UPDATED AUDITED FINANCIAL STATEMENTS

Appended to this Schedule are the following copies of audited financial statements for Hydro Ottawa:

- Attachment 1-3-1(A): 2017 Audited Financial Statements[1]
- Attachment 1-3-1(B): 2018 Audited Financial Statements
- Attachment 1-3-1(C): 2019 Audited Financial Statements

[1] This Attachment includes 2016 comparatives.

Hydro Ottawa Limited

Financial Statements

December 31, 2017

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Report of Management

Management is responsible for the integrity of the financial data reported by Hydro Ottawa Limited ['the Company']. Fulfilling this responsibility requires the preparation and presentation of financial statements and other data using management's best judgment, estimates and International Financial Reporting Standards as issued by the International Accounting Standards Board.

Management maintains appropriate systems of internal control and corporate-wide policies and procedures, which provide reasonable assurance that the Company's assets are safeguarded and that financial records are relevant and reliable.

The Board of Directors of the Company, with the advice of the Audit Committee of Hydro Ottawa Holding Inc., ensures that management fulfills its responsibility for financial reporting and internal control. At regular meetings, the Audit Committee, including the Chair of the Board of Directors of the Company, reviews internal controls and financial reporting matters with management for Hydro Ottawa Holding Inc. and its subsidiaries. The Chair of the Board of Directors of the Company, as well as the Chief Executive Officer and the Chief Financial Officer, advise the Board of Directors of the Company of any matters of concern raised by the Audit Committee in reviewing the financial affairs of the Company.

On behalf of Management,

Bryce Conrad
President and Chief Executive Officer

Geoff Simpson
Chief Financial Officer

KPMG LLP
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INDEPENDENT AUDITORS' REPORT

To the Shareholder of Hydro Ottawa Limited

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

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

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Ottawa, Canada

April 19, 2018

Hydro Ottawa Limited

Statement of Income
Year ended December 31, 2017
[in thousands of Canadian dollars]

	2017	2016
	$	$
Revenue and other income		
Power recovery revenue	**896,528**	974,207
Distribution revenue	**171,400**	165,729
Conservation and demand management income	**23,976**	19,643
Other revenue	**18,558**	16,941
	1,110,462	1,176,520
Expenses		
Purchased power	**910,810**	968,069
Operating costs [Note 17]	**111,868**	107,205
Depreciation [Notes 7 and 9]	**36,884**	33,544
Amortization [Note 8]	**7,171**	8,285
	1,066,733	1,117,103
Income before the undernoted items	**43,729**	59,417
Financing costs [Note 18]	**17,612**	16,514
Income before income taxes	**26,117**	42,903
Income tax expense [Note 19]	**13,170**	11,898
Net income	**12,947**	31,005
Net movements in regulatory balances, net of tax [Note 6]	**23,513**	3,340
Net income after net movements in regulatory balances	**36,460**	34,345

The accompanying notes are an integral part of these financial statements

Hydro Ottawa Limited

Statement of Comprehensive Income
Year ended December 31, 2017
[in thousands of Canadian dollars]

	2017	2016
	$	$
Net income after net movements in regulatory balances	**36,460**	34,345
Other comprehensive income		
Items that will not be subsequently reclassified to net income		
Actuarial loss on post-employments benefits, net of tax	**(405)**	(94)
Net movement in regulatory balances related to other comprehensive income, net of tax	**405**	94
Total comprehensive income	**36,460**	34,345

The accompanying notes are an integral part of these financial statements

Hydro Ottawa Limited

Balance Sheet
As at December 31, 2017
[in thousands of Canadian dollars]

	2017	2016
	$	$
Assets		
Current assets		
Cash	-	6,367
Accounts receivable [Note 5]	**178,889**	186,882
Prepaid expenses	**3,172**	3,627
	182,061	196,876
Non-current assets		
Property, plant and equipment [Note 7]	**963,663**	879,169
Intangible assets [Note 8]	**72,347**	62,963
Investment properties [Note 9]	**2,456**	2,149
Total assets	**1,220,527**	1,141,157
Regulatory balances [Note 6]	**25,466**	13,744
Total assets and regulatory balances	**1,245,993**	1,154,901
Liabilities and shareholder's equity		
Current liabilities		
Bank indebtedness	**12,256**	-
Accounts payable and accrued liabilities [Note 11]	**148,575**	173,170
Income taxes payable	**116**	2,451
	160,947	175,621
Non-current liabilities		
Deferred revenue [Note 3(m)]	**95,383**	77,004
Employee future benefits [Note 12(b)]	**13,334**	12,501
Customer deposits [Note 7]	**31,423**	18,402
Notes payable [Note 13]	**567,185**	507,185
Deferred income tax liability [Note 19]	**16,797**	7,684
Other liabilities	**756**	-
Total liabilities	**885,825**	798,397
Shareholder's equity		
Share capital [Note 15]	**167,081**	167,081
Retained earnings	**168,578**	152,718
Total liabilities and shareholder's equity	**1,221,484**	1,118,196
Regulatory balances [Note 6]	**24,509**	36,705
Total liabilities, shareholder's equity and regulatory balances	**1,245,993**	1,154,901

Contingent liabilities and commitments [Notes 21 and 22]

On behalf of the Board:

Director

Director

The accompanying notes are an integral part of these financial statements

Hydro Ottawa Limited

Statement of Changes in Equity
Year ended December 31, 2017
[in thousands of Canadian dollars]

	Share capital $	Accumulated other comprehensive income $	Retained earnings $	Total $
Balance at December 31, 2015	167,081	-	135,873	302,954
Net income after net movements in regulatory balances	-	-	34,345	34,345
Dividends [Note 15]	-	-	(17,500)	(17,500)
Balance at December 31, 2016	167,081	-	152,718	319,799
Net income after net movements in regulatory balances	-	-	36,460	36,460
Dividends [Note 15]	-	-	(20,600)	(20,600)
Balance at December 31, 2017	**167,081**	**-**	**168,578**	**335,659**

The accompanying notes are an integral part of these financial statements

Hydro Ottawa Limited

Statement of Cash Flows
Year ended December 31, 2017
[in thousands of Canadian dollars]

	2017	2016
	$	$
Net inflow (outflow) of cash related to the following activities:		
Operating		
Net income after net movements in regulatory balances	**36,460**	34,345
Adjustments for:		
Depreciation	**36,884**	33,544
Amortization	**7,171**	8,285
Loss on disposal of property, plant and equipment [Note 7]	**514**	834
Amortization of deferred revenue	**(2,262)**	(1,622)
Employee future benefits	**198**	1,647
Financing costs	**17,612**	16,514
Income tax expense	**13,170**	11,898
Other	**(168)**	(200)
Additions to deferred revenue	**20,641**	20,828
Net change in non-cash working capital and other operating balances [Note 20]	**17,486**	(5,744)
Change in customer deposits	**(2,889)**	3,649
Financing costs paid	**(19,234)**	(17,223)
Income tax refunded	**102**	303
Income taxes paid	**(6,095)**	(1,350)
Net movements in regulatory balances	**(23,513)**	(3,340)
	96,077	102,368
Investing		
Acquisition of property, plant and equipment	**(115,656)**	(113,910)
Acquisition of intangible assets	**(17,627)**	(11,788)
Proceeds from disposal of property, plant and equipment	**1,183**	640
	(132,100)	(125,058)
Financing		
Issuance of notes payable	**60,000**	60,000
Dividends paid [Note 15]	**(20,600)**	(17,500)
Repayment of advances from parent	**(22,000)**	(19,000)
	17,400	23,500
Net change in cash	**(18,623)**	810
Cash, beginning of year	**6,367**	5,557
(Bank indebtedness) cash, end of year	**(12,256)**	6,367

The accompanying notes are an integral part of these financial statements

1. DESCRIPTION OF BUSINESS AND CORPORATE INFORMATION

Hydro Ottawa Limited [the 'Company'] was incorporated on October 3, 2000 pursuant to the *Business Corporations Act* (Ontario) as mandated by the Ontario government's *Electricity Act, 1998*. The Company is a wholly owned subsidiary of Hydro Ottawa Holding Inc., which in turn is wholly owned by the City of Ottawa.The Company is incorporated and domiciled in Canada with the registered head office located at 3025 Albion Road North, Ottawa, Ontario, K1G 3S4.

Hydro Ottawa Limited is a regulated electricity distribution company that owns and operates electricity infrastructure in the City of Ottawa and the Village of Casselman and is responsible for the safe, reliable delivery of electricity to homes and businesses in its licensed service area. In addition to billing for distribution services, Hydro Ottawa Limited invoices customers for amounts it is required to pay to other organizations in Ontario's electricity system for providing wholesale generation and transmission services and for debt retirement.

2. BASIS OF PRESENTATION

(a) Statement of compliance

These financial statements have been prepared by management on a going-concern basis in accordance with International Financial Reporting Standards ['IFRS'], and have been approved and authorized by the Company's Board of Directors for issue on April 19, 2018.

(b) Basis of measurement

The Company’s financial statements are prepared on a historical cost basis, except for the valuation of other employee future benefits as explained in Note 3(j)(ii).

(c) Functional and presentation currency

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

(d) Use of estimates

The preparation of financial statements in conformity with IFRS requires management to make estimates, and assumptions that affect the reported amounts of revenue, expenses, assets, liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements.

Due to the inherent uncertainty involved in making such estimates, actual results could differ from estimates recorded in preparing these financial statements, including changes as a result of future decisions made by the Ontario Energy Board ['OEB'] or the Ontario provincial government. Management reviews its estimates on an ongoing basis using the most current information available. The financial statements have, in management's opinion, been properly prepared using reasonable limits of materiality and within the framework of the significant accounting policies. Significant areas where estimates are made in the application of IFRS are as follows:

(i) Accounts receivable

Accounts receivable, which includes unbilled revenue, are reported based on the amounts expected to be recovered less an estimated allowance for uncollectible amounts. Management utilizes historical loss experience in conjunction with the aging and arrears status of accounts receivable at year end in the determination of the allowance.

2. BASIS OF PRESENTATION [CONTINUED]

(d) Use of estimates [continued]

(ii) Regulatory balances

The recognition and measurement of regulatory balances is subject to certain estimates and assumptions, including assumptions made in the interpretation of the OEB's regulations and decisions.

(iii) Useful lives of depreciable assets

Depreciation and amortization expense is calculated based on estimates of the useful lives of property, plant and equipment, intangible assets and investment properties. Management estimates the useful lives of the various types of assets using assumptions and estimates of life characteristics of similar assets based on a long history of industry experience.

(iv) Impairments of non-financial assets

Non-financial assets are reviewed by management for impairment using the future cash flows method. By their nature, estimates of future cash flows, including estimates of future capital expenditures, revenue, operating expenses, discount rates and market pricing are subject to measurement uncertainty.

(v) Employee future benefits

The measurement of employee future benefits involves the use of numerous estimates and assumptions. Actuaries make assumptions for items such as discount rates, future salary increases and mortality rates in the determination of benefits expenses and accrued benefit obligations.

(vi) Deferred income taxes

Tax interpretations, regulations and legislation in which the Company operates are subject to change. Deferred income tax assets are assessed by management at the end of each reporting period to determine the likelihood that they will be realized from future taxable income.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Regulation

The Company is regulated by the OEB under the authority of the *Ontario Energy Board Act, 1998*. The OEB is charged with the responsibilities of approving or setting rates for the transmission and distribution of electricity, and ensuring that distribution companies fulfil obligations to connect and service customers.

For fiscal year ended December 31, 2017, the Company continued to operate under a custom incentive rate-setting application ['Custom IR'] prescribed by the OEB. The Custom IR is one of the rate setting options contained in the *Renewed Regulatory Framework for Electricity Distributors: A Performance-Based Approach* ['RRFE'] policy. The RRFE provides distributors three rate-setting methods: 4th Generation IR, Custom IR and Annual IR Index. The Company filed a custom incentive rate-setting application with the OEB on April 29, 2015 seeking approval to change the rates that the Company charges for electricity delivery, retail services, allowances, loss factor and specific services charges for a period of five years, to be effective January 1, 2016 to December 31, 2020. This application requested a revenue requirement to recover costs, and provide a rate of return on a deemed capital structure applied to rate base assets.

3. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

(a) Regulation [continued]

The key components of Hydro Ottawa's Custom IR framework included the establishment of several regulatory accounts, namely: an asymmetrical earnings sharing mechanism variance account, revenue requirement differential variance account related to capital additions, new facilities deferral account, connection cost recovery agreement deferral account, and the efficiency adjustment mechanism deferral account. An annual IR application is required to set rates each year for 2017 to 2020. 2017 rates were set based on Hydro Ottawa's Year 2 IR annual update.

On August 14, 2017, Hydro Ottawa filed its Custom IR year 3 update application for distribution rates and other charges, effective January 1, 2018. This application was approved in December 2017 and included adjustments to base rates, low voltage, transmission, retailer services and specific services charges. As well it includes the approval for the disposition of certain deferral and variance accounts as at December 31, 2016 including interest projected to December 31, 2017. Hydro Ottawa also applied to change the composition of certain distribution service rates. The fixed monthly charge for residential customers for 2018 is adjusted upward while the variable usage rate is lowered as stipulated in OEB's residential rate design policy. The distribution rates for residential classes will be fully fixed effective January 1, 2020.

The Company applies for distribution rates based on estimated costs. Once rates are approved, they are not adjusted as a result of actual costs being different from those that were estimated, other than for certain prescribed costs that are eligible for deferral treatment and are either collected or refunded in future rates. The OEB has the general power to include or exclude costs and revenue in the rates of a specific period, resulting in a change in the timing of accounting recognition from that which would have applied in an unregulated company.

The Company continues to assess the likelihood of recovery of all regulatory debit balances subject to recovery through a future rate filing. The absence of OEB approval is a consideration in this evaluation. If the requirement for a provision becomes more likely than not, the Company will recognize the provision in operating costs for the year.

The following regulatory treatments have resulted from the adoption of IFRS 14 *Regulatory Deferral Accounts* ['IFRS 14'], which permits rate-regulated entities to use its existing rate-regulated activities practices if and only if, in its first IFRS financial statements, it recognized regulatory deferral account balances by electing to apply the requirements of IFRS 14:

(i) Regulatory balances

Regulatory debit balances primarily represent costs that have been deferred because it is probable that they will be recovered in future rates. Similarly, regulatory credit balances can arise from differences in amounts billed to customers for electricity services and the costs that the Company incurs to purchase these services.

The Company accrues interest on the regulatory balances as directed by the OEB.

Regulatory balances principally comprise the following:

- Regulatory asset/liability refund account ['RARA'/'RLRA'] consists of balances of regulatory assets or regulatory liabilities approved for disposition by the OEB through temporary additional rates referred to as rate riders.

- Settlement variances relate primarily to the charges the Company incurred for transmission services, the commodity, wholesale market operations and the global adjustment that were not settled with customers during the year. The nature of the settlement variances is such that the balance can fluctuate between assets and liabilities over time, and they are reported at year-end dates in accordance with rules prescribed by the OEB.

3. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

(a) Regulation [continued]

(i) Regulatory balances [continued]

– In its Guidelines released December 19, 2014 with an update on August 11, 2016, the OEB advised Distributors to continue to rely on the Lost Revenue Adjustment Mechanism to track and dispose of lost revenues ['LRAM'] that result from approved Conservation and Demand Management ['CDM'] programs between 2015 and 2020, noting that the same process as described in the OEB guidelines released April 26, 2012 regarding the 2011 to 2014 period should be followed. The Company is to record the difference between the actual validated CDM activities and activities included in the Company's load forecast multiplied by the appropriate variable distribution rate. On May 19, 2016 the OEB released an updated policy for LRAM that clarified the inclusion of peak demand savings in the LRAM calculation.

– Earnings sharing mechanism ['ESM'] variance account captures 50% of any regulated earnings above Hydro Ottawa's approved return on equity for years 2016 to 2020.

– Other Post-employment Benefits deferral account ['OPEB deferral account'] was authorized by the OEB in 2011 to record the adjustment to employee future benefits other than pension relating to the cumulative actuarial gains or losses. This account is adjusted annually to record any changes in the cumulative actuarial gains or losses. No interest charges are recorded on this account as instructed by the OEB.

(ii) Other regulatory variances and deferred costs

Other regulatory variances and deferred costs principally comprise the following:

– The OEB allows electricity distributors to record in a deferral account the difference between low voltage charges paid to Hydro One Networks Inc. ['HONI'] and those charged to customers.

– The OEB allows electricity distributors to record in deferral accounts the net cost of providing retailer billing services and transaction request services. As of January 1, 2016, the Company has incorporated the net costs into its revenue requirement and will no longer record the net cost into the deferral accounts.

– In its Guidelines released June 16, 2009, the OEB created four new deferral accounts to allow distributors to begin recording expenditures for certain activities relating to the connection of renewable generation and the development of a smart grid. These deferral accounts were authorized to be used to record qualifying incremental capital investments or operating, maintenance and administrative expenses. These accounts have been subsequently discontinued and future investments should be addressed in LDC's consolidated distribution plan.

3. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

(a) Regulation [continued]

(iii) Income taxes

The Company is considered to be a Municipal Electric Utility ['MEU'] and is required to make payments in lieu of corporate income taxes [PILS] as contained in the *Electricity Act, 1998*, as all of its share capital is indirectly owned by the City of Ottawa and not more than 10% of its income is derived from activities carried on outside the municipal boundaries of the City of Ottawa. The *Electricity Act, 1998* provides that a MEU that is exempt from tax under the *Income Tax Act* (Canada) ['ITA'] and the *Taxation Act,* Ontario ['TAO'] is required to make, for each taxation year, a PILs payment to the Ontario Electricity Financial Corporation in an amount approximating the tax that it would be liable to pay under the ITA and the TAO if it were not exempt from tax.

The Company follows the liability method for recording income taxes. Under the liability method, current income taxes payable are recorded based on taxable income. Deferred income taxes arising from temporary differences in the accounting and tax basis of assets and liabilities are provided based on substantively enacted tax rates that will be in effect when the differences are expected to reverse.

The *Accounting Procedures Handbook* ['AP Handbook'] provides for the recovery of income taxes by the Company through annual distribution rate adjustments as approved by the OEB. The Company recognizes regulatory balances for the amounts of future income taxes expected to be refunded to or recovered from customers in future electricity rates.

(b) Revenue recognition

The Company recognizes revenue when it is likely that economic benefits will flow to the Company and where the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable, excluding any discounts, rebates and sales taxes. The Company has determined that it acts as a principal in the following revenue arrangements and therefore has presented them on a gross basis.

(i) Power recovery

Power recovery revenue represents the pass-through of the cost of power to the consumer as purchased by the Company and is recognized when electricity is delivered to the customer, as measured by meter readings or usage estimates. Power recovery revenue is regulated by the OEB and includes charges to customers for the electricity commodity, the transmission of electricity and the administration of the wholesale electricity system.

(ii) Distribution sales

The Company charges customers for the delivery of electricity, based on rates established by the OEB. The rates are intended to allow the Company to recover its prudently incurred costs and earn a fair return on invested capital. Distribution sales are recognized when electricity is delivered to the customer, as measured by meter readings or usage estimates.

(iii) Unbilled revenue

Unbilled revenue represents an estimate of the electricity consumed by customers that has not yet been billed as at year-end.

3. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

(b) Revenue recognition [continued]

(iv) Other

Other revenue related to the provision of services is recognized as services are rendered. Other revenue includes contract revenue, commercial services revenue and capital contributions.

Contract revenue and commercial services revenue are accounted for using the percentage-of-completion method, whereby revenue and the corresponding costs are recognized proportionately with the degree of completion of the services under contract. Losses on contracts are fully recognized when they become evident.

Capital contributions received from electricity customers to construct or acquire property, plant and equipment for the purpose of connecting a customer to the Company distribution network are recorded to deferred revenue. Since the contributions will provide customers with ongoing access to the supply of electricity, these contributions are classified as deferred revenue, and recognized as other revenue at an equivalent rate to that used for the depreciation of the related property, plant and equipment.

(c) Government grant income

CDM income stems from the delivery of provincial government programs that promote conservation. Government grants under CDM programs are recognized when there is reasonable assurance that the grant will be received and all related conditions will be met. Grants under full cost recovery funding are recognized as income on a systematic basis over the period to match to the costs they are intended to compensate. CDM performance incentives under full cost recovery funding are recognized when it is probable that future economic benefits will flow to the Company, and the amount can be measured reliably.

(d) Interest income and financing costs

Interest income is recognized as it accrues under the effective interest method and comprises interest earned on cash.

Financing costs are calculated using the effective interest rate method and are recognized as an expense unless they are capitalized as part of the cost of a qualifying asset.

(e) Financial instruments

All financial instruments are initially recorded at fair value. When financial instruments are not measured at fair value through profit and loss ['FVTPL'], then directly attributable transaction costs are included in the initial measurement. The fair value of a financial instrument is the amount of consideration that would be agreed upon in an arm's-length transaction between willing parties. The subsequent measurement of each financial instrument depends on the classification elected by the Company at the time of initial recognition.

The Company classifies and measures its financial instruments as follows:

- Cash and accounts receivable are classified as loans and receivable and are measured at amortized cost using the effective interest method, less any impairment if applicable.
- Bank indebtedness, accounts payable and accrued liabilities, customer deposits and notes payable are classified as other financial liabilities and are measured at amortized cost using the effective interest rate method.

3. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

(e) Financial instruments [continued]

Financial instruments that are measured at fair value are classified using a three-level hierarchy. The levels reflect the inputs used to measure the fair values of financial assets and financial liabilities, and are as follows:

- Level 1: inputs are unadjusted quoted prices of identical instruments in active markets;
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3: inputs for the liabilities that are not based on observable market data [unobservable inputs].

All financial assets except for those classified as FVTPL are subject to review for impairment at least at each reporting date. Financial assets are impaired only when an event has occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset. Impairment losses, if any, are recognized in net income. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized.

(f) Property, plant and equipment

Property, plant and equipment consist principally of electricity distribution infrastructure, buildings and fixtures, land, rolling stock, furniture and equipment, and assets under construction.

Emergency capital spare parts that are expected to be used for more than one year, are considered to be assets under construction and are depreciated only once they are put into service.

Property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses, if any. Self-constructed asset costs comprise all directly attributable expenditures to bring the asset into operation including labour, materials, employee benefits, transportation, contracted services and borrowing costs. Where parts of an item in property, plant and equipment are significant and have different estimated economic useful lives, they are accounted for as separate items [major components] of property, plant and equipment. Certain assets may be acquired or constructed with financial assistance in the form of contributions from customers. Contributions from customers are treated as deferred revenue.

The cost of major inspections and maintenance is recognized in the carrying value of an asset provided that the Company will derive future economic benefits from the expenditure. The carrying amount of a replaced part is derecognized. The costs of day-to-day servicing, repairs, and maintenance, are expensed as incurred.

Depreciation is recorded on a straight-line basis over the estimated service life of each component of property, plant and equipment.

Gains and losses on disposal of retired, sold or otherwise derecognized property, plant and equipment are recognized in income and are calculated as the difference between net proceeds from disposal and the carrying amount of the asset.

The estimated useful lives, residual values and depreciation methods are reviewed at each year-end with the effect of any changes in estimate being accounted for on a prospective basis.

[in thousands of Canadian dollars]

3. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

(f) Property, plant and equipment [continued]

Estimated service lives for property, plant and equipment classes are as follows:

Land and buildings	
Land	Indefinite
Buildings and fixtures	20 to 75 years
Distribution assets	10 to 60 years
Equipment and other	
Furniture and equipment	5 to 10 years
Rolling stock	7 to 15 years

Assets under construction and land are not subject to depreciation. Borrowing costs are capitalized as a component of the cost of self-constructed property, plant and equipment assets that take a substantial period of time to get ready for their intended use. The capitalization rate is the Company's weighted average cost of borrowing.

(g) Intangible assets

Intangible assets include land rights, capital contributions, computer software and assets under development.

Intangible assets with finite lives are measured at cost less accumulated amortization and accumulated impairment losses, if any. Intangible assets are amortized on a straight-line basis over the estimated service lives of the related assets.

Intangible assets are derecognized on disposal or when no further future economic benefits are expected from their use. Gains or losses on disposal of intangible assets are recognized in income and are calculated as the difference between net proceeds from disposal and the carrying amount of the asset.

The estimated useful lives and amortization methods are reviewed at each year-end with the effect of any changes in estimate being accounted for on a prospective basis.

Estimated service lives for intangible assets with finite lives are as follows:

Land rights	50 years
Computer software	5 to 10 years
Capital contributions	45 years

Borrowing costs are capitalized as a component of cost of self-constructed intangible assets that take a substantial period of time to get ready for their intended use. The capitalization rate is the Company's weighted average cost of borrowing.

(h) Investment properties

Investment property is land and/or buildings held for purposes other than for use in the Company's operating activities. The Company holds investment property either for potential expansion of the service delivery network or as excess administrative property. Investment properties are measured at cost plus transaction costs, and have estimated service lives ranging between 25 and 50 years. Any gain or loss arising from the sale of an investment property is immediately recognized in income. Rental income and operating expenses from investment property are presented as part of other revenue.

3. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

(i) Impairment of non-financial assets

At the end of each reporting period, or earlier if required, management uses its judgment to assess whether there is an indication that the carrying amount of a non financial asset [or cash generating unit, 'CGU'] exceeds its recoverable amount. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. This assessment involves the consideration of whether any events or changes in circumstances could have affected the recoverability of the carrying amount of a non financial asset or CGU. Management considers various indicators including, but not limited to, adverse changes in the industry or economic conditions, changes in the degree or method of use of an asset, a lower than expected economic performance of an asset or a significant change in market returns or interest rates. If any indication exists, the Company estimates the asset's recoverable amount, which is the higher of an asset or CGU's fair value less costs of disposal and its value in use. If the carrying value of a non financial asset exceeds its recoverable amount, the difference is immediately recognized as an impairment loss in profit or loss.

Intangible assets not yet available for use are tested for impairment [within their respective CGUs] at least annually, and whenever there is an indication that the asset may be impaired.

When determining the recoverable amount, the Company determines its value-in-use by discounting estimated future cash flows to their present value using a discount rate that reflects changes in the time value of money and the risks specific to the asset or the CGU. The discount rate estimated and used by management represents the weighted average cost of capital determined for the CGU being tested.

At the end of a reporting period, if there is any indication that an impairment loss recognized in a prior period no longer exists or has decreased, the loss is reversed up to its recoverable amount. The carrying amount following the reversal must not be higher than the carrying amount that would have prevailed [net of amortization] had the original impairment not been recognized in prior periods.

(j) Employee future benefits

(i) Pension plan

The Company provides pension benefits for its employees through the Ontario Municipal Employees Retirement System ['OMERS'] Fund [the 'Fund']. OMERS is a multi-employer pension plan that provides pensions for employees of Ontario municipalities, local boards, public utilities and school boards. The Fund is a defined benefit pension plan, which is financed by equal contributions from participating employers and employees and by the investment earnings of the Fund.

Although the plan is a defined benefit plan, sufficient information is not available to the Company to account for it as such because it is not possible to attribute the fund assets and liabilities between the various employers who contribute to the Fund. As a result, the Company accounts for the plan as a defined contribution plan, and contributions payable as a result of employee service are expensed as incurred as part of operating costs. The Company shares in the actuarial risks of the other participating entities in the plan, and its future contributions may therefore be increased due to actuarial losses relating to the other participating entities. In addition, the Company's contributions could be increased if other entities withdraw from the plan.

(ii) Other post-employment benefits

Employee future benefits other than pensions provided by the Company include life insurance and a retirement grant. These plans provide benefits to certain employees when they are no longer providing active service.

Employee future benefits expense is recognized in the period during which the employees render services.

3. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

(j) Employee future benefits [continued]

(ii) Other post-employment benefits [continued]

Employee future benefits are recorded on an accrual basis. The accrued benefit obligation and current service costs are calculated using the projected benefit method prorated on service and based on assumptions that reflect management's best estimates. The current service cost for a period is equal to the actuarial present value of benefits attributed to employees' services rendered in the period. Actuarial gains and losses resulting from experience different from that assumed or from changes in actuarial assumptions are recognized in OCI. However, for the Company, these amounts are reclassified to a regulatory debit balance as permitted by the OEB.

(iii) Employee benefits

The Company provides short-term employee benefits, such as: salaries, employment insurance, short-term compensated absences, health and dental care. These benefits are recognized as the related service is rendered and is measured on an undiscounted basis. Short-term employee benefits are recognized as an expense unless they qualify for capitalization as part of the cost of an item of materials and supplies, property, plant and equipment, intangible assets or recoverable projects. A liability is recognized in respect of any unpaid short-term employee benefits for services rendered in the reporting period.

The Company recognizes a liability for the expected cost of accumulated non-vested sick leave benefits at the end of the reporting period. The Company presents its non-vested sick leave obligation as a non-current liability since it does not expect to settle all of it sick leave benefits within twelve months.

(k) Customer deposits

Customer deposits are cash collections from customers to guarantee the payment of energy bills and fulfillment of construction obligations. Deposits estimated to be refundable to customers within the next fiscal year are classified as current liabilities and included in accounts payable and accrued liabilities.

(l) Provisions and contingencies

The Company recognizes provisions when there is a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Provisions are remeasured at each balance sheet date.

The evaluation of the likelihood of the contingent events requires judgment by management as to the probability of exposure to potential loss. Actual results could differ from these estimates.

A contingent asset is not recognized in the financial statements. However, a contingent asset is disclosed where an inflow of economic benefits is probable.

(m) Deferred revenue

In certain situations, financial assistance in the form of contributions is required from customers to finance additions to property, plant and equipment. This occurs when the estimated revenue resulting from the addition to property, plant and equipment is less than the cost of providing the service or where special equipment is needed to supply the customers' specific requirements. Since the contributions will provide customers with ongoing access to the supply of electricity, these contributions are classified as deferred revenue, and recognized as other revenue at an equivalent rate to that used for the depreciation of the related property, plant and equipment.

3. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

(n) Leases

Leases in which the Company assumes all of the risks and rewards of ownership are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to the asset. Payments under finance leases are apportioned between interest expense and a reduction of the outstanding liability.

All other leases are classified as operating leases and the leased assets are not recognized on the Company's balance sheets. Payments made under operating leases are recognized in net income on a straight-line basis over the term of the lease.

4. NEW ACCOUNTING PRONOUNCEMENTS

A number of new standards, amendments and interpretations are not yet effective for the year ended December 31, 2017, and have not been applied in preparing these financial statements.

(a) Revenue from contracts with customers

In May 2014, the International Accounting Standards Board ['IASB'] published a new standard, IFRS 15 Revenue from Contracts with Customers ['IFRS 15'], which replaces most of the detailed guidance on revenue recognition that currently exists under IFRS. IFRS 15 provides a standardized five-step model to recognize all types of revenue earned from customer contracts, while previous IFRSs allowed significant room for judgment in devising and applying revenue recognition policies and practices, IFRS 15 is more prescriptive in many areas, such as the combination of related contracts for revenue recognition purposes, unbundling of multiple performance obligations within a single contract and the capitalization of costs of obtaining or fulfilling a contract. IFRS 15 also contains additional disclosure requirements. IFRS 15 is effective for annual periods beginning on or after January 1, 2018. As the majority of the Company's revenue [power recovery revenue and distribution revenue] is generated from electricity distribution at regulated prices, and not significant bundled contracts of combined products and services, IFRS 15 will not have a material impact on the accounting for these revenue streams. However, IFRS 15 will impact the Company's revenue-related disclosures.

(b) Financial instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments ['IFRS 9'], which replaces International Accounting Standard 39 Financial Instruments: Recognition and Measurement ['IAS 39']. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including basing the classification of financial instruments on their contractual cash flow characteristics and the entity's business model for managing financial assets, whereas IAS 39 bases the classifications on specific definitions for each category. Moreover, IFRS 9 simplifies the current IAS 39 classifications into three main categories [amortized cost, fair value through other comprehensive income and fair value through profit or loss], and introduces a new expected credit loss model for measuring impairment of financial assets. The standard is effective for annual periods beginning on or after January 1, 2018. As the Company does not have significant complex financial instruments, IFRS 9 will not have an impact on the accounting for its financial instruments. Management is currently evaluating the impact of adopting the new expected credit loss model for measuring impairment.

[in thousands of Canadian dollars]

4. NEW ACCOUNTING PRONOUNCEMENTS [CONTINUED]

(c) Leases

In January 2016, the IASB issued a new standard, IFRS 16 Leases ['IFRS 16'], which replaces accounting requirements introduced more than 30 years ago that are no longer considered suitable and is a major revision of the way in which companies account for leases. IFRS 16 introduces a new definition of a lease, and removes the current requirement for lessee's to account for leases as either operating or finance leases, depending on complex rules and tests which use 'bright-lines', and may result in all-or-nothing being recognised on the balance sheet. Under IFRS 16, all leases from the lessee's perspective will have to be recognized on the balance sheet, except for exempted short-term [< 1 year] and low value leases. The new standard becomes effective for reporting periods beginning on or after January 1, 2019. Early adoption is permitted if IFRS 15 is also adopted. The Company continues to analyze IFRS 16 and the impact on its financial statements.

5. ACCOUNTS RECEIVABLE

	2017	2016
	$	$
Electricity receivable	**54,056**	70,370
Unbilled revenue	**84,963**	103,253
Other receivables	**36,934**	9,091
Less: allowance for doubtful accounts [Note 16(c)]	**(2,371)**	(1,721)
	173,582	180,993
Due from related party [Note 23]	**5,307**	5,889
	178,889	186,882
Aging:		
Outstanding for 30 days or less	**87,682**	75,253
Outstanding for more than 30 days but not more than 120 days	**6,016**	7,943
Outstanding for more than 120 days	**2,599**	2,154
Unbilled revenue	**84,963**	103,253
Less: allowance for doubtful accounts	**(2,371)**	(1,721)
	178,889	186,882

[in thousands of Canadian dollars]

6. REGULATORY BALANCES

Information about the Company's regulatory balances is as follows:

	Remaining recovery/ reversal [years]	2016 $	Balances arising in the year $	Recovery/ reversal $	Other movements(1) $	**2017 $**
Regulatory debit balances						
RARA	1	274	(5,679)	4,868	975	**438**
Settlement variances	1-5	2,496	(805)	-	817	**2,508**
OPEB deferral account	1-5	147	635	-	-	**782**
LRAM	1-5	1,469	1,102	-	-	**2,571**
Regulatory asset for deferred income taxes	(2)	7,684	9,113	-	-	**16,797**
Other variances and deferred costs	1-5	1,674	682	13	1	**2,370**
		13,744	5,048	4,881	1,793	**25,466**
Regulatory credit balances						
RLRA	1	409	15,162	(15,083)	976	**1,464**
Settlement variances	1-5	36,137	(16,193)	-	817	**20,761**
ESM	1-5	-	1,385	-	-	**1,385**
Other variances and deferred costs	1-5	159	740	-	-	**899**
		36,705	1,094	(15,083)	1,793	**24,509**

[in thousands of Canadian dollars]

6. REGULATORY BALANCES [CONTINUED]

	Remaining recovery/ reversal [years]	2015 $	Balances arising in the year $	Recovery/ reversal $	Other movements(1) $	2016 $
Regulatory debit balances						
RARA	1	205	68	1	-	274
Settlement variances	1-5	5,502	(3,006)	-	-	2,496
OPEB deferral account	1-5	4,432	(4,285)	-	-	147
LRAM	1-5	-	1,628	-	(159)	1,469
Regulatory asset for deferred income taxes	(2)	-	7,684	-	-	7,684
Other variances and deferred costs	1-5	4,291	(2,776)	-	159	1,674
		14,430	(687)	1	-	13,744
Regulatory credit balances						
RLRA	1	3,266	1,618	(4,475)	-	409
Settlement variances	1-5	29,919	6,218	-	-	36,137
Stranded meters	1	5,974	(5,974)	-	-	-
LRAM	1-5	159	-	-	(159)	-
Regulatory liability for deferred income taxes	(2)	513	(513)	-	-	-
Other variances and deferred costs	1-5	994	(994)	-	159	159
		40,825	355	(4,475)	-	36,705

(1) Other movements represent reclassifications of balances
(2) The balance is being reversed through timing differences in the recognition of deferred income tax assets

The following regulatory balances include accrued interest which is presented in net movements in regulatory balances:

– The RARA/RLRA includes accrued interest costs of $129 [2016 – $27].

– Settlement variances include accrued interest costs of $137 [2016 – $268].

– Other variance and deferred costs include accrued interest earned of $37 [2016 – $15].

Hydro Ottawa Limited

Notes to the Financial Statements
Year ended December 31, 2017
[in thousands of Canadian dollars]

7. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings $	Distribution assets $	Equipment and other $	Assets under construction $	Total $
Cost					
Balance at December 31, 2015	84,209	714,765	23,441	42,849	865,264
Additions, net of transfers	849	90,696	5,998	11,188	108,731
Disposals	(2)	(1,544)	(153)	-	(1,699)
Balance at December 31,2016	85,056	803,917	29,286	54,037	972,296
Additions, net transfers	1,389	97,518	9,004	15,057	122,968
Disposals	-	(2,602)	(2,862)	-	(5,464)
Balance at December 31, 2017	**86,445**	**898,833**	**35,428**	**69,094**	**1,089,800**
Accumulated depreciation					
Balance at December 31, 2015	(5,183)	(48,391)	(6,344)	-	(59,918)
Depreciation	(2,643)	(27,340)	(3,451)	-	(33,434)
Disposals	1	178	46	-	225
Balance at December 31,2016	(7,825)	(75,553)	(9,749)	-	(93,127)
Depreciation	(2,587)	(30,277)	(3,909)	-	(36,773)
Disposals	-	1,206	2,557	-	3,763
Balance at December 31, 2017	**(10,412)**	**(104,624)**	**(11,101)**	**-**	**(126,137)**
Net book value					
At December 31, 2016	77,231	728,364	19,537	54,037	879,169
At December 31, 2017	**76,033**	**794,209**	**24,327**	**69,094**	**963,663**

During the year, the Company capitalized borrowing costs of $1,276 [2016 – $808] to property, plant and equipment. The average annual interest rate for 2017 was 3.5% [2016 – 3.7%].

During the year, the Company incurred a loss on disposal of property, plant and equipment of $514 [2016 – $834].

