Electricity Systems Operator ("IESO") and includes the cost of electricity supplied, distribution charges and any regulatory charges. Revenue recognized as electricity is delivered and consumed by customers. Revenue is recorded on the basis of regular monthly meter readings and estimates of customer usage since the last meter reading date to the end of the period. Revenue is measured at the value of the consideration received or receivable, net of sales tax.

Amounts billed for Debt Retirement Charges are excluded from revenues, as the Company is acting as an agent for the collection of these amounts. The Company may file to recover uncollected debt retirement charges from the Ontario Electricity Financial Corporation.

b) Financial assets and liabilities

As financial assets and liabilities are initially recognized they are measured at fair value, except for certain related party transactions. After initial recognition, financial assets are categorized as assets held-for-trading, held-to-maturity investments, loans and receivables or, available-for-sale assets, and financial liabilities must be classified as held-for-trading, or other financial liabilities. All financial instruments are measured on the balance sheet at fair value except for loans and receivables, held-to-maturity investments, and other liabilities, which are measured at amortized cost.

Subsequent measurement and changes in fair value depend on their initial classification as follows: held-for trading is measured at fair value and changes in fair value are recognized in the statement of operations and retained earnings.

The Company has classified its financial instruments as follows:

Cash	Held-for-trading	Income taxes payable	Other Liabilities
Accounts receivable	Loans and Receivables	Customer and other deposits	Other Liabilities
Income taxes receivable	Loans and Receivables	Due to shareholder	Other Liabilities
Bank indebtedness	Other Liabilities	Long-term debt	Other Liabilities
Accounts payable and accrued liabilities	Other Liabilities	Due to related party	Other Liabilities

Notes to the Financial Statements
(in the thousands of dollars)
For the year ended December 31, 2014

Summary of Significant Accounting Policies, continued

c) Inventories

Inventories are measured at the lower of average cost and net realizable value. Items considered as major future components of property, plant and equipment are recorded as such in the financial statements.

d) Property, plant and equipment

Property, plant and equipment are amortized over their estimated useful lives using the straight-line method over the following periods:

Land rights and buildings	25 to 75 years
Distribution substation equipment	15 to 45 years
Other distribution equipment	25 to 60 years
Other fixed assets	3 to 35 years

When an item of property, plant and equipment is sold or otherwise disposed of, the related cost and accumulated amortization are removed from the respective accounts and any gain or loss on disposition is recognized in earnings.

Assets under construction are not subject to depreciation until they are available for service.

Plant and equipment, that by their nature are not readily identifiable as individual assets, are grouped together. Under this method, the related cost and accumulated amortization are removed from their respective grouping account at the end of the asset's estimated useful life, regardless of actual service life. Any proceeds on disposition are recognized in earnings in the year of disposition.

e) Contributions to capital costs

Contributions are received from developers and contractors for capital costs incurred by the Company. These contributions are included as a reduction to the cost of the related plant and equipment when those assets are placed in service.

f) Cash

Cash on hand and on deposit with banks, and short-term investments with maturity of three months or less, are considered cash.

Notes to the Financial Statements
(in the thousands of dollars)
For the year ended December 31, 2014

Summary of Significant Accounting Policies

g) Future income taxes

CICA Handbook Section 3465 states that where future income taxes may be expected to be included in approved rates charged to customers in the future and to be recovered or returned to future customers, the recognition of a regulatory asset or liability for the increase or reduction in future revenue is required. Furthermore, the regulatory asset or liability established by this requirement is a temporary difference for which an additional future income tax asset or liability is recognized.

h) Employee future benefits

The Company has adopted the following policies for future benefits provided to both active and retired employees:

Pension benefits

The Company has a pension agreement with the Ontario Municipal Employees Retirement System ("OMERS"), which is a multi-employer contributory defined benefit plan. Company contributions to the plan are recognized as pension expense in the period that they are incurred. As this is a multi-employer plan, no pension liability for this type of plan is recorded in the Company's financial statements.

Other post-retirement and post-employment benefits

The Company provides other benefits to active and retired employees including group life insurance and health care benefits. Recognition of these benefits are actuarially determined using the projected benefit method pro rated on service using management's best estimate of salary escalation, retirement ages of employees and expected health care costs.

i) Measurement uncertainty

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, as well as the disclosure of contingent assets and liabilities at the date of the financial statements.

Certain estimates are also required as regulations, which will ultimately determine the actual results, have yet to be finalized and are dependent on the completion of regulatory proceedings or decisions. Due to these uncertainties, actual results might differ from those estimates and the impact will be recorded in the current period when the actual results are known.

Notes to the Financial Statements
(in the thousands of dollars)
For the year ended December 31, 2014

4. Cash and Bank Indebtedness

		2014		2013
Cash	$	6,208	$	-
Bank indebtedness	$	-	$	3,012

5. Accounts Receivable

		2014		2013
Trade receivables	$	34,121	$	31,295
Allowance for doubtful accounts		(2,314)		(1,961)
Unbilled revenue		35,980		39,731
Other		3,335		1,981
	$	71,122	$	71,046

Included in accounts receivable is approximately $7.7 million (2013 - $8.0 million) of customer receivables for water consumption that the Company bills and collects on behalf of the Corporation of the City of London. As the Company does not assume liability for collection of these amounts, any amount relating to water consumption that is determined to be uncollectible is charged to the Corporation of the City of London.

At December 31, 2014, approximately $0.6 million (2013 - $0.5 million) is included in the allowance for doubtful accounts for uncollectible amounts relating to water consumption.

Also, included in the accounts receivable is $1.7 million (2013 - $1.2 million) of energy, water, and sundry receivables due from the Corporation of the City of London.

6. Inventories

Inventories, which consist of parts and supplies acquired for internal construction, consumption, or recoverable work, is valued at the lower of cost and net realizable value. Cost is determined on a weighted average basis. Net realizable value is determined by replacement cost.

The amount of inventories consumed by the Company and recognized as an expense during the year ended December 31, 2014 was $0.6 million (2013 - $0.6 million).

Notes to the Financial Statements
(in the thousands of dollars)
For the year ended December 31, 2014

7. Regulatory Assets and Liabilities

Regulatory assets:

		2014		2013
Amounts approved for recovery in distribution rates:				
IFRS-CGAAP transitional PP&E recoveries	$	275	$	393
LRAM variance recovery		47		-
Stranded meter expenditures in excess of cost recoveries		-		1,366
Amounts to be submitted for future rate approval:				
Purchase power cost variances (non-commodity)		(3,646)		-
Purchase power cost variances (commodity)		9,189		-
Other		1,370		578
		7,235		2,337
Less: Current portion		165		1,483
	$	7,070	$	854

Regulatory liabilities:

		2014		2013
Amounts approved for disposition in distribution rates	$	-	$	3,829
Amounts to be submitted for future rate approval:				
Purchase power cost variances (non-commodity)		-		4,496
Purchase power cost variances (commodity)		-		(1,567)
Future income tax liability		142		2,410
Other		488		157
		630		9,325
Less: Current portion		-		3,829
	$	630	$	5,496

Notes to the Financial Statements
(in the thousands of dollars)
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Regulatory Assets and Liabilities, continued

Regulatory assets

a) Stranded meter expenditures

The Company has been authorized under Ontario Regulation 427/06 to undertake metering activities pursuant to the Provincial Smart Meter Program, and to recover through rates, the funding required for the implementa tion of this program. This balance represented the stranded meter costs of the Smart Meter Program.

During 2012, the Company filed its 2013 Cost of Service Rate Application which included a request for OEB approval for the disposition of certain authorized regulatory deferral accounts including the stranded meter account. The OEB issued its decision with respect to this Application which authorized recovery of these balances over a one-year period ending April 30, 2014.

b) IFRS-CGAAP Transitional PP&E recoveries

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

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

c) LRAM Variance recoveries

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

Notes to the Financial Statements
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Regulatory Assets and Liabilities, continued

Regulatory assets

d) Purchased power cost variances

As a regulated distributor of electricity, the Company is obligated to provide energy supply to all consumers 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 are required to be captured in the Retail Settlement Variance Accounts ("RSVA") for disposition through future rates. 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.