On December 13, 2017, the Company acquired the primary distribution assets of the Public Services and Procurement Canada ['PSPC'] campuses of Tunney's Pasture, Confederation Heights and the Central Experimental Farm. PSPC agreed to pay the Company $14,586 to fund future expenditures related to the asset transfer and replacement and direct maintenance and administration, the supply and installation of meters, and the decommissioning and installation of PSPC's equipment. The Company has determined that the acquisition of the group of assets does not constitute a business, and has recognized the individual identifiable assets acquired on the basis of their fair value of $1,436, at the date of purchase.

[in thousands of Canadian dollars]

8. INTANGIBLE ASSETS

	Land rights $	Computer software $	Capital contributions $	Assets under development $	Total $
Cost					
Balance at December 31, 2015	1,810	49,842	17,045	4,051	72,748
Additions, net of transfers	473	2,116	3,044	5,857	11,490
Balance at December 31, 2016	2,283	51,958	20,089	9,908	84,238
Additions, net transfers	11	14,077	687	1,780	16,555
Disposals	-	(1,063)	-	-	(1,063)
Balance at December 31, 2017	**2,294**	**64,972**	**20,776**	**11,688**	**99,730**
Accumulated amortization					
Balance at December 31, 2015	(98)	(12,719)	(173)	-	(12,990)
Amortization	(59)	(7,775)	(451)	-	(8,285)
Balance at December 31, 2016	(157)	(20,494)	(624)	-	(21,275)
Amortization	(59)	(6,657)	(455)	-	(7,171)
Disposals	-	1,063	-	-	1,063
Balance at December 31, 2017	**(216)**	**(26,088)**	**(1,079)**	**-**	**(27,383)**
Net book value					
At December 31, 2016	2,126	31,464	19,465	9,908	62,963
At December 31, 2017	**2,078**	**38,884**	**19,697**	**11,688**	**72,347**

The Company is party to various Connection and Cost Recovery Agreements ['Capital contributions'] with HONI. These agreements govern the construction by HONI of new or modified transformer stations for the purpose of serving the Company's customers, including anticipated electricity load growth.

During the year, the Company capitalized borrowing costs of $322 [2016 – $81] to intangible assets. The average annual interest rate for 2017 was 3.5% [2016 – 3.7%].

[in thousands of Canadian dollars]

9. INVESTMENT PROPERTIES

	2017	2016
	$	$
Net book value, beginning of year	**2,149**	2,213
Additions	**418**	46
Depreciation	**(111)**	(110)
Net book value, end of year	**2,456**	2,149

The fair value of investment properties is $8,913, which is based on the latest Municipal Property Assessment Corporation valuation dated May 23, 2017.

10. CREDIT FACILITY

The Company continues to maintain a $90,000 revolving demand credit facility and a $600 commercial card facility available from Hydro Ottawa Holding Inc. As at December 31, 2017, the Company has drawn $12,256 [December 31, 2016 – $nil] in bank indebtedness and $nil [December 31, 2016 – $22,000] in bankers acceptances against this credit facility. The rate of interest is based on the rate applicable to Hydro Ottawa Holding Inc.'s outstanding bankers' acceptances drawn on that date. Otherwise, the rate of interest is based on the Bank of Canada's 'Bankers Acceptances 1 month' rate.

11. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2017	2016
	$	$
Purchased power payable	**79,120**	92,874
Accounts payable and accrued liabilities	**34,049**	31,062
Customer deposits	**15,972**	17,296
Customer credit balances	**11,203**	7,391
Due to related parties [Note 23]	**8,231**	24,547
	148,575	173,170

12. EMPLOYEE FUTURE BENEFITS

(a) Pension plans

The Company's participating employer contributions under OMERS for the year ended December 31, 2017 amounted to $5,689 [2016 – $5,512].

[in thousands of Canadian dollars]

12. EMPLOYEE FUTURE BENEFITS [CONTINUED]

(b) Other employee future benefits

Employee future benefits are calculated using an annual compensation rate increase of 2.0% [2016 – 2.0%] and a discount rate of 3.4% [2016 – 3.9%] to calculate the liabilities. The valuations also include several other economic and demographic assumptions including mortality rates. The mortality assumption is based on the *Canadian Pensioners' Mortality* report published by the Canadian Institute of Actuaries in February 2014.

Information about the Company's employee future benefits other than pension plans is as follows:

	2017	2016
	$	$
Defined benefit obligation, beginning of year	**12,501**	10,707
Current service costs	**294**	333
Past service costs	**-**	1,630
Interest on accrued benefit obligation	**482**	490
Benefit payments	**(634)**	(593)
Actuarial loss (gain)	**691**	(66)
Defined benefit obligation, end of year	**13,334**	12,501

An actuarial extrapolation was performed as at December 31, 2017. As a result of this exercise, the Company increased the accumulated liability by $833 [December 31, 2016 – increased by $1,794 based on an actuarial valuation].

Significant changes in actuarial assumptions related to discount rates, future health and dental costs, mortality rates and retirement age may affect the valuation of the defined benefit obligation.

13. NOTES PAYABLE

The Company currently has the following promissory notes and grid promissory notes payable to Hydro Ottawa Holding Inc.:

	2017	2016
	$	$
4.97% promissory note, due December 19, 2036	**50,000**	50,000
4.14% for the first five years [3.99% thereafter] promissory note, due May 14, 2043	**107,185**	107,185
2.72% for the first five years [2.61% thereafter] promissory note, due February 3, 2025	**138,667**	138,667
3.77% for the first five years [3.64% thereafter] promissory note, due February 2, 2045	**121,333**	121,333
2.72% for the first five years [2.61% thereafter] promissory note, due June 25, 2025	**15,999**	15,999
3.77% for the first five years [3.64% thereafter] promissory note, due June 25, 2045	**14,001**	14,001
3.72% grid promissory note, due on demand	**60,000**	60,000
4.12% grid promissory note, due on demand	**60,000**	-
	567,185	507,185

[in thousands of Canadian dollars]

13. NOTES PAYABLE [CONTINUED]

The grid promissory note facility bears fixed-rate interest based on the cost of long-term debt for Ontario's Regulated Utilities in accordance with the OEB`s cost of capital calculations. Amounts are due on demand, and Hydro Ottawa Holding Inc. does not intend to recall any amounts of this note in 2018.

The promissory notes and the grid promissory note facility are subordinated and postponed to the obligation of the Company to a third party for the payment in full of any secured indebtedness and any and all security interests granted to secure such obligations of the Company.

14. CAPITAL DISCLOSURES

The Company's main objectives when managing capital are to:

- Ensure continued access to funding to maintain and improve the operations and infrastructure of the Company;
- Ensure compliance with covenants related to the credit facilities and senior unsecured debentures entered into by its parent company, Hydro Ottawa Holding Inc.; and
- Align Hydro Ottawa Limited's capital structure with the debt to equity structure recommended by the OEB.

The Company's capital consists of the following:

	2017	2016
	$	$
Intercompany advances	**-**	22,000
Notes payable	**567,185**	507,185
Total debt	**567,185**	529,185
Shareholder's equity	**335,659**	319,799
Total capital	**902,844**	848,984
Debt capitalization ratio	**62.82 %**	62.33 %

The Company is in compliance with all financial covenants and limitations associated with its credit facilities and its long-term debt.

The Company is deemed by the OEB to have a capital structure that is funded by 56% long-term debt, 4% short-term debt and 40% equity. The OEB uses this deemed structure only as a basis for setting distribution rates. As such, the Company's actual capital structure may differ from the OEB deemed structure.

The Company met its capital management objectives, which have not changed during the year.

[in thousands of Canadian dollars]

15. SHARE CAPITAL

(a) Authorized

Unlimited number of voting first preferred shares, redeemable at one dollar per share
Unlimited number of non-voting second preferred shares, redeemable at ten dollars per share
Unlimited number of non-voting third preferred shares, redeemable at one hundred dollars per share
Unlimited number of voting fourth preferred shares [ten votes per share], redeemable at one hundred dollars per share
Unlimited number of voting Class A common shares
Unlimited number of non-voting Class B common shares
Unlimited number of non-voting Class C common shares, redeemable at the price at which such shares are issued

The above shares are without nominal or par value.

Holders of second preferred shares, fourth preferred shares and common shares are entitled to receive dividends as and when declared by the Board of Directors at their discretion.

(b) Issued

	2017	2016
	$	$
154,789,001 Class A common shares	**167,081**	167,081

Any invitation to the public to subscribe for shares of the Company is prohibited by shareholder resolution.

On April 20, 2017, the Board of Directors declared a $10,600 dividend on the common shares of the Company outstanding on December 31, 2016. The dividend was paid to the sole shareholder, Hydro Ottawa Holding Inc. on April 28, 2017 [2016 – April 21, 2016, the Board of Directors declared a $7,500 dividend which was paid on April 29, 2016].

On September 21, 2017, the Board of Directors declared a $10,000 dividend on the common shares of the Company outstanding on June 30, 2017. The dividend was paid to the sole shareholder, Hydro Ottawa Holding Inc. on September 29, 2017 [2016 – September 22, 2016, the Board of Directors declared a $10,000 dividend which was paid on September 29, 2016].

16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

(a) Fair value disclosures

The carrying values of the Company's financial instruments, except for notes payable, approximates fair value because of the short maturity and nature of the instruments.

The Company has estimated the fair value of the notes payable as at December 31, 2017 as amounting to $573,211 [December 31, 2016 – $509,027]. The fair value has been determined based on discounting all future payments of interest and the principal repayment on January 1, 2018, at the estimated interest rate of 3.7% [2016 – 3.7%] that would be available to the Company on December 31, 2017.

(b) Market risk

The Company is exposed to market risk, which is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices are comprised of three types of risks: interest rate risk, foreign exchange risk and commodity price risk.

16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT [CONTINUED]

(b) Market risk [continued]

(i) Interest rate risk

The Company is exposed to interest rate risk on its borrowings. The Company mitigates exposure to interest rate risk by fixing interest rates on its notes payable with its parent company. Under Hydro Ottawa Holding Inc.'s credit facilities, any advances on its operating line would expose the Company to fluctuations in short term interest rates related to prime rate loans and bankers' acceptances as all short-term financing requirements are obtained through its parent company, which passes on its borrowing costs. The interest rate risk is deemed to be low due to the immaterial cost of its short-term borrowings. For the most part, the borrowing requirements are for a very short duration as the advances serve to bridge gaps between the cash outflow related to the monthly power bill and the inflows related to the settlements with customers and, as such, there is very limited exposure to interest rate risk.

A sensitivity analysis was conducted to examine the impact of a change in the prime rate on the Company's advances from Hydro Ottawa Holding Inc. A variation of 1% [100 basis points], with all other variables held constant, would increase or decrease the annual interest expense by approximately $278.

(ii) Foreign exchange risk

As at December 31, 2017, the Company has limited exposure to fluctuations in foreign currency exchange rates. The Company does purchase a small proportion of goods and services that are denominated in foreign currencies, predominately the US dollar. The impact of the fluctuation of foreign currencies on the gains or losses of accounts payable denoted in foreign currencies is not material.

(iii) Commodity price risk

The Company does not have commodity price risk due to the flow-through nature of power purchases.

(c) Credit risk

Credit risk is the risk that a counterparty will default on its obligations, causing a financial loss to the Company. Concentration of credit risk associated with accounts receivable is limited due to the large number of customers the Company services. The Company has approximately 332,000 customers, the majority of which are residential. As a result, the Company did not earn a significant amount of revenue and does not have a significant receivable from any individual customer.

The Company performs ongoing credit evaluations of its customers and requires collateral to support non-residential customer accounts receivable on specific accounts to mitigate significant losses in accordance with OEB legislation. As at December 31, 2017, the Company held security deposits related to power recovery and distribution sales in the amount of $15,121 [December 31, 2016 – $14,600] with respect to these customers.

The Company monitors and limits its exposure to credit risk on a continuous basis.

The carrying amount of accounts receivable is reduced by an allowance for doubtful accounts based on the credit risk applicable to particular customers, historical, and other information. The Company records an allowance for doubtful accounts when the recoverability of an amount becomes doubtful. When the receivable amount is deemed to be uncollectible, it is written off and the allowance for doubtful accounts is adjusted accordingly. Subsequent recoveries of receivables previously provisioned or written off result in a reduction of operating costs in the statement of income. As at December 31, 2017, the allowance for doubtful accounts was $2,371 [December 31, 2016 – $1,721].

For details of accounts receivable and the aging of the accounts, refer to Note 5.

[in thousands of Canadian dollars]

16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT [CONTINUED]

(c) Credit risk [continued]

As at December 31, 2017, there were no significant concentrations of credit risk with respect to any class of financial assets or counterparties and approximately 5% [December 31, 2016 – 5%] of the Company's accounts receivable [excluding unbilled revenue] were aged more than 30 days. The Company’s maximum exposure to credit risk is equal to the carrying value of accounts receivable less customer deposits held.

(d) Liquidity risk

Liquidity risk is the risk that the Company will not meet its financial obligations as they come due. The Company's parent, Hydro Ottawa Holding Inc., manages all the financing and investing activities for the Company. The Company has access to credit facilities with Hydro Ottawa Holding Inc. The liquidity risks associated with financial commitments at December 31, 2017 relate to grid promissory notes, promissory notes or advances issued from its parent company, Hydro Ottawa Holding Inc., and accounts payable and accrued liabilities in the amount of $148,575 [December 31, 2016 – $173,170] that are due within one year.

The Company continues to have access to a $90,000 [2016 – $90,000] credit facility with Hydro Ottawa Holding Inc. as well as a $600 commercial card facility. As at December 31, 2017, the Company has drawn $12,256 [December 31, 2016 – $nil] in bank indebtedness and $nil [December 31, 2016 – $22,000] in bankers acceptances against this credit facility [Note 10]. These credit facilities are available to the Company to help meet its financial obligations as they come due.

17. OPERATING COSTS

	2017	2016
	$	$
Employee costs	**74,021**	74,128
Outside services	**31,777**	26,970
Operating and maintenance	**7,922**	7,839
General and administrative	**30,977**	29,865
Capital recovery	**(32,829)**	(31,597)
	111,868	107,205

18. FINANCING COSTS

	2017	2016
	$	$
Long-term interest	**18,472**	16,479
Short-term interest and fees	**738**	924
Less: capitalized borrowing costs	**(1,598)**	(889)
	17,612	16,514

[in thousands of Canadian dollars]

19. INCOME TAXES

Income tax expense recognized in net income comprises the following:

	2017 **$**	2016 $
Current tax expense		
Current income tax expense	**3,828**	3,648
Deferred tax expense		
Origination and reversal of temporary differences	**9,342**	8,250
Income tax expense recognized in net income	**13,170**	11,898

Income tax expense recognized in other comprehensive income comprises the following:

	2017 **$**	2016 $
Income tax effect of actuarial losses on defined benefit obligations	**(229)**	(53)

The provision for income taxes differs from the amount that would have been recorded using the combined Canadian federal and Ontario statutory income tax rates. A reconciliation between the statutory and effective tax rates is provided as follows:

	2017 **$**	2016 $
Federal and Ontario statutory income tax rate	**26.50 %**	26.50 %
Income before income taxes	**49,630**	46,243
Income taxes at statutory rate	**13,152**	12,254
Increase (decrease) in income taxes resulting from:		
Permanent differences	**49**	42
Other	**(31)**	(398)
	13,170	11,898
Effective income tax rate	**26.54 %**	25.73 %

The Company, as a rate-regulated enterprise, can recognize deferred income tax assets and liabilities and related regulatory balances for the amount of deferred income taxes expected to be refunded to, or recovered from, customers in future electricity rates.

[in thousands of Canadian dollars]

19. INCOME TAXES [CONTINUED]

Significant components of the Company's deferred income liability are as follows:

	2017 **$**	2016 $
Property, plant and equipment and intangible assets	**(22,170)**	(13,437)
Employee future benefits	**4,807**	4,507
Other temporary differences	**566**	1,246
	(16,797)	(7,684)

Movements in the deferred income tax (liability) asset during the year were as follows:

	2017 **$**	2016 $
Deferred tax, beginning of year	**(7,684)**	513
Recognized in net income	**(9,342)**	(8,250)
Recognized in OCI related to employee future benefits	**229**	53
Deferred tax, end of year	**(16,797)**	(7,684)

The Company's regulatory deferral account debit balance for the amounts of deferred income taxes expected to be refunded/(collected) to/from customers in future electricity rates is $16,797 [2016 – $7,684].

As at December 31, 2017, the Company had corporate minimum tax credit carryforwards of $nil [December 31, 2016 – $470].

20. CHANGES IN NON-CASH WORKING CAPITAL AND OTHER OPERATING BALANCES

	2017 **$**	2016 $
Accounts receivable	**7,993**	(19,375)
Prepaid expenses	**455**	(2,079)
Accounts payable and accrued liabilities	**349**	10,278
Net change in accruals related to property, plant and equipment	**(6,970)**	5,135
Net change in accruals related to intangible assets	**1,073**	297
Customer deposits in accounts receivable [Note 7]	**14,586**	-
	17,486	(5,744)

21. CONTINGENT LIABILITIES

Purchasers of electricity in Ontario including the Company, through the Independent Electricity System Operator ['IESO'], are required to provide security to mitigate the risk of their default based on their expected activity in the market. The IESO could draw on these guarantees if the Company fails to make a payment required by a default notice issued by the IESO. A prudential support obligation is calculated based upon a default protection amount and the distributor's trading limit less a reduction for the distributor's credit rating. As at December 31, 2017, the Company had drawn standby letters of credit in the amount of $10,000 [December 31, 2016 – $10,000] against its credit facility to cover its prudential support obligation.

The Company participates with other electrical utilities in Ontario in an agreement to exchange reciprocal contracts of indemnity through the Municipal Electrical Association Reciprocal Insurance Exchange. The Company is liable for additional assessments to the extent premiums collected and reserves established are not sufficient to cover the cost of claims and costs incurred. If any additional assessments were required in the future, their cost would be charged to income in the year during which they occur.

The Company is party to connection and cost recovery agreements with HONI as described in Note 8. To the extent that the cost of the project is not recoverable from future transformation connection revenues, the Company is obligated to pay a capital contribution equal to the difference between these revenues and the construction costs allocated to the Company.

Various lawsuits have been filed against the Company for incidents that arose in the ordinary course of business. In the opinion of management, the outcomes of the lawsuits, now pending, are neither determinable nor material. Should any loss result from the resolution of these claims, such losses would be claimed through the Company’s insurance carrier, with any unrecoverable amounts charged to income in the year of resolution.

22. COMMITMENTS

The Company has $155,335 in total open commitments for 2018 to 2024. This includes commitments relating to a customer information system services agreement, construction projects, facilities, and overhead and underground services.

23. RELATED PARTY TRANSACTIONS

Transactions with related parties occur in the normal course of business, and are transacted at the amount of consideration determined and agreed to by the related parties. Trade amounts due from and to related parties are non-interest bearing, result from normal operations and are due within one year.

(a) Transactions with ultimate shareholder and its subsidiaries

During the year, the Company earned revenue from the sale of electricity to the City of Ottawa and its subsidiaries, which is billed at prices and terms approved by the OEB, and earned other revenue totaling $744 [2016 – $1,322]. The Company also received $2,028 [2016 – $4,484] in contributions relating to the upgrade and/or expansion of the Company's existing electricity distribution infrastructure.

The Company incurred $2,269 [2016 – $2,263] in property tax expenses and purchased $606 [2016 – $481] in fuel, permits and other services during the year, which is included in operating costs. The Company also incurred $2,872 [2016 – $nil] in building permit costs and development charges, which are included in property, plant and equipment.

At December 31, 2017, the Company's accounts receivable and customer deposits include $4,716 [December 31, 2016 – $5,639] and $2,129 [December 31, 2016 – $4,641], respectively, while the Company's accounts payable and accrued liabilities include $53 [December 31, 2016 – $126] due to the City of Ottawa and its subsidiaries.

23. RELATED PARTY TRANSACTIONS [CONTINUED]

(b) Transactions with parent

During the year, the Company earned revenue of $763 [2016 – $914] relating to the provision of administrative and corporate services and interest charges. The Company also received $2 [2016 – $35] in contributions relating to the upgrade and/or expansion of the Company's existing electricity distribution infrastructure.

The Company incurred $3,900 [2016 – $3,931] in operating costs related to the purchase of administrative and corporate support services that includes compensation for certain key management personnel, and $738 [2016 – $926] in short-term financing costs. The Company also purchased power of $13 [2016 – $9].

At December 31, 2017, the Company's accounts payable and accrued liabilities include $1,944 [December 31, 2016 – $23,375] due in respect of the transactions described.

The Company incurred $18,472 [2016 – $16,479] in financing costs during the year on its notes payable to Hydro Ottawa Holding Inc. described in Note 13 of these financial statements.

(c) Transactions with other related parties

During the year, the Company earned revenue from the sale of electricity to other related parties, which is billed at prices and terms approved by the OEB, and earned other revenue of $2,922 [2016 – $1,336]. The Company also received $1,305 [2016 – $447] in contributions relating to the upgrade and/or expansion of the Company's existing electricity distribution infrastructure. During the year, the Company purchased power of $2,161 [2016 – $2,107], and incurred $356 [2016 – $3] in operating costs and $43 [2016 – $nil] in costs that are included in property, plant and equipment.

At December 31, 2017, the Company's accounts receivable include $591 [December 31, 2016 – $250] and customer deposits include $nil [December 31, 2016 – $2,642] due in respect of the transactions above while accounts payable and accrued liabilities include $6,234 [December 31, 2016 – $1,046] due to other related parties.

24. COMPARATIVE FIGURES

In certain instances, the 2016 information presented for comparative purposes has been reclassified to conform to the financial statement presentation adopted for the current year.

Hydro Ottawa Limited

Financial Statements

December 31, 2018

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Report of Management

Management is responsible for the integrity of the financial data reported by Hydro Ottawa Limited ['the Company']. Fulfilling this responsibility requires the preparation and presentation of financial statements and other data using management's best judgment, estimates and International Financial Reporting Standards as issued by the International Accounting Standards Board.

Management maintains appropriate systems of internal control and corporate-wide policies and procedures, which provide reasonable assurance that the Company's assets are safeguarded and that financial records are relevant and reliable.

The Board of Directors of the Company, with the advice of the Audit Committee of Hydro Ottawa Holding Inc., ensures that management fulfills its responsibility for financial reporting and internal control. At regular meetings, the Audit Committee, including the Chair of the Board of Directors of the Company, reviews internal controls and financial reporting matters with management for Hydro Ottawa Holding Inc. and its subsidiaries. The Chair of the Board of Directors of the Company, as well as the Chief Executive Officer and the Chief Financial Officer, advise the Board of Directors of the Company of any matters of concern raised by the Audit Committee in reviewing the financial affairs of the Company.

On behalf of Management,

Bryce Conrad
President and Chief Executive Officer

Geoff Simpson
Chief Financial Officer

KPMG LLP
150 Elgin Street, Suite 1800
Ottawa ON K2P 2P8
Canada
Telephone 613-212-5764
Fax 613-212-2896

INDEPENDENT AUDITORS' REPORT

To the Shareholder of Hydro Ottawa Limited

Opinion

We have audited the financial statements of Hydro Ottawa Limited (the "Entity"), which comprise:

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

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

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

Basis for Opinion

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

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

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

We also:

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

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

KPMG

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

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

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

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

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

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Ottawa, Canada

April 16, 2019

Hydro Ottawa Limited

Statement of Income
Year ended December 31, 2018
[in thousands of Canadian dollars]

	2018 $	2017 $
Revenue and other income		
Power recovery revenue [Note 18]	**857,383**	896,528
Distribution revenue [Note 18]	**181,050**	171,400
Conservation and demand management income	**24,865**	23,976
Other revenue [Note 18]	**22,112**	18,581
	1,085,410	1,110,485
Expenses		
Purchased power	**864,442**	910,810
Operating costs [Note 19]	**115,768**	111,891
Depreciation [Notes 7 and 9]	**40,148**	36,884
Amortization [Note 8]	**9,508**	7,171
	1,029,866	1,066,756
Income before the undernoted items	**55,544**	43,729
Financing costs [Note 20]	**19,759**	17,612
Income before income taxes	**35,785**	26,117
Income tax expense [Note 21]	**13,318**	13,170
Net income	**22,467**	12,947
Net movements in regulatory balances, net of tax [Note 6]	**14,692**	23,513
Net income after net movements in regulatory balances	**37,159**	36,460

The accompanying notes are an integral part of these financial statements

Hydro Ottawa Limited

Statement of Comprehensive Income
Year ended December 31, 2018
[in thousands of Canadian dollars]

	2018	2017
	$	$
Net income after net movements in regulatory balances	**37,159**	36,460
Other comprehensive income		
Items that will not be subsequently reclassified to net income		
Actuarial gain (loss) on post-employments benefits, net of tax	**674**	(405)
Net movement in regulatory balances related to other comprehensive income, net of tax	**(674)**	405
Total comprehensive income	**37,159**	36,460

The accompanying notes are an integral part of these financial statements

Hydro Ottawa Limited

Balance Sheet
As at December 31, 2018
[in thousands of Canadian dollars]

	2018 $	2017 $
Assets		
Current assets		
Accounts receivable [Note 5]	**162,814**	179,120
Prepaid expenses	**3,928**	3,172
	166,742	182,292
Non-current assets		
Property, plant and equipment [Note 7]	**1,112,259**	963,663
Intangible assets [Note 8]	**66,174**	72,347
Investment properties [Note 9]	**2,338**	2,456
Total assets	**1,347,513**	1,220,758
Regulatory balances [Note 6]	**34,667**	25,466
Total assets and regulatory balances	**1,382,180**	1,246,224
Liabilities and shareholder's equity		
Current liabilities		
Bank indebtedness [Note 10]	**27,673**	12,256
Accounts payable and accrued liabilities [Note 11]	**147,854**	148,806
Income taxes payable	**842**	116
Advances from parent [Note 10]	**47,000**	-
	223,369	161,178
Non-current liabilities		
Deferred revenue [Note 12]	**115,769**	95,383
Employee future benefits [Note 13(b)]	**12,367**	13,334
Customer deposits	**26,503**	31,423
Notes payable [Note 14]	**597,185**	567,185
Deferred income tax liability [Note 21]	**25,806**	16,797
Other liabilities	**571**	756
Total liabilities	**1,001,570**	886,056
Shareholder's equity		
Share capital [Note 16]	**167,081**	167,081
Retained earnings	**193,837**	168,578
Total liabilities and shareholder's equity	**1,362,488**	1,221,715
Regulatory balances [Note 6]	**19,692**	24,509
Total liabilities, shareholder's equity and regulatory balances	**1,382,180**	1,246,224

Contingent liabilities and commitments [Notes 23 and 24]

On behalf of the Board:

Director

Director

The accompanying notes are an integral part of these financial statements

Hydro Ottawa Limited

Statement of Changes in Equity
Year ended December 31, 2018
[in thousands of Canadian dollars]

	Share capital $	Accumulated other comprehensive income $	Retained earnings $	Total $
Balance at December 31, 2016	167,081	-	152,718	319,799
Net income after net movements in regulatory balances	-	-	36,460	36,460
Dividends [Note 16]	-	-	(20,600)	(20,600)
Balance at December 31, 2017	167,081	-	168,578	335,659
Net income after net movements in regulatory balances	-	-	37,159	37,159
Dividends [Note 16]	-	-	(11,900)	(11,900)
Balance at December 31, 2018	**167,081**	**-**	**193,837**	**360,918**

The accompanying notes are an integral part of these financial statements

Hydro Ottawa Limited

Statement of Cash Flows
Year ended December 31, 2018
[in thousands of Canadian dollars]

	2018	2017
	$	$
Net inflow (outflow) of cash related to the following activities:		
Operating		
Net income after net movements in regulatory balances	**37,159**	36,460
Adjustments for:		
Depreciation	**40,148**	36,884
Amortization	**9,508**	7,171
(Gain) loss on disposal of property, plant and equipment [Note 7]	**(256)**	514
Amortization of deferred revenue [Note 18]	**(2,950)**	(2,262)
Employee future benefits	**87**	198
Financing costs	**19,759**	17,612
Income tax expense	**13,318**	13,170
Other	**(105)**	(168)
Capital contributions from customers	**11,685**	12,063
Capital contributions from developers	**11,651**	8,578
Net change in non-cash working capital and other operating balances [Note 22]	**880**	17,486
Change in customer deposits	**13,751**	(2,889)
Financing costs paid	**(21,823)**	(19,234)
Income tax refunded	**142**	102
Income taxes paid	**(4,000)**	(6,095)
Net movements in regulatory balances	**(14,692)**	(23,513)
	114,262	96,077
Investing		
Acquisition of property, plant and equipment	**(191,959)**	(115,656)
Acquisition of intangible assets	**(3,393)**	(17,627)
Proceeds from disposal of property, plant and equipment	**573**	1,183
	(194,779)	(132,100)
Financing		
Issuance of notes payable	**30,000**	60,000
Dividends paid [Note 16]	**(11,900)**	(20,600)
Proceeds from (repayment of) advances from parent	**47,000**	(22,000)
	65,100	17,400
Net change in cash	**(15,417)**	(18,623)
(Bank indebtedness) cash, beginning of year	**(12,256)**	6,367
Bank indebtedness, end of year	**(27,673)**	(12,256)

The accompanying notes are an integral part of these financial statements

1. DESCRIPTION OF BUSINESS AND CORPORATE INFORMATION

Hydro Ottawa Limited [the 'Company'] was incorporated on October 3, 2000 pursuant to the *Business Corporations Act* (Ontario) as mandated by the Ontario government's *Electricity Act, 1998.* The Company is a wholly owned subsidiary of Hydro Ottawa Holding Inc., which in turn is wholly owned by the City of Ottawa. The Company is incorporated and domiciled in Canada with the registered head office located at 3025 Albion Road North, Ottawa, Ontario, K1G 3S4.

Hydro Ottawa Limited is a regulated electricity distribution company that owns and operates electricity infrastructure in the City of Ottawa and the Village of Casselman and is responsible for the safe, reliable delivery of electricity to homes and businesses in its licensed service area. In addition to billing for distribution services, Hydro Ottawa Limited invoices customers for amounts it is required to pay to other organizations in Ontario's electricity system for providing wholesale generation and transmission services.

2. BASIS OF PRESENTATION

(a) Statement of compliance

These financial statements have been prepared by management on a going-concern basis in accordance with International Financial Reporting Standards ['IFRS'], and have been approved and authorized by the Company's Board of Directors for issue on April 16, 2019.

(b) Basis of measurement

The Company’s financial statements are prepared on a historical cost basis, except for the valuation of other employee future benefits as explained in Note 3(k)(ii).

(c) Functional and presentation currency

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

(d) Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make estimates, judgments and assumptions that affect the reported amounts of revenue, expenses, assets, liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements.

Due to the inherent uncertainty involved in making such estimates, actual results could differ from estimates recorded in preparing these financial statements, including changes as a result of future decisions made by the Ontario Energy Board ['OEB'] or the Ontario provincial government. Management reviews its estimates and judgments on an ongoing basis using the most current information available. The financial statements have, in management's opinion, been properly prepared using careful judgment within reasonable limits of materiality and within the framework of the significant accounting policies. Significant areas where estimates and judgments are made in the application of IFRS are as follows:

i. Accounts receivable

Accounts receivable, which includes unbilled revenue, are reported based on the amounts expected to be recovered less a loss allowance for expected credit losses. Management utilizes historical loss experience and forward-looking information in conjunction with the aging and arrears status of accounts receivable at year-end in the determination of the allowance.

2. BASIS OF PRESENTATION [CONTINUED]

(d) Use of estimates and judgments [continued]

ii. Regulatory balances

The recognition and measurement of regulatory balances is subject to certain estimates, judgments and assumptions, including assumptions made in the interpretation of the OEB's regulations and decisions.

iii. Useful lives of depreciable assets

Depreciation and amortization expense is calculated based on estimates of the useful lives of property, plant and equipment, intangible assets and investment properties. Management estimates the useful lives of the various types of assets using assumptions and estimates of life characteristics of similar assets based on a long history of industry experience.

iv. Impairments of non-financial assets

Non-financial assets are reviewed by management for impairment using the future cash flows method. By their nature, estimates of future cash flows, including estimates of future capital expenditures, revenue, operating expenses, discount rates and market pricing are subject to measurement uncertainty.

v. Employee future benefits

The measurement of employee future benefits involves the use of numerous estimates and assumptions. Actuaries make assumptions for items such as discount rates, future salary increases and mortality rates in the determination of benefits expenses and accrued benefit obligations.

vi. Capital contributions

The timing of the satisfaction of performance obligations for capital contributions from customers is subject to certain estimates and assumptions.

vii. Deferred income taxes

Tax interpretations, regulations and legislation in which the Company operates are subject to change. Deferred income tax assets are assessed by management at the end of each reporting period to determine the likelihood that they will be realized from future taxable income.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Regulation

The Company is regulated by the OEB under the authority of the *Ontario Energy Board Act, 1998*. The OEB is charged with the responsibilities of approving or setting rates for the transmission and distribution of electricity, and ensuring that distribution companies fulfill obligations to connect and service customers.

For fiscal year ended December 31, 2018, the Company continued to operate under a custom incentive rate-setting application ['Custom IR'] prescribed by the OEB. The Custom IR is one of the rate setting options contained in the *Renewed*

3. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

(a) Regulation [continued]

Regulatory Framework for Electricity Distributors: A Performance-Based Approach policy. The Company filed a custom incentive rate-setting application with the OEB on April 29, 2015 seeking approval to change the rates that the Company charges for electricity delivery, retail services, allowances, loss factor and specific services charges for a period of five years, to be effective January 1, 2016 to December 31, 2020. This application requested a revenue requirement to recover costs, and provide a rate of return on a deemed capital structure applied to rate base assets. The key components of the Company's Custom IR framework included the establishment of several regulatory accounts, namely: an asymmetrical earnings sharing mechanism variance account, revenue requirement differential variance account related to capital additions, new facilities deferral account, connection cost recovery agreement deferral account, and the efficiency adjustment mechanism deferral account. An annual IR application is required to set rates each year for 2017 to 2020. 2018 rates were set based on the Company's Year 3 IR annual update.

The Company applies for distribution rates based on estimated costs. Once rates are approved, they are not adjusted as a result of actual costs being different from those that were estimated, other than for certain prescribed costs that are eligible for deferral treatment and are either collected or refunded in future rates.

In January 2014, the International Accounting Standards Board ['IASB'] issued IFRS 14 – *Regulatory Deferral Accounts* ['IFRS 14'], which permits rate-regulated entities to use its existing rate-regulated activities practices if and only if, in its first IFRS financial statements, it recognized regulatory deferral account balances by electing to apply the requirements of IFRS 14.

The Company has determined that certain debit and credit balances arising from rate-regulated activities qualify for the application of regulatory accounting treatment in accordance with IFRS 14 and the accounting principles prescribed by the OEB in the *Accounting Procedures Handbook for Electricity Distributors*. Regulatory debit and credit balances primarily represent costs that have been deferred because it is probable that they will be recovered in future rates, revenues that are required to be returned or collected to/from customers or balances that arise from differences in amounts billed to customers for electricity services and the costs that the Company incurs to purchase these services.

Regulatory balances principally comprise the following:

– Regulatory asset/liability refund account ['RARA'/'RLRA'] consists of balances of regulatory assets or regulatory liabilities approved for disposition by the OEB through temporary additional rates referred to as rate riders.

– Settlement variances relate primarily to the charges the Company incurred for transmission services, commodity, wholesale market operations and global adjustment in comparison to those settled with customers during the year. The nature of the settlement variances is such that the balance can fluctuate between assets and liabilities over time, and they are reported at year-end dates in accordance with rules prescribed by the OEB.

– Lost Revenue Adjustment Mechanism ['LRAM'] account tracks and disposes of lost electricity distribution revenues that result from Conservation and Demand Management ['CDM'] programs.

– Earnings Sharing Mechanism ['ESM'] variance account captures 50% of any regulated earnings above Hydro Ottawa's approved return on equity for years 2016 to 2020.

– Other Post-employment Benefits deferral account ['OPEB deferral account'] was authorized by the OEB in 2011 to record the adjustment to employee future benefits other than pension relating to the cumulative actuarial gains or losses. This account is adjusted annually to record any changes in the cumulative actuarial gains or losses. No interest charges are recorded on this account as instructed by the OEB.

Other variances and deferred costs include the following:

– the difference between low voltage charges paid to Hydro One Networks Inc. ['HONI'] and those charged to customers.

– the difference between actual amount of gain/loss from disposal of fixed assets and the forecasted gain/loss.

3. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

(a) Regulation [continued]

– the difference between the 2014 starting point and current year ending point stretch factor as multiplied by the rate year plan revenue requirement for the relevant rate year, referred to as the Efficiency Adjustment Mechanism ['EAM'].

The Company accrues interest on the regulatory balances as directed by the OEB.

The Company continues to assess the likelihood of recovery of all regulatory debit balances subject to recovery through a future rate filing. The absence of OEB approval is a consideration in this evaluation. If the requirement for a provision becomes more likely than not, the Company will recognize the provision in operating costs for the year.

(b) Revenue recognition

Effective January 1, 2018, the Company has adopted IFRS 15 – *Revenue from Contracts with Customers* ['IFRS 15'] as described in Note 4(a)(i) of these financial statements.

Depending on whether certain criteria are met the Company recognizes revenue from contracts with customers when it transfers control over a product or service to a customer either over time or at a point in time. For revenue from other sources, the Company recognizes revenue over time taking into consideration the facts and circumstances of the arrangement.

Revenue is measured at the consideration received or receivable, excluding sales taxes and other amounts collected on behalf of third parties in the following revenue arrangements.

i. Power recovery

Power recovery revenue represents the flow-through of the cost of power to the consumer as purchased by the Company and is recognized over time as electricity is delivered to the customer, as measured by meter readings or usage estimates. Power recovery revenue is regulated by the OEB and includes charges to customers for the electricity commodity, the transmission of electricity and the administration of the wholesale electricity system. The Company has determined that it acts as a principal in this revenue arrangement and therefore has presented it on a gross basis.

ii. Distribution

The Company charges customers for the delivery of electricity, based on rates established by the OEB. The rates are intended to allow the Company to recover its prudently incurred costs and earn a fair return on invested capital. Distribution revenue is recognized over time as electricity is delivered to the customer, as measured by meter readings or usage estimates.

3. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

(b) Revenue recognition [continued]

iii. Other

Other revenue comprises revenue earned under contracts for service work related to distribution operations, pole attachment and duct rentals, capital contributions received from customers amortized to revenue, and other account-related charges such as account set-up and late payment fees. Revenue earned under contracts for service work related to distribution operations is recognized over time as the corresponding costs are recognized proportionately with the degree of completion of the services under contract. Losses on such contracts are fully recognized when they become evident. In certain situations, capital contributions are required from customers to finance additions to property, plant and equipment when the estimated revenue resulting from the addition to property, plant and equipment is less than the cost of providing the service or where special equipment is needed to supply the customers' specific requirements. Since the contributions will provide current and future customers with ongoing access to the supply of electricity, these contributions are classified as deferred revenue and amortized into revenue on a straight-line basis over time [the period a customer will receive services], which is typically equivalent to the rate used for the depreciation of the related property, plant and equipment [service life of the related assets]. All other revenues are recognized over time as services are rendered, except for revenue from certain account-related charges, which is recognized at a point in time.

Capital contributions received from developers to construct or acquire property, plant and equipment for the purpose of connecting future customers to the Company's distribution network are considered out of scope of IFRS 15. Capital contributions received from developers are recognized as deferred revenue and amortized into revenue from other sources at an equivalent rate to that used for the depreciation of the related property, plant and equipment.

Revenue from investment property is considered out of scope of IFRS 15, and accordingly classified as revenue from other sources. Rental income from investment property is recognized as revenue on a straight-line basis over the term of the lease.

(c) Government grant income

CDM income stems from the delivery of provincial government programs that promote conservation. Government grants under CDM programs are recognized when there is reasonable assurance that the grant will be received and all related conditions have been met. Grants under full cost recovery funding are recognized as income on a systematic basis over the period to match the costs they are intended to compensate. CDM performance incentives are recognized when it is probable that future economic benefits will flow to the Company, and the amount can be measured reliably.

(d) Interest income and financing costs

Interest income is recognized as it accrues under the effective interest method and comprises interest earned on cash.

Financing costs are calculated using the effective interest rate method and are recognized as an expense unless they are capitalized as part of the cost of a qualifying asset.

(e) Income taxes

The Company is considered to be a Municipal Electric Utility ['MEU'] and is required to make payments in lieu of corporate income taxes [PILS] as contained in the *Electricity Act, 1998*, as all of its share capital is indirectly owned by the City of Ottawa and not more than 10% of its income is derived from activities carried on outside the municipal boundaries of the City of Ottawa. The *Electricity Act, 1998* provides that a MEU that is exempt from tax under the *Income Tax Act* (Canada) ['ITA'] and the *Taxation Act,* Ontario ['TAO'] is required to make, for each taxation year, a PILs payment to the Ontario Electricity Financial Corporation in an amount equal to the tax that it would be liable to pay under the ITA and the TAO if it were not exempt from tax.

3. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

The Company follows the liability method for recording income taxes. Under the liability method, current income taxes payable are recorded based on taxable income. Deferred income taxes arising from temporary differences in the accounting and tax basis of assets and liabilities are provided based on substantively enacted tax rates that will be in effect when the differences are expected to reverse.

The Company recognizes regulatory balances for the amounts of future income taxes expected to be refunded to or recovered from customers in future electricity rates as prescribed by the OEB.

(f) Financial instruments

Effective January 1, 2018, the Company has adopted IFRS 9 – *Financial Instruments* ['IFRS 9'] as described in Note 4(a)(ii) of these financial statements.

Financial instruments are initially measured at the fair value of the consideration given or received plus transaction costs that are directly attributable to the acquisition or issue of the financial instrument.

The Company's financial assets, upon initial recognition, are classified as amortized cost or fair value [whereby subsequent changes in fair value are recognized either through OCI [‘FVOCI’] or through profit and loss [‘FVTPL’] as unrealized market adjustments]. Financial assets are classified based on the Company’s business model for managing such assets and the contractual terms of the related cash flows.

The Company's financial liabilities, upon initial recognition, are classified as amortized cost or FVTPL. A financial liability is classified as FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition.

The Company classifies and subsequently measures its financial instruments as follows:

– Cash and accounts receivable are financial assets classified and measured at amortized cost using the effective interest method, less any impairment if applicable.

– Bank indebtedness, accounts payable and accrued liabilities, customer deposits and notes payable are financial liabilities classified and measured at amortized cost using the effective interest rate method.

The fair value of a financial instrument is the amount of consideration that would be agreed upon in an arm's-length transaction between willing parties. The Company’s own credit risk and the credit risk of the counterparty are taken into account in determining the fair value of financial assets and liabilities. Financial instruments are classified using a three-level hierarchy. The levels reflect the inputs used to measure the fair values of financial assets and financial liabilities, and are as follows:

– Level 1: inputs are unadjusted quoted prices of identical instruments in active markets;

– Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly; and

– Level 3: inputs for the liabilities that are not based on observable market data [unobservable inputs].

All financial assets except for those classified as FVTPL or FVOCI are subject to review for impairment at least at each reporting date. Impairment losses, if any, are recognized in net income. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized.

As of January 1, 2018, the Company recognizes loss allowances for expected credit losses ['ECL's] on financial assets measured at amortized cost. The Company measures loss allowances for electricity receivables, unbilled revenue and trade receivables via a simplified approach as permitted by IFRS 9, at an amount equal to lifetime ECL.

When determining whether the credit risk of a financial asset has increased, the Company performs a quantitative and qualitative analysis based on the Company’s historical experience and forward-looking information. The Company assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due. The Company considers a financial asset to be in default when the borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realizing security.

3. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

(f) Financial instruments [continued]

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets. The gross carrying amount of a financial asset is written off to the extent that there is no realistic prospect of recovery.

(g) Property, plant and equipment

Property, plant and equipment consist principally of electricity distribution infrastructure, buildings and fixtures, land, rolling stock, furniture and equipment, and assets under construction.

Emergency capital spare parts that are expected to be used for more than one year, are considered to be assets under construction and are depreciated only once they are put into service.

Property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses, if any. Self-constructed asset costs comprise all directly attributable expenditures to bring the asset into operation including labour, materials, employee benefits, transportation, contracted services and borrowing costs. Where parts of an item in property, plant and equipment are significant and have different estimated economic useful lives, they are accounted for as separate items [major components] of property, plant and equipment. Certain assets may be acquired or constructed with financial assistance in the form of contributions from customers. Contributions from customers are treated as deferred revenue.

The cost of major inspections and maintenance is recognized in the carrying value of an asset provided that the Company will derive future economic benefits from the expenditure. The carrying amount of a replaced part is derecognized. The costs of day-to-day servicing, repairs, and maintenance, are expensed as incurred.

Depreciation is recorded on a straight-line basis over the estimated service life of each component of property, plant and equipment.

Gains and losses on disposal of retired, sold or otherwise derecognized property, plant and equipment are recognized in income and are calculated as the difference between net proceeds from disposal and the carrying amount of the asset.

The estimated useful lives, residual values and depreciation methods are reviewed at each year-end with the effect of any changes in estimate being accounted for on a prospective basis.

Estimated service lives for property, plant and equipment classes are as follows:

Land and buildings	
Land	Indefinite
Buildings and fixtures	20 to 75 years
Distribution assets	10 to 60 years
Equipment and other	
Furniture and equipment	5 to 10 years
Rolling stock	7 to 15 years

Assets under construction and land are not subject to depreciation. Borrowing costs are capitalized as a component of the cost of self-constructed property, plant and equipment assets that take a substantial period of time to get ready for their intended use. The capitalization rate is the Company’s weighted average cost of borrowing.

3. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

(h) Intangible assets

Intangible assets include land rights, capital contributions, computer software and assets under development.

Intangible assets with finite lives are measured at cost less accumulated amortization and accumulated impairment losses, if any. Intangible assets are amortized on a straight-line basis over the estimated service lives of the related assets.

Intangible assets are derecognized on disposal or when no further future economic benefits are expected from their use. Gains or losses on disposal of intangible assets are recognized in income and are calculated as the difference between net proceeds from disposal and the carrying amount of the asset.

The estimated useful lives and amortization methods are reviewed at each year-end with the effect of any changes in estimate being accounted for on a prospective basis.

Estimated service lives for intangible assets with finite lives are as follows:

Land rights	50 years
Computer software	5 to 10 years
Capital contributions	45 years

Borrowing costs are capitalized as a component of cost of self-constructed intangible assets that take a substantial period of time to get ready for their intended use. The capitalization rate is the Company's weighted average cost of borrowing.

(i) Investment properties

Investment property is land and/or buildings held for purposes other than for use in the Company's operating activities. The Company holds investment property either for potential expansion of the service delivery network or as excess administrative property. Investment properties are measured at cost plus transaction costs, and have estimated service lives ranging between 25 and 50 years. Any gain or loss arising from the sale of an investment property is immediately recognized in income.

(j) Impairment of non-financial assets

At the end of each reporting period, or earlier if required, management uses its judgment to assess whether there is an indication that the carrying amount of a non-financial asset [or cash generating unit, 'CGU'] exceeds its recoverable amount. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. This assessment involves the consideration of whether any events or changes in circumstances could have affected the recoverability of the carrying amount of a non-financial asset or CGU. Management considers various indicators including, but not limited to, adverse changes in the industry or economic conditions, changes in the degree or method of use of an asset, a lower than expected economic performance of an asset or a significant change in market returns or interest rates. If any indication exists, the Company estimates the asset's recoverable amount, which is the higher of an asset or CGU's fair value less costs of disposal and its value in use. If the carrying value of a non-financial asset exceeds its recoverable amount, the difference is immediately recognized as an impairment loss in profit or loss.

Intangible assets not yet available for use are tested for impairment [within their respective CGUs] at least annually, and whenever there is an indication that the asset may be impaired.

When determining the recoverable amount, the Company determines its value-in-use by discounting estimated future cash flows to their present value using a discount rate that reflects changes in the time value of money and the risks specific to the asset or the CGU. The discount rate estimated and used by management represents the weighted average cost of capital determined for the CGU being tested.

At the end of a reporting period, if there is any indication that an impairment loss recognized in a prior period no longer exists or has decreased, the loss is reversed up to its recoverable amount. The carrying amount following the reversal must

3. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

(j) Impairment of non-financial assets [continued]

not be higher than the carrying amount that would have prevailed [net of amortization] had the original impairment not been recognized in prior periods.

(k) Employee future benefits

i. Pension plan

The Company provides pension benefits for its employees through the Ontario Municipal Employees Retirement System ['OMERS'] Fund [the 'Fund']. OMERS is a multi-employer pension plan that provides pensions for employees of Ontario municipalities, local boards, public utilities and school boards. The Fund is a defined benefit pension plan, which is financed by equal contributions from participating employers and employees and by the investment earnings of the Fund.

Although the plan is a defined benefit plan, sufficient information is not available to the Company to account for it as such because it is not possible to attribute the fund assets and liabilities between the various employers who contribute to the Fund. As a result, the Company accounts for the plan as a defined contribution plan, and contributions payable as a result of employee service are expensed as incurred as part of operating costs. The Company shares in the actuarial risks of the other participating entities in the plan, and its future contributions may therefore be increased due to actuarial losses relating to the other participating entities. In addition, the Company's contributions could be increased if other entities withdraw from the plan.

ii. Other post-employment benefits

Employee future benefits other than pensions provided by the Company include life insurance and a retirement grant. These plans provide benefits to certain employees when they are no longer providing active service.

Employee future benefits expense is recognized in the period during which the employees render services.

Employee future benefits are recorded on an accrual basis. The accrued benefit obligation and current service costs are calculated using the projected benefit method prorated on service and based on assumptions that reflect management's best estimates. The current service cost for a period is equal to the actuarial present value of benefits attributed to employees' services rendered in the period. Actuarial gains and losses resulting from experience different from that assumed or from changes in actuarial assumptions are recognized in OCI. However, for the Company, these amounts are reclassified to a regulatory debit balance as prescribed by the OEB.

iii. Employee benefits

The Company provides short-term employee benefits, such as: salaries, employment insurance, short-term compensated absences, health and dental care. These benefits are recognized as the related service is rendered and is measured on an undiscounted basis. Short-term employee benefits are recognized as an expense unless they qualify for capitalization as part of the cost of an item of materials and supplies, property, plant and equipment, intangible assets. A liability is recognized in respect of any unpaid short-term employee benefits for services rendered in the reporting period.

The Company recognizes a liability for the expected cost of accumulated non-vested sick leave benefits at the end of the reporting period. The Company presents its non-vested sick leave obligation as a non-current liability since it does not expect to settle all of it sick leave benefits within twelve months.

3. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

(l) Customer deposits

Customer deposits are cash collections from customers to guarantee the payment of energy bills and fulfillment of construction obligations. Customer deposits from customers to guarantee the payment of energy bills includes related interest amounts owed to the customers. Deposits estimated to be refundable to customers within the next fiscal year are classified as current liabilities and included in accounts payable and accrued liabilities.

(m) Provisions and contingencies

The Company recognizes provisions when there is a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Provisions are remeasured at each balance sheet date.

The evaluation of the likelihood of the contingent events requires judgment by management as to the probability of exposure to potential loss. Actual results could differ from these estimates.

A contingent asset is not recognized in the financial statements. However, a contingent asset is disclosed where an inflow of economic benefits is probable.

(n) Leases

Leases in which the Company assumes all of the risks and rewards of ownership are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to the asset. Payments under finance leases are apportioned between interest expense and a reduction of the outstanding liability.

All other leases are classified as operating leases and the leased assets are not recognized on the Company's balance sheets. Payments made under operating leases are recognized in net income on a straight-line basis over the term of the lease.

4. NEW ACCOUNTING PRONOUNCEMENTS

A number of new standards, amendments and interpretations relevant to the Company have either been adopted for the year ended December 31, 2018, or, are not yet effective and have not been applied in preparing these financial statements.

(a) Recently adopted accounting standards

(i) Revenue from contracts with customers

On January 1, 2018, the Company adopted IFRS 15 – *Revenue from Contracts with Customers* [‘IFRS 15’] by applying the modified retrospective approach where prior periods are not restated. The Company elected a practical expedient, as allowed under IFRS 15, which permitted it to apply the new standard solely to contracts which were in-progress as of January 1, 2018, and all contracts initiated thereafter.

IFRS 15 supersedes previous revenue recognition guidance including IAS 18 – *Revenue*, IAS 11 – *Construction Contracts* and related interpretations. IFRS 15 provides a standardized five step model [identify contract, identify performance obligations, determine transaction price, allocate transaction price and recognize revenue] to recognize revenue. Depending on whether certain criteria are met revenue is recognized over time, in a manner that best reflects the Company’s performance or at a point in time, when control of the goods or services is transferred to the customer. IFRS 15 applies to nearly all contracts with customers, unless covered by another standard [i.e. leases, financial instruments, insurance contracts], or those out of scope of IFRS 15.

The adoption of IFRS 15 did not have an impact on the Company’s existing revenue recognition practices as reported in the comparative year. As a result, there have been no adjustments recognized upon the adoption of IFRS 15. The new standard did result in additional disclosures, see notes 12 and 18.

(ii) Financial instruments

On January 1, 2018, the Company adopted IFRS 9 – *Financial Instruments* ['IFRS 9'] on a retrospective basis, which replaces International Accounting Standard 39 – *Financial Instruments: Recognition and Measurement* ['IAS 39']. The Company has chosen not to restate comparative information with respect to classification and measurement requirements. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9, but rather those of IAS 39.

IFRS 9 includes revised guidance on the classification and measurement of financial assets, including basing the classification of financial assets on their contractual cash flow characteristics and the entity’s business model for managing financial assets, whereas IAS 39 based the classifications on specific definitions for each category. Moreover, IFRS 9 simplifies the former IAS 39 classifications into three main categories [amortized cost, fair value through other comprehensive income and fair value through profit or loss], and introduces a new expected credit loss model for measuring impairment of financial assets. In addition, IFRS 9 contains consequential amendments to IFRS 7 – Financial Instruments: Disclosures which has also been adopted by the Company.

On January 1, 2018, management assessed which business models apply to the financial assets held by the Company and has classified its financial instruments into the appropriate IFRS 9 categories. In addition, the Company revised its impairment methodology under IFRS 9 for each of its classes of financial assets. The Company's financial instruments will continue to be subsequently measured at amortized cost [previously classified as loans and receivables for financial assets under IAS 39], and furthermore the new impairment methodology results in the same expected credit loss [allowance for doubtful accounts] as under the previous method used. The adoption of IFRS 9 by the Company did not result in any quantitative adjustments being recognized as at January 1, 2018.

The adoption of IFRS 9 has not had an effect on the Company’s accounting policies related to financial liabilities.

[in thousands of Canadian dollars]

4. NEW ACCOUNTING PRONOUNCEMENTS [CONTINUED]

(b) Recently issued accounting guidance not yet adopted

(i) Leases

In January 2016, the IASB issued a new standard, IFRS 16 – *Leases* ['IFRS 16'] which will replace IAS 17 – Leases. IFRS 16 eliminates the current dual model [on and off balance sheet] and aims to provide greater comparability between companies who lease assets and those who purchase assets with a single on-balance sheet approach. Under IFRS 16, all leases from the lessee's perspective will have to be recognized on the balance sheet, with related lease liabilities, with exemptions for short-term [< 1 year] and low value leases.

The new standard becomes effective for reporting periods beginning on or after January 1, 2019. The Company plans on adopting IFRS 16 using the modified retrospective application method, where the 2018 comparatives will not be restated. In addition, the Company will apply the recognition exemptions in IFRS 16 for 'low value' leases and leases that end within 12 months of the date of initial application and account for them as short-term leases. The Company continues to analyze IFRS 16 and the impact on its financial statements.