For all variance accounts, the review period does not in itself determine whether any adjustment will be permitted as the regulator will determine when the balances are material enough to warrant an adjustment to rates.

These variances are for future disposition. Variances accumulated in the non-commodity accounts during year 2011 are included in the regulatory amounts that were approved for disposition effective May 1, 2013 through to April 30, 2014, in addition to the variances accumulated prior to January 1, 2011, which are included in the regulatory amounts that were approved in 2012 for disposition effective May 1, 2012 through to April 30, 2014. Variances accumulated in the commodity accounts prior to January 1, 2013 are included in the regulatory amounts that were approved in 2013 for disposition effective May 1, 2013 through to April 30, 2014.

e) Other cost recoveries

Other cost recoveries include various deferred amounts in connection with Green Energy programs, Lost Revenue Adjustment Mechanism ("LRAM") Variances, Smart Metering Entity Charge Variances, IFRS transition expenditures and residual balances from previously approved deferral accounts. Green Energy programs authorized by the OEB include renewable enabling improvements and investments towards smart grid. Costs incurred with respect to these various activities have been captured under deferral accounts for future rate recovery.

Notes to the Financial Statements
(in the thousands of dollars)
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Regulatory Assets and Liabilities, continued

Regulatory liabilities

a) Amounts approved for disposition in distribution rates

During 2011, the Company filed its IRM rate application for the 2012 rate year. The OEB issued its decision with respect to this application which included a request for OEB approval for the disposition of certain authorized regulatory deferral accounts and purchased power variance account balances, for amounts as at December 31, 2010. The regulatory decision approved the disposition of these balances over a two-year period ending April 30, 2014.

b) Purchased power cost variances

As a regulated distributor of electricity, the Company is obligated to provide energy supply to all consumers 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 are required to be captured in the RSVA for disposition through future rates. The variance accounts have been further defined by the regulator into commodity related 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.

For all variance accounts, the review period does not in itself determine whether any adjustment will be permitted as the regulator will determine when the balances are material enough to warrant an adjustment to rates.

These variances are for future disposition. Variances accumulated prior to January 1, 2011 are included in the regulatory amounts that were approved in 2012 for disposition effective May 1, 2012 through to April 30, 2014.

During 2012, the Company filed its 2013 Cost of Service Rate Application which included a request for OEB approval for the disposition of the RSVA Power account and the RSVA Power-Global Adjustment sub accounts. These accounts include amounts accumulated between January 1, 2011 and December 31, 2012. The non-commodity RSVA accounts include amounts accumulated between January 1, 2011 and December 31, 2011. The OEB issued its decision with respect to this Application which authorizes the disposition of these balances over a one-year period commencing May 1, 2013.

c) Other

Other regulatory liabilities consist of the amounts recorded during 2012 as a result of the implementation of the Harmonized Sales Tax, as well as residual balances from accounts previously approved for disposition through rates.

Notes to the Financial Statements
(in the thousands of dollars)
For the year ended December 31, 2014

8. Property, Plant and Equipment

Cost:

	Land and Buildings	Distribution Substation Equipment	Other Distribution Equipment	Other Fixed Assets	Construction in Progress	Total
Balance at January 1, 2013	$ 25,768	$ 17,031	$ 321,565	$ 52,705	$ 6,720	$ 423,789
Additions	437	127	$ 12,402	$ 8,013	4,314	25,293
Disposals / Retirements	(2,234)	(35)	$ (12,454)	$ (6,540)	-	(21,263)
Balance at December 31, 2013	$ 23,971	$ 17,123	$ 321,513	$ 54,178	$ 11,034	$ 427,819
Balance at January 1, 2014	$ 23,971	$ 17,123	$ 321,513	$ 54,178	$ 11,034	$ 427,819
Additions	1,140	273	17,828	6,232	(390)	25,083
Disposals / Retirements	(435)	-	(9,070)	(1,169)	-	(10,674)
Balance at December 31, 2014	$ 24,676	$ 17,396	$ 330,271	$ 59,241	$ 10,644	$ 442,228

Accumulated depreciation:

	Land and Buildings	Distribution Substation Equipment	Other Distribution Equipment	Other Fixed Assets	Construction in Progress	Total
Balance at January 1, 2013	$ 12,593	$ 6,466	$ 148,026	$ 24,389	$ -	$ 191,474
Depreciation	895	322	8,550	7,091	-	16,858
Disposals / Retirements	(2,234)	(35)	(12,439)	(6,498)	-	(21,206)
Balance at December 31, 2013	$ 11,254	$ 6,753	$ 144,137	$ 24,982	$ -	$ 187,126
Balance at January 1, 2014	$ 11,254	$ 6,753	$ 144,137	$ 24,982	$ -	$ 187,126
Depreciation	921	316	8,530	7,770	-	17,537
Disposals / Retirements	(435)	-	(9,070)	(1,147)	-	(10,652)
Balance at December 31, 2014	$ 11,740	$ 7,069	$ 143,597	$ 31,605	$ -	$ 194,011

Net book value:

Balance at	Land and Buildings	Distribution Substation Equipment	Other Distribution Equipment	Other Fixed Assets	Construction in Progress	Total
December 31, 2013	$ 12,717	$ 10,370	$ 177,376	$ 29,196	$ 11,034	$ 240,693
December 31, 2014	$ 12,936	$ 10,327	$ 186,674	$ 27,636	$ 10,644	$ 248,217

Notes to the Financial Statements
(in the thousands of dollars)
For the year ended December 31, 2014

9. Letters of Credit

At December 31, 2014, the Company had provided $6.6 million (2013 – $6.6 million) in bank standby letters of credit to the IESO.

10. Customer and Other Deposits

Customer and other deposits include security deposits for energy consumption bearing interest at a rate of prime less 2% per annum and developer deposits held in accordance with regulation.

Deposits from electricity distribution customers are refundable to customers demonstrating 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.

Construction deposits represent cash prepayments for the estimated cost of capital projects recoverable from customers and developers. Upon completion of the capital project, and dependent upon the final determination of the required capital contribution, these deposits are either refunded to the developer or transferred to contributions in aid of construction.

Customer deposits are comprised of:

	2014	2013
Customer deposits	$ 5,718	$ 5,665
Construction deposits	4,834	3,380
	10,552	9,045
Less: Current portion	1,728	1,626
	$ 8,824	$ 7,419

Notes to the Financial Statements
(in the thousands of dollars)
For the year ended December 31, 2014

11. Due to Shareholder and Related Party Transactions

a) Trade balances due to shareholder

	2014	2013
Non-interest bearing trade balance due to shareholder, without stated repayment terms	$ 6,944	$ 6,276
Trade balance due to shareholder, bearing 1% interest per annum, without stated repayment terms	3,890	4,277
	10,834	10,553
Less: Current portion	7,285	6,577
	$ 3,549	$ 3,976

During the year ended December 31, 2014, the Company billed customers for water service on behalf of the shareholder and remitted funds to the shareholder in the amount of $143.0 million (2013 – $131.6 million). The shareholder paid $3.9 million (2013 - $3.9 million) for this service.

b) Promissory note due to related party

	2014	2013
Unsecured promissory note, due to related party, bearing interest at 6% per annum, payable on demand with 367 days notice, maturing October 31, 2015	$ -	$ 70,000
	-	70,000
Less: Current portion	-	-
	$ -	$ 70,000

The Company repaid the promissory note to the City of London on November 28, 2014. The Company obtained funding in the amount of $85.0 million which was in place on the transfer date (Note 13).

The Company paid interest on the promissory note during the year ended December 31, 2014 in the amount of $3.9 million (2013 - $4.2 million).

Notes to the Financial Statements
(in the thousands of dollars)
For the year ended December 31, 2014

12. Credit Facilities

The Company has an uncommitted operating revolving line of credit facility of $20.0 million with the Toronto Dominion Bank. As at December 31, 2014, the amount drawn by the Company under this line of credit was $nil million (2013 - $2.0 million). The line of credit is unsecured and interest is at bank prime rate on prime based borrowings minus 0.5%, or at Bankers Acceptances ("B/A") rates plus a 0.75% stamping fee on B/A based borrowings.