5. ACCOUNTS RECEIVABLE

	2018	2017
	$	$
Receivables from contracts with customers		
Electricity receivable	**59,933**	54,056
Unbilled revenue	**80,180**	84,963
Other receivables	**15,571**	35,352
Amounts due from related party [Note 25]	**7,995**	5,307
Less: loss allowance [Note 17(c)]	**(2,368)**	(2,371)
	161,311	177,307
Receivables from other sources		
Conservation and demand management	**1,503**	1,813
	162,814	179,120

[in thousands of Canadian dollars]

6. REGULATORY BALANCES

Information about the Company's regulatory balances is as follows:

	Remaining recovery/ reversal [years]	2017 $	Balances arising in the year $	Recovery/ reversal $	Other movements(1) $	**2018 $**
Regulatory debit balances						
RARA	1	438	196	(241)	-	**393**
Settlement variances	1-5	2,508	(505)	-	-	**2,003**
OPEB deferral account	1-5	782	-	-	(782)	**-**
LRAM	1-5	2,571	529	-	-	**3,100**
Regulatory asset for deferred income taxes	(2)	16,797	9,009	-	-	**25,806**
Other variances and deferred costs	1-5	2,370	995	-	-	**3,365**
		25,466	10,224	(241)	(782)	**34,667**
Regulatory credit balances						
RLRA	1	1,464	13,214	(13,056)	-	**1,622**
Settlement variances	1-5	20,761	(7,325)	-	-	**13,436**
ESM	1-5	1,385	2,002	-	-	**3,387**
OPEB deferral account	1-5	-	1,054	-	(782)	**272**
Other variance and deferral costs	1-5	899	76	-	-	**975**
		24,509	9,021	(13,056)	(782)	**19,692**

[in thousands of Canadian dollars]

6. REGULATORY BALANCES [CONTINUED]

	Remaining recovery/ reversal [years]	2016 $	Balances arising in the year $	Recovery/ reversal $	Other movements[1] $	2017 $
Regulatory debit balances						
RARA	1	274	(5,679)	4,868	975	438
Settlement variances	1-5	2,496	(805)	-	817	2,508
OPEB deferral account	1-5	147	635	-	-	782
LRAM	1-5	1,469	1,102	-	-	2,571
Regulatory asset for deferred income taxes	[2]	7,684	9,113	-	-	16,797
Other variances and deferred costs	1-5	1,674	682	13	1	2,370
		13,744	5,048	4,881	1,793	25,466
Regulatory credit balances						
RLRA	1	409	15,162	(15,083)	976	1,464
Settlement variances	1-5	36,137	(16,193)	-	817	20,761
ESM	1-5	-	1,385	-	-	1,385
Other variances and deferred costs	1-5	159	740	-	-	899
		36,705	1,094	(15,083)	1,793	24,509

[1] Other movements represent reclassifications of balances
[2] The balance is being reversed through timing differences in the recognition of deferred income tax assets

The following regulatory balances include accrued interest which is presented in net movements in regulatory balances:

- The RARA/RLRA includes accrued interest costs of $145 [2017 – $129].
- Settlement variances include accrued interest costs of $52 [2017 – $137].
- Other variance and deferred costs include accrued interest earned of $36 [2017 – $37]

Details and descriptions pertaining to the regulatory debt and credit balances are disclosed in Note 3(a) of these financial statements.

[in thousands of Canadian dollars]

7. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings $	Distribution assets $	Equipment and other $	Assets under construction $	Total $
Cost					
Balance at December 31, 2016	85,056	803,917	29,286	54,037	972,296
Additions, net of transfers	1,389	97,518	9,004	15,057	122,968
Disposals	-	(2,602)	(2,862)	-	(5,464)
Balance at December 31,2017	86,445	898,833	35,428	69,094	1,089,800
Additions, net transfers	3,628	110,378	4,997	69,940	188,943
Disposals	-	(563)	(337)	-	(900)
Balance at December 31, 2018	**90,073**	**1,008,648**	**40,088**	**139,034**	**1,277,843**
Accumulated depreciation					
Balance at December 31, 2016	(7,825)	(75,553)	(9,749)	-	(93,127)
Depreciation	(2,587)	(30,277)	(3,909)	-	(36,773)
Disposals	-	1,206	2,557	-	3,763
Balance at December 31,2017	(10,412)	(104,624)	(11,101)	-	(126,137)
Depreciation	(2,527)	(33,221)	(4,282)	-	(40,030)
Disposals	-	383	200	-	583
Balance at December 31, 2018	**(12,939)**	**(137,462)**	**(15,183)**	**-**	**(165,584)**
Net book value					
At December 31, 2017	76,033	794,209	24,327	69,094	963,663
At December 31, 2018	**77,134**	**871,186**	**24,905**	**139,034**	**1,112,259**

During the year, the Company capitalized borrowing costs of $2,423 [2017 – $1,276] to property, plant and equipment. The average annual interest rate for 2018 was 3.4% [2017 – 3.5%].

During the year, the Company recognized a gain on disposal of property, plant and equipment of $256 [2017 – loss on disposal of $514].

[in thousands of Canadian dollars]

8. INTANGIBLE ASSETS

	Land rights $	Computer software $	Capital contributions $	Assets under development $	Total $
Cost					
Balance at December 31, 2016	2,283	51,958	20,089	9,908	84,238
Additions, net of transfers	11	14,077	687	1,780	16,555
Disposals	-	(1,063)	-	-	(1,063)
Balance at December 31, 2017	2,294	64,972	20,776	11,688	99,730
Additions, net transfers	(5)	1,657	2,200	(517)	3,335
Balance at December 31, 2018	**2,289**	**66,629**	**22,976**	**11,171**	**103,065**
Accumulated amortization					
Balance at December 31, 2016	(157)	(20,494)	(624)	-	(21,275)
Amortization	(59)	(6,657)	(455)	-	(7,171)
Disposals	-	1,063	-	-	1,063
Balance at December 31, 2017	(216)	(26,088)	(1,079)	-	(27,383)
Amortization	(59)	(8,972)	(477)	-	(9,508)
Balance at December 31, 2018	**(275)**	**(35,060)**	**(1,556)**	**-**	**(36,891)**
Net book value					
At December 31, 2017	2,078	38,884	19,697	11,688	72,347
At December 31, 2018	**2,014**	**31,569**	**21,420**	**11,171**	**66,174**

The Company is party to various Connection and Cost Recovery Agreements ['Capital contributions'] with HONI. These agreements govern the construction by HONI of new or modified transformer stations for the purpose of serving the Company's customers, including anticipated electricity load growth.

During the year, the Company capitalized borrowing costs of $73 [2017 – $322] to intangible assets. The average annual interest rate for 2018 was 3.4% [2017 – 3.5%].

[in thousands of Canadian dollars]

9. INVESTMENT PROPERTIES

	2018 $	2017 $
Net book value, beginning of year	**2,456**	2,149
Additions	**-**	418
Depreciation	**(118)**	(111)
Net book value, end of year	**2,338**	2,456

The fair value of investment properties is $5,220, which is based on the latest Municipal Property Assessment Corporation valuation dated May 17, 2018.

10. CREDIT FACILITY

The Company has access to a $90,000 [December 31, 2017 – $90,000] revolving demand credit facility and a $400 [December 31, 2017 – $600] commercial card facility available from Hydro Ottawa Holding Inc. As at December 31, 2018, the Company has drawn $27,673 [December 31, 2017 – $12,256] in bank indebtedness and $47,000 [December 31, 2017 – $nil] in bankers acceptances against this credit facility. The rate of interest is based on the rate applicable to Hydro Ottawa Holding Inc.'s outstanding bankers' acceptances drawn on that date. Otherwise, the rate of interest is based on the Bank of Canada's 'Bankers Acceptances 1 month' rate.

11. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2018 $	2017 $
Purchased power payable	**74,747**	79,120
Trade accounts payable and accrued liabilities	**39,298**	34,280
Customer deposits	**20,057**	15,972
Customer credit balances	**10,964**	11,203
Due to related parties [Note 25]	**2,788**	8,231
	147,854	148,806

[in thousands of Canadian dollars]

12. DEFERRED REVENUE

	2018	2017
	$	$
Capital contributions from customers	**61,145**	51,015
Capital contributions from developers	**54,624**	44,368
	115,769	95,383

13. EMPLOYEE FUTURE BENEFITS

(a) Pension plans

The Company's participating employer contributions under OMERS for the year ended December 31, 2018 amounted to $5,905 [2017 – $5,689].

(b) Other employee future benefits

Employee future benefits are calculated using an annual compensation rate increase of 2.0% [2017 – 2.0%] and a discount rate of 3.9% [2017 – 3.4%] to calculate the liabilities. The valuations also include several other economic and demographic assumptions including mortality rates. The mortality assumption is based on the *Canadian Pensioners' Mortality* report published by the Canadian Institute of Actuaries in February 2014.

Information about the Company's employee future benefits other than pension plans is as follows:

	2018	2017
	$	$
Defined benefit obligation, beginning of year	**13,334**	12,501
Current service costs	**338**	294
Interest on accrued benefit obligation	**398**	482
Benefit payments	**(649)**	(634)
Actuarial (gain) loss	**(1,054)**	691
Defined benefit obligation, end of year	**12,367**	13,334

An actuarial extrapolation was performed as at December 31, 2018. As a result of this exercise, the Company decreased the accumulated liability by $967 [December 31, 2017 – increased by $833 based on an actuarial extrapolation]. The last actuarial valuation was performed December 31, 2016.

Significant changes in actuarial assumptions related to discount rates, future health and dental costs, mortality rates and retirement age may affect the valuation of the defined benefit obligation.

[in thousands of Canadian dollars]

14. NOTES PAYABLE

The Company currently has the following promissory notes and grid promissory notes payable to Hydro Ottawa Holding Inc.:

	2018	2017
	$	$
4.97% promissory note, due December 19, 2036	**50,000**	50,000
4.14% for the first five years [3.99% thereafter] promissory note, issued May 14, 2013 and due May 14, 2043	**107,185**	107,185
2.72% for the first five years [2.61% thereafter] promissory note, issued February 9, 2015 and due February 3, 2025	**138,667**	138,667
3.77% for the first five years [3.64% thereafter] promissory note, issued February 9, 2015 and due February 2, 2045	**121,333**	121,333
2.72% for the first five years [2.61% thereafter] promissory note, issued June 25, 2015 and due June 25, 2025	**15,999**	15,999
3.77% for the first five years [3.64% thereafter] promissory note, issued June 25, 2015 and due June 25, 2045	**14,001**	14,001
3.72% grid promissory note, due on demand	**60,000**	60,000
4.12% grid promissory note, due on demand	**60,000**	60,000
4.41% grid promissory note, due on demand	**30,000**	-
	597,185	567,185

The grid promissory note facility bears fixed-rate interest based on the cost of long-term debt for Ontario's Regulated Utilities in accordance with the OEB`s cost of capital calculations. Amounts are due on demand, and Hydro Ottawa Holding Inc. does not intend to recall any amounts of this note in 2019.

15. CAPITAL DISCLOSURES

The Company’s main objectives when managing capital are to:

– Ensure continued access to funding to maintain and improve the operations and infrastructure of the Company;

– Ensure compliance with covenants related to the credit facilities and senior unsecured debentures entered into by its parent company, Hydro Ottawa Holding Inc.; and

– Align Hydro Ottawa Limited's capital structure with the debt to equity structure recommended by the OEB.

[in thousands of Canadian dollars]

15. CAPITAL DISCLOSURES [CONTINUED]

The Company's capital consists of the following:

	2018	2017
	$	$
Notes payable	**597,185**	567,185
Shareholder's equity	**360,918**	335,659
Total capital	**958,103**	902,844
Debt capitalization ratio	**62.33 %**	62.82 %

The Company is in compliance with all financial covenants and limitations associated with its credit facilities and its long-term debt.

The Company is deemed by the OEB to have a capital structure that is funded by 56% long-term debt, 4% short-term debt and 40% equity. The OEB uses this deemed structure only as a basis for setting distribution rates. As such, the Company's actual capital structure may differ from the OEB deemed structure.

The Company met its capital management objectives, which have not changed during the year.

16. SHARE CAPITAL

(a) Authorized

Unlimited number of voting first preferred shares, redeemable at one dollar per share
Unlimited number of non-voting second preferred shares, redeemable at ten dollars per share
Unlimited number of non-voting third preferred shares, redeemable at one hundred dollars per share
Unlimited number of voting fourth preferred shares [ten votes per share], redeemable at one hundred dollars per share
Unlimited number of voting Class A common shares
Unlimited number of non-voting Class B common shares
Unlimited number of non-voting Class C common shares, redeemable at the price at which such shares are issued

The above shares are without nominal or par value.

Holders of second preferred shares, fourth preferred shares and common shares are entitled to receive dividends as and when declared by the Board of Directors at their discretion.

[in thousands of Canadian dollars]

16. SHARE CAPITAL [CONTINUED]

(b) Issued

	2018	2017
	$	$
154,789,001 Class A common shares	**167,081**	167,081

Any invitation to the public to subscribe for shares of the Company is prohibited by shareholder resolution.

On April 19, 2018, the Board of Directors declared an $11,900 dividend on the common shares of the Company outstanding on December 31, 2017. The dividend was paid to the sole shareholder, Hydro Ottawa Holding Inc. on April 26, 2018 [2017 – April 20, 2017, the Board of Directors declared a $10,600 dividend which was paid on April 28, 2017 and on September 21, 2017, the Board of Directors declared a $10,000 dividend which was paid on September 29, 2017].

17. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

(a) Fair value disclosures

The carrying values of the Company's financial instruments, except for notes payable, approximates fair value because of the short maturity and nature of the instruments. The fair value measurement of the financial instrument for which the fair value has been disclosed is included in Level 2 of the fair value hierarchy [Note 3(f)].

The Company has estimated the fair value of the notes payable as at December 31, 2018 as amounting to $600,195 [December 31, 2017 – $573,211]. The fair value has been determined based on discounting all future payments of interest and the principal repayment on January 1, 2019, at the estimated interest rate of 3.7% [2017 – 3.7%] that would be available to the Company on December 31, 2018.

(b) Market risk

The Company is exposed to market risk, which is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices are comprised of three types of risks: interest rate risk, foreign exchange risk and commodity price risk.

(i) Interest rate risk

The Company is exposed to interest rate risk on its borrowings. The Company mitigates exposure to interest rate risk by fixing interest rates on its notes payable with its parent company. Under Hydro Ottawa Holding Inc.'s credit facilities, any advances on its operating line would expose the Company to fluctuations in short term interest rates related to prime rate loans and bankers' acceptances as all short-term financing requirements are obtained through its parent company, which passes on its borrowing costs. The interest rate risk is deemed to be low due to the immaterial cost of its short-term borrowings. For the most part, the borrowing requirements are for a very short duration as the advances serve to bridge gaps between the cash outflow related to the monthly power bill and the inflows related to the settlements with customers and, as such, there is very limited exposure to interest rate risk.

A sensitivity analysis was conducted to examine the impact of a change in the prime rate on the Company's advances from Hydro Ottawa Holding Inc. A variation of 1% [100 basis points], with all other variables held constant, would increase or decrease the annual interest expense by approximately $208.

17. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT [CONTINUED]

(b) Market risk [continued]

(ii) Foreign exchange risk

As at December 31, 2018, the Company has limited exposure to fluctuations in foreign currency exchange rates. The Company does purchase a small proportion of goods and services that are denominated in foreign currencies, predominately the US dollar. The impact of the fluctuation of foreign currencies on the gains or losses of accounts payable denoted in foreign currencies is not material.

(iii) Commodity price risk

The Company does not have commodity price risk due to the flow-through nature of power purchases.

(c) Credit risk

Credit risk is the risk that a counterparty will default on its obligations, causing a financial loss to the Company. Concentration of credit risk associated with accounts receivable is limited due to the large number of customers the Company services. The Company has approximately 335,000 customers, the majority of which are residential. As a result, the Company did not earn a significant amount of revenue and does not have a significant receivable from any individual customer.

The Company performs ongoing credit evaluations of its customers and requires collateral to support non-residential customer accounts receivable on specific accounts to mitigate significant losses in accordance with OEB legislation. As at December 31, 2018, the Company held security deposits related to power recovery and distribution sales in the amount of $16,009 [December 31, 2017 – $15,121] with respect to these customers.

The Company monitors and limits its exposure to credit risk on a continuous basis.

The Company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade and other receivables. The expected loss rates for trade receivables are based on the payment profiles of sales over a period of 12 months before December 31, 2018 or January 1, 2018 respectively and the corresponding historical credit losses experienced within this period and other information. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

[in thousands of Canadian dollars]

17. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT [CONTINUED]

(c) Credit risk [continued]

On that basis, the loss allowance as at December 31, 2018 and January 1, 2018 [on adoption of IFRS 9] was determined as follows for trade and other receivables.

	Gross carrying amount	Weighted average loss rate	Loss allowance	Net carrying amount
	$		$	$
December 31, 2018				
Outstanding for 30 days or less	73,286	0.00 %	-	73,286
Outstanding for more than 30 days but not more than 120 days	7,585	9.70 %	736	6,849
Outstanding for more than 120 days	4,131	35.85 %	1,481	2,650
Unbilled revenue	80,180	0.19 %	151	80,029
	165,182		**2,368**	**162,814**
January 1, 2018				
Outstanding for 30 days or less	87,913	0.00 %	-	87,913
Outstanding for more than 30 days but not more than 120 days	6,016	9.52 %	573	5,443
Outstanding for more than 120 days	2,599	66.87 %	1,738	861
Unbilled revenue	84,963	0.07 %	60	84,903
	181,491		2,371	179,120

The following table reconciles the opening and closing loss allowance for trade and other receivables:

	2018
	$
Opening loss allowance at January 1, 2018 under IFRS 9	2,371
Net remeasurement of loss allowance	1,694
Write-offs	(2,023)
Recoveries of amounts previously written-off	326
Loss allowance at December 31, 2018	**2,368**

17. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT [CONTINUED]

(c) Credit risk [continued]

Impairment losses on trade and other receivables are presented as net impairment losses within the statement of income. When a receivable is deemed to be uncollectible, it is written off and the expected loss allowance is adjusted accordingly. Subsequent recoveries of receivables previously provisioned or written off result in a reduction of impairment losses included in operating costs in the statement of income.

As at December 31, 2018, there were no significant concentrations of credit risk with respect to any class of financial assets or counterparties and the Company's maximum exposure to credit risk is equal to the carrying value of accounts receivable less customer deposits held.

(d) Liquidity risk

Liquidity risk is the risk that the Company will not meet its financial obligations as they come due. The Company's parent, Hydro Ottawa Holding Inc., manages all the financing and investing activities for the Company. The Company has access to credit facilities with Hydro Ottawa Holding Inc. The liquidity risks associated with financial commitments at December 31, 2018 relate to grid promissory notes, promissory notes or advances issued from its parent company, Hydro Ottawa Holding Inc., and accounts payable and accrued liabilities in the amount of $147,854 [December 31, 2017 – $148,806] that are due within one year.

The Company has access to a $90,000 [December 31, 2017 – $90,000] credit facility with Hydro Ottawa Holding Inc. as well as a $400 [December 31, 2017 – $600] commercial card facility. As at December 31, 2018, the Company has drawn $27,673 [December 31, 2017 – $12,256] in bank indebtedness and $47,000 [December 31, 2017 – $nil] in bankers acceptances against this credit facility [Note 10]. These credit facilities are available to the Company to help meet its financial obligations as they come due.

[in thousands of Canadian dollars]

18. REVENUE FROM CONTRACTS WITH CUSTOMERS AND OTHER SOURCES

The Company's revenue breakdown is as follows:

	2018	2017
	$	$
Revenue from contracts with customers		
Power recovery	**857,383**	896,528
Distribution		
Residential service [(1)]	**101,632**	94,757
General service [(2)]	**72,847**	70,531
Large users [(3)]	**6,571**	6,112
Other		
Service work related to distribution operations	**6,510**	4,205
Pole attachment and duct rentals	**4,440**	4,316
Capital contributions from customers amortized to revenue	**1,555**	1,135
Account-related charges	**3,303**	3,251
Shared service agreements and miscellaneous	**4,005**	3,382
	1,058,246	1,084,217
Revenue from other sources		
Other		
Investment property rentals	**904**	1,165
Capital contributions from developers amortized to revenue	**1,395**	1,127
	1,060,545	1,086,509

(1) Residential service means a service that is for domestic or household purposes, including single family or individually metered multifamily units and seasonal occupancy.
(2) General service means a service supplied to premises other than those receiving Residential Service and Large Users and typically includes small businesses and bulk-metered multi-unit residential establishments. This service is provided to customers with a monthly peak demand of less than 5,000 kW averaged over a twelve-month period.
(3) Large users means a service provided to a customer with a monthly peak demand of 5,000 kW or greater averaged over a twelve-month period.