At December 31, 2014, the Company had a committed 364 day extendable operating revolving loan facility of $15.0 million with the Toronto Dominion Bank and the amount drawn by the Company under this loan facility was $nil (2013 - $nil). Under the terms of this agreement, the loan has a maturity date of March 31, 2016. The Company has a one year period from the loan maturity date to repay any outstanding balances in the event the lender elects not to extend the loan for an additional 364 day period. Interest is at bank prime rate on prime based borrowings minus 0.5%, or at B/A rates plus a 0.75% stamping fee on B/A based borrowings.

13. Long-term Debt

		2014		2013
Non-revolving term instalment loan bearing interest at the 7.58 year Banker's Acceptance rate of 2.46% plus a stamping fee of 0.19%, interest only payments due June 2022	$	85,000	$	-
Non-revolving term instalment loan bearing interest at the 7.75 year Banker's Acceptance rate of 2.43% plus a stamping fee of 0.9%, payable in monthly instalments of $192,000 principal plus interest due August 2019		10,738		13,042
		95,738		13,042
Less: Current portion		2,304		2,304
	$	93,434	$	10,738

The Company has an interest rate swap agreement with the Royal Bank of Canada for an unsecured loan in the amount of $85 million. Interest only payments are due quarterly and commenced December 2014. The principal is due at maturity. The agreement is a fixed rate swap and matures June 2022 which effectively converts variable interest rates on unsecured Bankers Acceptances to an effective interest rate of 2.46%, plus a stamping fee of 0.19%, for an all-in rate of 2.65%.

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

Notes to the Financial Statements
(in the thousands of dollars)
For the year ended December 31, 2014

Long-term Debt, continued

The swap agreements entered into with Royal Bank of Canada do not meet the standard to apply hedge accounting. Accordingly, the interest rate swap contracts are marked to market at year end with the unrealized gain or loss recorded in the statement of operations and retained earnings. The unrealized loss for the year ended December 31, 2014 was $2.6 million (2013 - $0.2 million gain).

At December 31, 2014, the Company would be required to pay $2.8 million (2013 - $0.2 million) if it wished to cancel the swap agreements.

Additionally, and as described in Note 11 to these financial statements, the Company repaid the promissory note to the City of London on November 28, 2014 in the amount of $70 million.

14. Share Capital

Authorized:

An unlimited number of common shares

An unlimited number of non-voting, non-cumulative preference shares, redeemable at the paid-up amount

		2014		2013
Issued:				
1,001 common shares	$	96,116	$	96,116

15. Change in Non-Cash Working Capital Related to Operations

The net change in non-cash working capital related to operations is comprised of:

		2014		2013
Accounts receivable	$	(76)	$	(8,630)
Income taxes receivable		80		(80)
Inventories		76		55
Prepaid expenses		(113)		(339)
Accounts payable and accrued liabilities		548		9,884
Income taxes payable		1,352		-
	$	1,867	$	890

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

16. Interest and Other Revenue

Interest and other revenue is comprised of:

		2014		2013
Interest (Note 17)	$	175	$	202
Late payment charges		1,739		1,454
Collection and occupancy charges		1,286		1,256
Customer billing service fees		592		593
Pole and other rental income		414		394
Sale of scrap		508		399
Gain on disposal of property, plant & equipment		172		175
Renewable generation revenue		308		297
Ontario Power Authority incentives		3,234		-
Sundry		466		315
	$	8,894	$	5,085

17. Interest Income and Expense

Interest income and expense is comprised of:

		2014		2013
Interest income from:				
Bank deposits	$	70	$	104
Regulatory assets		105		98
Interest income		175		202
Interest expense on:				
Related party promissory note		3,850		4,200
Long-term debt		709		507
Short-term debt		60		48
Regulatory liabilities		113		201
Other		106		126
Interest expense		4,838		5,082
	$	4,663	$	4,880

Notes to the Financial Statements
(in the thousands of dollars)
For the year ended December 31, 2014

18. Income Taxes

a) Income tax status

As a wholly owned subsidiary company of the Corporation of the City of London, the Company is exempt from income taxes under the Income Tax Act (Canada). Pursuant to the Electricity Act (1998) (Ontario), the Company is required to make payments in lieu of tax to the Ontario Electricity Financial Corporation. The amount of payments in lieu of tax will be approximately equivalent to corporate taxes that would have to be paid if the Company was a taxable corporation under the Income Tax Act (Canada).

b) Income tax expense

		2014		2013
Earnings before income taxes	$	14,940	$	15,405
Income tax expense based on combined federal and provincial statutory income tax rate of 26.5% (2013 - 26.5%)	$	3,959	$	4,082
Tax effect of temporary differences		(1,666)		(2,416)
Other items		110		(100)
Income tax expense recognized	$	2,403	$	1,566
Income tax expense is comprised of the following:				
Current income tax	$	3,086	$	1,511
Future income tax		(683)		55
	$	2,403	$	1,566

c) Future income tax balances

CICA 3465.103 recognizes that, as a rate regulated entity, future income tax assets paid on behalf of customers will be returned to customers as they are recovered. As a result, these increases or decreases in future income tax assets are offset by a regulatory liability.

The benefit of certain future income tax assets will be realized by customers by way of a reduction in future distribution rates charged by the Company. The components of future income tax assets are as follows:

Notes to the Financial Statements
(in the thousands of dollars)
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Income Taxes, continued

Future income tax assets:

		2014		2013
Capital assets	$	(3,080)	$	(1,338)
Employee future benefits		3,185		3,109
Other regulatory liabilities		38		639
Benefit of future income taxes to be realized by customers		143		2,410
Loss on interest rate swap		736		53
	$	879	$	2,463

19. Employee Future Benefits

a) Pension plan

The Company has a pension agreement with OMERS, on behalf of its employees. The plan is a contributory defined benefit plan which specifies the amount of retirement benefit to be received by the employees based on the length of service and rates of pay. During the year, the Company contributed $2.6 million (2013 - $2.4 million).

b) Medical and life insurance benefits plan

The Company provides medical and life insurance benefit coverage to certain retirees of the Company. Based on a recent actuarial valuation, the following information has been determined:

Accrued benefit obligation:

		2014		2013
Balance, beginning of year	$	12,895	$	13,572
Current service costs		339		368
Interest cost		596		535
Benefits paid		(571)		(525)
Actuarial loss (gain)		472		(1,037)
Other benefits		(78)		(18)
Balance, end of year	$	13,653	$	12,895

Notes to the Financial Statements
(in the thousands of dollars)
For the year ended December 31, 2014

Employee Future Benefits, continued

Accrued benefit liability:

		2014		2013
Accrued benefit obligation	$	13,653	$	12,895
Unamortized net actuarial loss		(1,634)		(1,162)
Accrued benefit liability, end of year	$	12,019	$	11,733

The Company's net periodic benefit cost is comprised of the following:

		2014		2013
Current service cost	$	339	$	368
Interest cost		596		535
	$	935	$	903

The excess of the net actuarial loss in excess of ten percent of the accrued benefit obligation is amortized over the average remaining service life of employees, which is estimated to be 14 years (2013 – 13 years).

	2014	2013
Discount rate	3.9%	4.7%
Initial medical cost rate	6.2%	6.5%
Ultimate medical cost rate	4.5%	4.5%
Year ultimate rate reached	2028	2028
Dental cost rate	4.5%	4.5%

The estimated impact on fiscal 2014 reported pension amounts of a one percent increase or decrease in the health care cost assumptions is as follows:

	Reported	+1.0%	-1.0%
Current service and interest cost	935	1,072	828
Accrued benefit obligation	13,653	15,141	12,475

Notes to the Financial Statements
(in the thousands of dollars)
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20. Financial Instruments and Risk Management

a) Financial instruments

As a rate-regulated entity, the nature of the Company's operations are defined and restricted by regulation. Financial operations and risks are also substantially influenced by regulation, limiting the necessity to engage in risk mitigation strategies involving the use of derivatives or hedges. As further defined in Note 13 to these financial statements the Company uses derivative financial instruments, primarily interest rate swaps, to manage its interest rate exposure.

The Company has adopted CICA Handbook Sections 3855 and 3861, *Financial Instruments for disclosure purposes*, as the Company's financial instruments are not subject to the disclosure requirements under Sections 3862 or 3863 of the CICA Handbook.

b) Credit risk

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

The carrying amount of accounts receivable is reduced through the use of an allowance for doubtful accounts and the amount of the related provision for doubtful accounts is recognized in the income statement. Subsequent recoveries of receivables previously provisioned are credited to the statement of operations and retained earnings. The balance of the allowance for doubtful accounts at December 31, 2014 is $2.3 million (2013 - $2.0 million). Bad debt expense was $0.7 million (2013 - $0.4 million) during the year ended December 31, 2014. The Company's credit risk associated with accounts receivable is primarily related to payments from distribution customers.

Credit risk is managed through collection of security deposits from customers in accordance with directions provided by the OEB. At December 31, 2014, the Company held security deposits in the amount of $5.7 million (2013 - $5.7 million). Additionally, if presented with substantial credit losses, the Company would make an application to the regulator for recovery of those losses through distribution rate adjustments in future years.

Notes to the Financial Statements
(in the thousands of dollars)
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Financial Instruments and Risk Management, continued

Credit risk, continued

By regulation, the Company is responsible for collecting both the distribution and energy portions of the electricity bill. On average, the Company earns 20% of amounts billed to customers with the remaining 80% being collected for other parties. The Company is therefore exposed to a credit risk substantially greater than the income that it regularly earns.

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 has access to a $20.0 million line of credit as well as a committed 364 day extendable operating revolving loan of $15.0 million and 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 balance sheet, are due within 30 days.

21. 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. As at December 31, 2014 capital amounts are as follows:

	2014	2013
Long-term debt	$ 93,434	$ 80,738
Shareholder's equity	149,984	140,447
	$ 243,418	$ 221,185

The OEB regulates the amount of interest on debt and rate of return that may be earned by the Company, through its electricity distribution rates, in respect of its regulated electricity distribution business. The OEB permits such recoveries on the basis of a deemed capital structure represented by 60% debt and 40% equity. The actual capital structure for the Company may differ from the OEB deemed structure.

The Company has customary covenants typically associated with long-term debt. The Company is in compliance with all credit agreement covenants and limitations associated with its long-term debt.

Notes to the Financial Statements
(in the thousands of dollars)
For the year ended December 31, 2014

22. Emerging Accounting Changes

International Financial Reporting Standards ("IFRS")
The Canadian Accounting Standards Board (AcSB) has adopted a strategic plan that has converged Canadian GAAP with IFRS effective January 1, 2011, which required entities to restate, for comparative purposes, their interim and annual financial statements and opening financial position.

In October 2010, the AcSB approved the incorporation of IFRS 1 into Part 1 of the Canadian Institute of Chartered Accountants ("CICA") Handbook for qualifying entities with activities subject to rate regulation. Part 1 of the CICA Handbook specifies that first-time adoption is mandatory for interim and annual financial statements relating to annual periods beginning on or after January 1, 2012.

The amendment also requires entities that do not prepare its interim and annual financial statements in accordance with Part 1 of the Handbook during the annual periods beginning on or after January 1, 2011 to disclose that fact.

However, the AcSB provided deferrals which allowed rate regulated entities to defer the adoption of IFRS until January 1, 2015.

The Corporation has elected to implement IFRS commencing on January 1, 2015.

The impact of the adoption to IFRS on the Corporation's financial position and results of operations is not yet fully determined.

23. Commitments

The Company has commitments in connection with Information Systems projects of approximately $0.7 million (2013 - $0.8 million), Infrastructure projects of $nil (2013 – $0.4 million) and new vehicle acquisitions of $0.8 million (2013 - $nil million).

24. Joint Venture Agreement

On January 1, 2013, The Company entered into an agreement with London District Renewable Energy Co-Operative Inc. ("LDREC") to create a joint venture with the legal name "London Renewable Energy Initiative" for the intention of identifying, applying for and constructing solar projects that have been approved under the Feedin 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

25. Subsequent event

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

London Hydro

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