[in thousands of Canadian dollars]

19. OPERATING COSTS

	2018 $	2017 $
Salaries, wages and benefits	**77,285**	74,021
Contracted services - distribution system maintenance	**10,828**	10,115
Contracted services - customer owned plant	**19,340**	21,662
Other electricity distribution costs	**8,331**	7,945
Other general and administrative expenses	**31,472**	30,977
Capital recovery	**(31,488)**	(32,829)
	115,768	111,891

20. FINANCING COSTS

	2018 $	2017 $
Long-term interest	**21,374**	18,472
Short-term interest and fees	**881**	738
Less: capitalized borrowing costs	**(2,496)**	(1,598)
	19,759	17,612

21. INCOME TAXES

Income tax expense recognized in net income comprises the following:

	2018 $	2017 $
Current tax expense		
Current income tax expense	**4,689**	3,828
Deferred tax expense		
Origination and reversal of temporary differences	**8,629**	9,342
Income tax expense recognized in net income	**13,318**	13,170

Income tax expense recognized in other comprehensive income comprises the following:

	2018 $	2017 $
Income tax effect of actuarial gain on defined benefit obligations	**380**	(229)

[in thousands of Canadian dollars]

21. INCOME TAXES [CONTINUED]

The provision for income taxes differs from the amount that would have been recorded using the combined Canadian federal and Ontario statutory income tax rates. A reconciliation between the statutory and effective tax rates is provided as follows:

	2018	2017
	$	$
Federal and Ontario statutory income tax rate	**26.50 %**	26.50 %
Income before income taxes	**50,477**	49,630
Income taxes at statutory rate	**13,376**	13,152
Increase (decrease) in income taxes resulting from:		
Permanent differences	**48**	49
Other	**(106)**	(31)
	13,318	13,170
Effective income tax rate	**26.38 %**	26.54 %

The Company, as a rate-regulated enterprise, can recognize deferred income tax assets and liabilities and related regulatory balances for the amount of deferred income taxes expected to be refunded to, or recovered from, customers in future electricity rates.

Significant components of the Company's deferred income liability are as follows:

	2018	2017
	$	$
Property, plant and equipment and intangible assets	**(30,602)**	(22,170)
Employee future benefits	**4,459**	4,807
Other temporary differences	**337**	566
	(25,806)	(16,797)

Movements in the deferred income tax (liability) asset during the year were as follows:

	2018	2017
	$	$
Deferred tax, beginning of year	**(16,797)**	(7,684)
Recognized in net income	**(8,629)**	(9,342)
Recognized in OCI related to employee future benefits	**(380)**	229
Deferred tax, end of year	**(25,806)**	(16,797)

The Company's regulatory deferral account debit balance for the amounts of deferred income taxes expected to be refunded/ (collected) to/from customers in future electricity rates is $25,806 [2017 – $16,797].

[in thousands of Canadian dollars]

22. CHANGES IN NON-CASH WORKING CAPITAL AND OTHER OPERATING BALANCES

	2018	2017
	$	$
Accounts receivable	**16,306**	7,762
Prepaid expenses	**(756)**	455
Accounts payable and accrued liabilities	**(2,971)**	580
Net change in accruals related to property, plant and equipment	**2,829**	(6,970)
Net change in accruals related to intangible assets	**58**	1,073
Customer deposits in accounts receivable	**(14,586)**	14,586
	880	17,486

23. CONTINGENT LIABILITIES

Purchasers of electricity in Ontario including the Company, through the Independent Electricity System Operator ['IESO'], are required to provide security to mitigate the risk of their default based on their expected activity in the market. The IESO could draw on these guarantees if the Company fails to make a payment required by a default notice issued by the IESO. A prudential support obligation is calculated based upon a default protection amount and the distributor's trading limit less a reduction for the distributor's credit rating. As at December 31, 2018, the Company had drawn standby letters of credit in the amount of $10,000 [December 31, 2017 – $10,000] against its credit facility to cover its prudential support obligation.

The Company participates with other electrical utilities in Ontario in an agreement to exchange reciprocal contracts of indemnity through the Municipal Electrical Association Reciprocal Insurance Exchange. The Company is liable for additional assessments to the extent premiums collected and reserves established are not sufficient to cover the cost of claims and costs incurred. If any additional assessments were required in the future, their cost would be charged to income in the year during which they occur.

The Company is party to connection and cost recovery agreements with HONI as described in Note 8. To the extent that the cost of the project is not recoverable from future transformation connection revenues, the Company is obligated to pay a capital contribution equal to the difference between these revenues and the construction costs allocated to the Company.

Various lawsuits have been filed against the Company for incidents that arose in the ordinary course of business. In the opinion of management, the outcomes of the lawsuits, now pending, are neither determinable nor material. Should any loss result from the resolution of these claims, such losses would be claimed through the Company’s insurance carrier, with any unrecoverable amounts charged to income in the year of resolution.

24. COMMITMENTS

The Company has $125,698 in total open commitments for 2019 to 2025. This includes commitments relating to a call centre service agreement, construction projects, facilities, and overhead and underground services.

25. RELATED PARTY TRANSACTIONS

Transactions with related parties occur in the normal course of business, and are transacted at the amount of consideration determined and agreed to by the related parties. Trade amounts due from and to related parties are non-interest bearing, result from normal operations and are due within one year.

25. RELATED PARTY TRANSACTIONS [CONTINUED]

(a) Transactions with ultimate shareholder and its subsidiaries

During the year, the Company earned revenue from the sale of electricity to the City of Ottawa and its subsidiaries, which is billed at prices and terms approved by the OEB, and earned other revenue totaling $387 [2017 – $744]. The Company also received $3,580 [2017 – $2,028] in contributions relating to the upgrade and/or expansion of the Company's existing electricity distribution infrastructure.

The Company incurred $2,433 [2017 – $2,269] in property taxes and $2,711 [2017 – $563] in conservation and demand management rebate costs, and purchased $634 [2017 – $606] in fuel, permits and other services during the year, which is included in operating costs. The Company also incurred $269 [2017 – $2,872] in building permit costs and development charges, which are included in property, plant and equipment.

At December 31, 2018, the Company's accounts receivable and customer deposits include $7,473 [December 31, 2017 – $4,716] and $652 [December 31, 2017 – $2,129], respectively, while the Company's accounts payable and accrued liabilities include $54 [December 31, 2017 – $53] due to the City of Ottawa and its subsidiaries.

(b) Transactions with parent

During the year, the Company earned revenue of $1,242 [2017 – $763] relating to the provision of administrative and corporate services and interest charges. The Company also received $nil [2017 – $2] in contributions relating to the upgrade and/or expansion of the Company's existing electricity distribution infrastructure.

The Company incurred $3,315 [2017 – $3,900] in operating costs related to the purchase of administrative and corporate support services that includes compensation for certain key management personnel, and $881 [2017 – $738] in short-term financing costs. The Company also purchased power of $38 [2017 – $13].

At December 31, 2018, the Company's accounts payable and accrued liabilities include $414 [December 31, 2017 – $1,944] due in respect of the transactions described.

The Company incurred $21,374 [2017 – $18,472] in financing costs during the year on its notes payable to Hydro Ottawa Holding Inc. described in Note 14 of these financial statements.

(c) Transactions with other related parties

During the year, the Company earned revenue from the sale of electricity to other related parties, which is billed at prices and terms approved by the OEB, and earned other revenue of $3,012 [2016 – $2,922]. The Company also received $691 [2017 – $1,305] in contributions relating to the upgrade and/or expansion of the Company's existing electricity distribution infrastructure. During the year, the Company purchased power of $6,566 [2017 – $2,161], and incurred $362 [2017 – $356] in operating costs and $nil [2017 – $43] in costs that are included in property, plant and equipment.

At December 31, 2018, the Company's accounts receivable include $522 [December 31, 2017 – $591] due in respect of the transactions above while accounts payable and accrued liabilities include $2,320 [December 31, 2017 – $6,234] due to other related parties.

26. COMPARATIVE FIGURES

In certain instances, the 2017 information presented for comparative purposes has been reclassified to conform to the financial statement presentation adopted for the current year.

Hydro Ottawa Limited

Financial Statements

December 31, 2019

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Report of Management

Management is responsible for the integrity of the financial data reported by Hydro Ottawa Limited ['the Company']. Fulfilling this responsibility requires the preparation and presentation of financial statements and other data using management's best judgment, estimates and International Financial Reporting Standards as issued by the International Accounting Standards Board.

Management maintains appropriate systems of internal control and corporate-wide policies and procedures, which provide reasonable assurance that the Company's assets are safeguarded and that financial records are relevant and reliable.

The Board of Directors of the Company, with the advice of the Audit Committee of Hydro Ottawa Holding Inc., ensures that management fulfills its responsibility for financial reporting and internal control. At regular meetings, the Audit Committee, including the Chair of the Board of Directors of the Company, reviews internal controls and financial reporting matters with management for Hydro Ottawa Holding Inc. and its subsidiaries. The Chair of the Board of Directors of the Company, as well as the Chief Executive Officer and the Chief Financial Officer, advise the Board of Directors of the Company of any matters of concern raised by the Audit Committee in reviewing the financial affairs of the Company.

On behalf of Management,

Bryce Conrad
President and Chief Executive Officer

Geoff Simpson
Chief Financial Officer

KPMG LLP
150 Elgin Street, Suite 1800
Ottawa ON K2P 2P8
Canada
Telephone 613-212-5764
Fax 613-212-2896

INDEPENDENT AUDITORS' REPORT

To the Shareholder of Hydro Ottawa Limited

Opinion

We have audited the financial statements of Hydro Ottawa Limited (the "Entity"), which comprise:

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

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

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

Basis for Opinion

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

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

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

We also:

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

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

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

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

KPMG

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Ottawa, Canada

April 16, 2020

Hydro Ottawa Limited

Statement of Income
Year ended December 31, 2019
[in thousands of Canadian dollars]

	2019	2018
	$	$
Revenue and other income		
Power recovery revenue [Note 18]	**904,030**	857,383
Distribution revenue [Note 18]	**184,215**	181,050
Conservation and demand management income	**13,018**	24,865
Other revenue [Note 18]	**25,992**	22,112
	1,127,255	1,085,410
Expenses		
Purchased power	**910,152**	864,442
Operating costs [Note 19]	**111,590**	115,768
Depreciation [Notes 7 and 9]	**45,669**	40,148
Amortization [Note 8]	**6,835**	9,508
	1,074,246	1,029,866
Income before the undernoted items	**53,009**	55,544
Financing costs [Note 20]	**22,203**	19,759
Income before income taxes	**30,806**	35,785
Income tax expense [Note 21]	**14,113**	13,318
Net income	**16,693**	22,467
Net movements in regulatory balances, net of tax [Note 6]	**21,007**	14,692
Net income after net movements in regulatory balances	**37,700**	37,159

The accompanying notes are an integral part of these financial statements

Hydro Ottawa Limited

Statement of Comprehensive Income
Year ended December 31, 2019
[in thousands of Canadian dollars]

	2019	2018
	$	$
Net income after net movements in regulatory balances	**37,700**	37,159
Other comprehensive income		
Items that will not be subsequently reclassified to net income		
Actuarial (loss) gain on post-employments benefits, net of tax	**(973)**	674
Net movement in regulatory balances related to other comprehensive income, net of tax	**973**	(674)
Total comprehensive income	**37,700**	37,159

Hydro Ottawa Limited

Balance Sheet
As at December 31, 2019
[in thousands of Canadian dollars]

	2019	2018
	$	$
Assets		
Current assets		
Accounts receivable [Note 5]	**179,690**	162,814
Income taxes receivable	**1,893**	-
Prepaid expenses	**5,665**	3,928
	187,248	166,742
Non-current assets		
Property, plant and equipment [Note 7]	**1,182,649**	1,112,259
Intangible assets [Note 8]	**71,722**	66,174
Investment properties [Note 9]	**2,259**	2,338
Total assets	**1,443,878**	1,347,513
Regulatory balances [Note 6]	**58,669**	34,667
Total assets and regulatory balances	**1,502,547**	1,382,180
Liabilities and shareholder's equity		
Current liabilities		
Bank indebtedness [Note 10]	**26,323**	27,673
Accounts payable and accrued liabilities [Note 11]	**155,068**	147,854
Income taxes payable	**-**	842
Advances from parent [Note 10]	**-**	47,000
	181,391	223,369
Non-current liabilities		
Deferred revenue [Note 12]	**142,187**	115,769
Employee future benefits [Note 13(b)]	**14,404**	12,367
Customer deposits	**26,888**	26,503
Notes payable [Note 14]	**697,185**	597,185
Deferred income tax liability [Note 21]	**38,059**	25,806
Other liabilities	**401**	571
Total liabilities	**1,100,515**	1,001,570
Shareholder's equity		
Share capital [Note 16]	**167,081**	167,081
Retained earnings	**213,237**	193,837
Total liabilities and shareholder's equity	**1,480,833**	1,362,488
Regulatory balances [Note 6]	**21,714**	19,692
Total liabilities, shareholder's equity and regulatory balances	**1,502,547**	1,382,180

Contingent liabilities, commitments and subsequent event [Notes 23, 24 and 27]

On behalf of the Board:

Director

Director

The accompanying notes are an integral part of these financial statements

Hydro Ottawa Limited

Statement of Changes in Equity
Year ended December 31, 2019
[in thousands of Canadian dollars]

	Share capital $	Accumulated other comprehensive income $	Retained earnings $	Total $
Balance at December 31, 2017	167,081	-	168,578	335,659
Net income after net movements in regulatory balances	-	-	37,159	37,159
Dividends [Note 16]	-	-	(11,900)	(11,900)
Balance at December 31, 2018	167,081	-	193,837	360,918
Net income after net movements in regulatory balances	-	-	37,700	37,700
Dividends [Note 16]	-	-	(18,300)	(18,300)
Balance at December 31, 2019	**167,081**	**-**	**213,237**	**380,318**

The accompanying notes are an integral part of these financial statements

Hydro Ottawa Limited

Statement of Cash Flows
Year ended December 31, 2019
[in thousands of Canadian dollars]

	2019	2018
	$	$
Net inflow (outflow) of cash related to the following activities:		
Operating		
Net income after net movements in regulatory balances	**37,700**	37,159
Adjustments for:		
Depreciation	**45,669**	40,148
Amortization	**6,835**	9,508
Loss (gain) on disposal of capital assets [Notes 7 and 8]	**35**	(256)
Amortization of deferred revenue [Note 18]	**(3,767)**	(2,950)
Employee future benefits	**515**	87
Financing costs	**22,203**	19,759
Income tax expense	**14,113**	13,318
Other	**(236)**	(105)
Capital contributions from customers	**16,540**	12,428
Capital contributions from developers	**13,645**	10,908
Net change in non-cash working capital and other operating balances [Note 22]	**(3,823)**	880
Change in customer deposits	**(773)**	13,751
Financing costs paid	**(24,790)**	(21,823)
Income tax refunded	**1,203**	142
Income tax paid	**(5,012)**	(4,000)
Net movements in regulatory balances	**(21,007)**	(14,692)
	99,050	114,262
Investing		
Acquisition of property, plant and equipment	**(142,376)**	(191,959)
Acquisition of intangible assets	**(7,584)**	(3,393)
Proceeds from disposal of property, plant and equipment, net of disposition costs	**17,560**	573
	(132,400)	(194,779)
Financing		
Issuance of notes payable	**100,000**	30,000
Dividends paid [Note 16]	**(18,300)**	(11,900)
(Repayment of) proceeds from advances from parent	**(47,000)**	47,000
	34,700	65,100
Net change in cash	**1,350**	(15,417)
Bank indebtedness, beginning of year	**(27,673)**	(12,256)
Bank indebtedness, end of year	**(26,323)**	(27,673)

The accompanying notes are an integral part of these financial statements

1. DESCRIPTION OF BUSINESS AND CORPORATE INFORMATION

Hydro Ottawa Limited [the 'Company'] was incorporated on October 3, 2000 pursuant to the *Business Corporations Act* (Ontario) as mandated by the Ontario government's *Electricity Act, 1998.* The Company is a wholly owned subsidiary of Hydro Ottawa Holding Inc., which in turn is wholly owned by the City of Ottawa. The Company is incorporated and domiciled in Canada with the registered head office located at 2711 Hunt Club Road, Ottawa, Ontario, K1G 4G2.

Hydro Ottawa Limited is a regulated electricity distribution company that owns and operates electricity infrastructure in the City of Ottawa and the Village of Casselman and is responsible for the safe, reliable delivery of electricity to homes and businesses in its licensed service area. In addition to billing for distribution services, Hydro Ottawa Limited invoices customers for amounts it is required to pay to other organizations in Ontario's electricity system for providing wholesale generation and transmission services.

2. BASIS OF PRESENTATION

(a) Statement of compliance

These financial statements have been prepared by management on a going-concern basis in accordance with International Financial Reporting Standards ['IFRS'], and have been approved and authorized by the Company's Board of Directors for issue on April 16, 2020.

(b) Basis of measurement

The Company’s financial statements are prepared on a historical cost basis, except for the valuation of other employee future benefits as disclosed in Note 3(k)(ii).

(c) Functional and presentation currency

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

(d) Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make estimates, judgments and assumptions that affect the reported amounts of revenue, expenses, assets, liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements.

Due to the inherent uncertainty involved in making such estimates, actual results could differ from estimates recorded in preparing these financial statements, including changes as a result of future decisions made by the Ontario Energy Board ['OEB'] or the Ontario provincial government. Management reviews its estimates and judgments on an ongoing basis using the most current information available. The financial statements have, in management's opinion, been properly prepared using careful judgment within reasonable limits of materiality and within the framework of the significant accounting policies. Significant areas where estimates and judgments are made in the application of IFRS are as follows:

i. Accounts receivable

Accounts receivable, which includes unbilled receivables, are reported based on the amounts expected to be recovered less a loss allowance for expected credit losses. Management utilizes historical loss experience and forward-looking information in conjunction with the aging and arrears status of accounts receivable at year-end in the determination of the allowance.

2. BASIS OF PRESENTATION [CONTINUED]

(d) Use of estimates and judgments [continued]

ii. Regulatory balances

The recognition and measurement of regulatory balances is subject to certain estimates, judgments and assumptions, including assumptions made in the interpretation of the OEB's regulations and decisions. The Company continues to assess the likelihood of recovery of all regulatory debit balances subject to recovery through a future rate filing. The absence of OEB approval is a consideration in this evaluation.

iii. Useful lives of depreciable assets

Depreciation and amortization expense is calculated based on estimates of the useful lives of property, plant and equipment, intangible assets and investment properties. Management estimates the useful lives of the various types of assets using assumptions and estimates of life characteristics of similar assets based on a long history of industry experience.

iv. Impairments of non-financial assets

Non-financial assets are reviewed by management for impairment using the future cash flows method. By their nature, estimates of future cash flows, including estimates of future capital expenditures, revenue, operating expenses, discount rates and market pricing are subject to measurement uncertainty.

v. Employee future benefits

The measurement of employee future benefits involves the use of numerous estimates and assumptions. Actuaries make assumptions for items such as discount rates, future salary increases and mortality rates in the determination of benefits expenses and accrued benefit obligations.

vi. Capital contributions

The timing of the satisfaction of performance obligations for capital contributions from customers is subject to certain estimates and assumptions.

vii. Deferred income taxes

Tax interpretations, regulations and legislation in which the Company operates are subject to change. Deferred income tax assets are assessed by management at the end of each reporting period to determine the likelihood that they will be realized from future taxable income.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Regulation

The Company is regulated by the OEB under the authority of the *Ontario Energy Board Act, 1998*. The OEB is charged with the responsibilities of approving or setting rates for the transmission and distribution of electricity, and ensuring that distribution companies fulfill obligations to connect and service customers.

3. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

(a) Regulation [continued]

For fiscal year ended December 31, 2019, the Company continued to operate under a custom incentive rate-setting application ['Custom IR'] prescribed by the OEB. The Custom IR is one of the rate setting options contained in the *Renewed Regulatory Framework for Electricity Distributors: A Performance-Based Approach* policy. The Company filed a custom incentive rate-setting application with the OEB on April 29, 2015 seeking approval to change the rates that the Company charges for electricity delivery, retail services, allowances, loss factor and specific services charges for a period of five years, to be effective January 1, 2016 to December 31, 2020. This application requested a revenue requirement to recover costs, and provide a rate of return on a deemed capital structure applied to rate base assets. The key components of the Company's Custom IR framework included the establishment of several regulatory accounts, namely: an asymmetrical earnings sharing mechanism variance account, revenue requirement differential variance account related to capital additions, new facilities deferral account, connection cost recovery agreement deferral account, and the efficiency adjustment mechanism deferral account. An annual IR application is required to set rates each year for 2017 to 2020. 2019 rates were set based on the Company's Year 4 IR annual update.

The Company applies for distribution rates based on estimated costs. Once rates are approved, they are not adjusted as a result of actual costs being different from those that were estimated, other than for certain prescribed costs that are eligible for deferral treatment and are either collected or refunded in future rates.

In January 2014, the International Accounting Standards Board ['IASB'] issued IFRS 14 – *Regulatory Deferral Accounts* ['IFRS 14'], which permits rate-regulated entities to use its existing rate-regulated activities practices if and only if, in its first IFRS financial statements, it recognized regulatory deferral account balances by electing to apply the requirements of IFRS 14.

The Company has determined that certain debit and credit balances arising from rate-regulated activities qualify for the application of regulatory accounting treatment in accordance with IFRS 14 and the accounting principles prescribed by the OEB in the *Accounting Procedures Handbook for Electricity Distributors*. Regulatory debit and credit balances primarily represent costs that have been deferred because it is probable that they will be recovered in future rates, revenues that are required to be returned or collected to/from customers or balances that arise from differences in amounts billed to customers for electricity services and the costs that the Company incurs to purchase these services.

Regulatory balances principally comprise the following:

- Regulatory asset/liability refund account ['RARA'/'RLRA'] consists of balances of regulatory assets or regulatory liabilities approved for disposition by the OEB through temporary additional rates referred to as rate riders.
- Settlement variances relate primarily to the charges the Company incurred for transmission services, commodity, wholesale market operations and global adjustment in comparison to those settled with customers during the year. The nature of the settlement variances is such that the balance can fluctuate between assets and liabilities over time, and they are reported at year-end dates in accordance with rules prescribed by the OEB.
- Lost Revenue Adjustment Mechanism ['LRAM'] account tracks and disposes of lost electricity distribution revenues that result from Conservation and Demand Management ['CDM'] programs.
- Earnings Sharing Mechanism ['ESM'] variance account captures 50% of any regulated earnings above Hydro Ottawa's approved return on equity for years 2016 to 2020.
- Facilities Y Factor captures the revenue requirement impacts arising from capital costs related to the new administrative and operations facilities for years 2019 and 2020 and the return of revenue requirement related to the former facilities.
- Gain on sale of former facilities consist of the after tax gain related to the sale of the former facilities.
- Other Post-employment Benefits deferral account ['OPEB deferral account'] was authorized by the OEB in 2011 to record the adjustment to employee future benefits other than pension relating to the cumulative actuarial gains or losses. This account is adjusted annually to record any changes in the cumulative actuarial gains or losses. No

3. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

(a) Regulation [continued]

interest charges are recorded on this account as instructed by the OEB.

- Other Post-employment Benefits cash versus accrual account ['OPEB cash vs accrual] tracks the interest on the differential of the Company's contributions to OPEB versus the accrued OPEB expense recorded in the statement of income.

Other variances and deferred costs include the following:

- the difference between low voltage charges paid to Hydro One Networks Inc. ['HONI'] and those charged to customers.
- the difference between actual amount of gain/loss from disposal of fixed assets and the forecasted gain/loss.
- the difference between the 2014 starting point and current year ending point stretch factor as multiplied by the rate year plan revenue requirement for the relevant rate year, referred to as the Efficiency Adjustment Mechanism ['EAM'].

The Company accrues interest on the regulatory balances as directed by the OEB.

The Company continues to assess the likelihood of recovery of all regulatory debit balances subject to recovery through a future rate filing. The absence of OEB approval is a consideration in this evaluation. If the requirement for a provision becomes more likely than not, the Company will recognize the provision in operating costs for the year.

(b) Revenue recognition

Depending on whether certain criteria are met the Company recognizes revenue from contracts with customers when it transfers control over a product or service to a customer either over time or at a point in time. For revenue from other sources, the Company recognizes revenue over time taking into consideration the facts and circumstances of the arrangement.

Revenue is measured at the consideration received or receivable, excluding sales taxes and other amounts collected on behalf of third parties in the following revenue arrangements.

i. Power recovery

Power recovery revenue represents the flow-through of the cost of power to the consumer as purchased by the Company and is recognized over time as electricity is delivered to the customer, as measured by meter readings or usage estimates. Power recovery revenue is regulated by the OEB and includes charges to customers for the electricity commodity, the transmission of electricity and the administration of the wholesale electricity system. The Company has determined that it acts as a principal in this revenue arrangement and therefore has presented it on a gross basis.

ii. Distribution

The Company charges customers for the delivery of electricity, based on rates established by the OEB. The rates are intended to allow the Company to recover its prudently incurred costs and earn a fair return on invested capital. Distribution revenue is recognized over time as electricity is delivered to the customer, as measured by meter readings or usage estimates.

3. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

(b) Revenue recognition [continued]

iii. Other

Other revenue comprises revenue earned under contracts for service work related to distribution operations, pole attachment and duct rentals, capital contributions received from customers amortized to revenue, and other account-related charges such as account set-up and late payment fees. Revenue earned under contracts for service work related to distribution operations is recognized over time as the corresponding costs are recognized proportionately with the degree of completion of the services under contract. Losses on such contracts are fully recognized when they become evident. In certain situations, capital contributions are required from customers to finance additions to property, plant and equipment when the estimated revenue resulting from the addition to property, plant and equipment is less than the cost of providing the service or where special equipment is needed to supply the customers' specific requirements. Since the contributions will provide current and future customers with ongoing access to the supply of electricity, these contributions are classified as deferred revenue and amortized into revenue on a straight-line basis over time [the period a customer will receive services], which is typically equivalent to the rate used for the depreciation of the related property, plant and equipment [service life of the related assets]. All other revenues are recognized over time as services are rendered, except for revenue from certain account-related charges, which is recognized at a point in time.

Capital contributions received from developers to construct or acquire property, plant and equipment for the purpose of connecting future customers to the Company's distribution network are considered out of scope of IFRS 15. Capital contributions received from developers are recognized as deferred revenue and amortized into revenue from other sources at an equivalent rate to that used for the depreciation of the related property, plant and equipment.

Revenue from investment property is considered out of scope of IFRS 15, and accordingly classified as revenue from other sources. Rental income from investment property is recognized as revenue on a straight-line basis over the term of the lease.

(c) Government grant income

CDM income stems from the delivery of provincial government programs that promote conservation. Government grants under CDM programs are recognized when there is reasonable assurance that the grant will be received and all related conditions have been met. Grants under full cost recovery funding are recognized as income on a systematic basis over the period to match the costs they are intended to compensate. CDM performance incentives are recognized when it is probable that future economic benefits will flow to the Company, and the amount can be measured reliably. On March 21, 2019, the Ministry of Ontario announced that the CDM program is to be phased out before the end of 2021.

(d) Interest income and financing costs

Interest income is recognized as it accrues under the effective interest method and comprises interest earned on cash.

Financing costs are calculated using the effective interest rate method and are recognized as an expense unless they are capitalized as part of the cost of a qualifying asset.

3. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

(e) Income taxes

The Company is considered to be a Municipal Electric Utility ['MEU'] and is required to make payments in lieu of corporate income taxes [PILS] as contained in the *Electricity Act, 1998*, as all of its share capital is indirectly owned by the City of Ottawa and not more than 10% of its income is derived from activities carried on outside the municipal boundaries of the City of Ottawa. The *Electricity Act, 1998* provides that a MEU that is exempt from tax under the *Income Tax Act* (Canada) ['ITA'] and the *Taxation Act,* Ontario ['TAO'] is required to make, for each taxation year, a PILs payment to the Ontario Electricity Financial Corporation in an amount equal to the tax that it would be liable to pay under the ITA and the TAO if it were not exempt from tax.

The Company follows the liability method for recording income taxes. Under the liability method, current income taxes payable are recorded based on taxable income. Deferred income taxes arising from temporary differences in the accounting and tax basis of assets and liabilities are provided based on substantively enacted tax rates that will be in effect when the differences are expected to reverse.

The Company recognizes regulatory balances for the amounts of future income taxes expected to be refunded to or recovered from customers in future electricity rates as prescribed by the OEB.

(f) Financial instruments

Financial instruments are initially measured at the fair value of the consideration given or received plus transaction costs that are directly attributable to the acquisition or issue of the financial instrument.

The Company's financial assets, upon initial recognition, are classified as amortized cost or fair value [whereby subsequent changes in fair value are recognized either through OCI [‘FVOCI’] or through profit and loss [‘FVTPL’] as unrealized market adjustments]. Financial assets are classified based on the Company’s business model for managing such assets and the contractual terms of the related cash flows.

The Company's financial liabilities, upon initial recognition, are classified as amortized cost or FVTPL. A financial liability is classified as FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition.

The Company classifies and subsequently measures its financial instruments as follows:

- Cash and accounts receivable are financial assets classified and measured at amortized cost using the effective interest method, less any impairment if applicable.
- Bank indebtedness, accounts payable and accrued liabilities, customer deposits and notes payable are financial liabilities classified and measured at amortized cost using the effective interest rate method.

The fair value of a financial instrument is the amount of consideration that would be agreed upon in an arm's-length transaction between willing parties. The Company’s own credit risk and the credit risk of the counterparty are taken into account in determining the fair value of financial assets and liabilities. Financial instruments are classified using a three-level hierarchy. The levels reflect the inputs used to measure the fair values of financial assets and financial liabilities, and are as follows:

- Level 1: inputs are unadjusted quoted prices of identical instruments in active markets;
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3: inputs for the liabilities that are not based on observable market data [unobservable inputs].

All financial assets except for those classified as FVTPL or FVOCI are subject to review for impairment at least at each reporting date. Impairment losses, if any, are recognized in net income. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized.

The Company recognizes loss allowances for expected credit losses ['ECL's] on financial assets measured at amortized cost. The Company measures loss allowances for electricity receivables, unbilled receivables relating to electricity and trade

3. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

(f) Financial instruments [continued]

receivables via a simplified approach as permitted by IFRS 9, at an amount equal to lifetime ECL.

When determining whether the credit risk of a financial asset has increased, the Company performs a quantitative and qualitative analysis based on the Company's historical experience and forward-looking information. The Company assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due. The Company considers a financial asset to be in default when the borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realizing security.

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets. The gross carrying amount of a financial asset is written off to the extent that there is no realistic prospect of recovery.

(g) Property, plant and equipment

Property, plant and equipment consist principally of electricity distribution infrastructure, buildings and fixtures, land, rolling stock, furniture and equipment, and assets under construction.

Emergency capital spare parts that are expected to be used for more than one year, are considered to be assets under construction and are depreciated only once they are put into service.

Property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses, if any. Self-constructed asset costs comprise all directly attributable expenditures to bring the asset into operation including labour, materials, employee benefits, transportation, contracted services and borrowing costs. Where parts of an item in property, plant and equipment are significant and have different estimated economic useful lives, they are accounted for as separate items [major components] of property, plant and equipment. Certain assets may be acquired or constructed with financial assistance in the form of contributions from customers. Contributions from customers are treated as deferred revenue.

The cost of major inspections and maintenance is recognized in the carrying value of an asset provided that the Company will derive future economic benefits from the expenditure. The carrying amount of a replaced part is derecognized. The costs of day-to-day servicing, repairs, and maintenance, are expensed as incurred.

Depreciation is recorded on a straight-line basis over the estimated service life of each component of property, plant and equipment.

Gains and losses on disposal of retired, sold or otherwise derecognized property, plant and equipment are recognized in income and are calculated as the difference between net proceeds from disposal and the carrying amount of the asset.

The estimated useful lives, residual values and depreciation methods are reviewed at each year-end with the effect of any changes in estimate being accounted for on a prospective basis.

Estimated service lives for property, plant and equipment classes are as follows:

Land and buildings	
Land	Indefinite
Buildings and fixtures	10 to 75 years
Distribution assets	10 to 60 years
Equipment and other	
Furniture and equipment	5 to 40 years
Rolling stock	7 to 15 years

3. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

(g) Property, plant and equipment [continued]

Assets under construction and land are not subject to depreciation. Borrowing costs are capitalized as a component of the cost of self-constructed property, plant and equipment assets that take a substantial period of time to get ready for their intended use. The capitalization rate is the Company's weighted average cost of borrowing.

(h) Intangible assets

Intangible assets include land rights, capital contributions, computer software and assets under development.

Intangible assets with finite lives are measured at cost less accumulated amortization and accumulated impairment losses, if any. Intangible assets are amortized on a straight-line basis over the estimated service lives of the related assets.

Intangible assets are derecognized on disposal or when no further future economic benefits are expected from their use. Gains or losses on disposal of intangible assets are recognized in income and are calculated as the difference between net proceeds from disposal and the carrying amount of the asset.

The estimated useful lives and amortization methods are reviewed at each year-end with the effect of any changes in estimate being accounted for on a prospective basis.

Estimated service lives for intangible assets with finite lives are as follows:

Land rights	50 years
Computer software	5 to 13 years
Capital contributions	45 years

Borrowing costs are capitalized as a component of cost of self-constructed intangible assets that take a substantial period of time to get ready for their intended use. The capitalization rate is the Company's weighted average cost of borrowing.

(i) Investment properties

Investment property is land and/or buildings held for purposes other than for use in the Company's operating activities. The Company holds investment property either for potential expansion of the service delivery network or as excess administrative property. Investment properties are measured at cost plus transaction costs, and have estimated service lives ranging between 25 and 50 years. Any gain or loss arising from the sale of an investment property is immediately recognized in income.

(j) Impairment of non-financial assets

At the end of each reporting period, or earlier if required, management uses its judgment to assess whether there is an indication that the carrying amount of a non-financial asset [or cash generating unit, 'CGU'] exceeds its recoverable amount. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. This assessment involves the consideration of whether any events or changes in circumstances could have affected the recoverability of the carrying amount of a non-financial asset or CGU. Management considers various indicators including, but not limited to, adverse changes in the industry or economic conditions, changes in the degree or method of use of an asset, a lower than expected economic performance of an asset or a significant change in market returns or interest rates. If any indication exists, the Company estimates the asset's recoverable amount, which is the higher of an asset or CGU's fair value less costs of disposal and its value in use. If the carrying value of a non-financial asset exceeds its recoverable amount, the difference is immediately recognized as an impairment loss in profit or loss.

Intangible assets not yet available for use are tested for impairment [within their respective CGUs] at least annually, and whenever there is an indication that the asset may be impaired.

3. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

(j) Impairment of non-financial assets [continued]

When determining the recoverable amount, the Company determines its value-in-use by discounting estimated future cash flows to their present value using a discount rate that reflects changes in the time value of money and the risks specific to the asset or the CGU. The discount rate estimated and used by management represents the weighted average cost of capital determined for the CGU being tested.

At the end of a reporting period, if there is any indication that an impairment loss recognized in a prior period no longer exists or has decreased, the loss is reversed up to its recoverable amount. The carrying amount following the reversal must not be higher than the carrying amount that would have prevailed [net of amortization] had the original impairment not been recognized in prior periods.

(k) Employee future benefits

i. Pension plan

The Company provides pension benefits for its employees through the Ontario Municipal Employees Retirement System ['OMERS'] Fund [the 'Fund']. OMERS is a multi-employer pension plan that provides pensions for employees of Ontario municipalities, local boards, public utilities and school boards. The Fund is a defined benefit pension plan, which is financed by equal contributions from participating employers and employees and by the investment earnings of the Fund.

Although the plan is a defined benefit plan, sufficient information is not available to the Company to account for it as such because it is not possible to attribute the fund assets and liabilities between the various employers who contribute to the Fund. As a result, the Company accounts for the plan as a defined contribution plan, and contributions payable as a result of employee service are expensed as incurred as part of operating costs. The Company shares in the actuarial risks of the other participating entities in the plan, and its future contributions may therefore be increased due to actuarial losses relating to the other participating entities. In addition, the Company's contributions could be increased if other entities withdraw from the plan.

ii. Other post-employment benefits

Employee future benefits other than pensions provided by the Company include life insurance and a retirement grant. These plans provide benefits to certain employees when they are no longer providing active service.

Employee future benefits expense is recognized in the period during which the employees render services.

Employee future benefits are recorded on an accrual basis. The accrued benefit obligation and current service costs are calculated using the projected benefit method prorated on service and based on assumptions that reflect management's best estimates. The current service cost for a period is equal to the actuarial present value of benefits attributed to employees' services rendered in the period. Actuarial gains and losses resulting from experience different from that assumed or from changes in actuarial assumptions are recognized in OCI. However, for the Company, these amounts are reclassified to a regulatory debit balance as prescribed by the OEB.

3. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

(k) Employee future benefits [continued]

iii. Employee benefits

The Company provides short-term employee benefits, such as: salaries, employment insurance, short-term compensated absences, health and dental care. These benefits are recognized as the related service is rendered and is measured on an undiscounted basis. Short-term employee benefits are recognized as an expense unless they qualify for capitalization as part of the cost of an item of materials and supplies, property, plant and equipment, intangible assets. A liability is recognized in respect of any unpaid short-term employee benefits for services rendered in the reporting period.

The Company recognizes a liability for the expected cost of accumulated non-vested sick leave benefits at the end of the reporting period. The Company presents its non-vested sick leave obligation as a non-current liability since it does not expect to settle all of it sick leave benefits within twelve months.

(l) Customer deposits

Customer deposits are cash collections from customers to guarantee the payment of energy bills and fulfillment of construction obligations. Customer deposits from customers to guarantee the payment of energy bills includes related interest amounts owed to the customers. Deposits estimated to be refundable to customers within the next fiscal year are classified as current liabilities and included in accounts payable and accrued liabilities.

(m) Provisions and contingencies

The Company recognizes provisions when there is a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Provisions are remeasured at each balance sheet date.

The evaluation of the likelihood of the contingent events requires judgment by management as to the probability of exposure to potential loss. Actual results could differ from these estimates.

A contingent asset is not recognized in the financial statements. However, a contingent asset is disclosed where an inflow of economic benefits is probable.

(n) Leases

Effective January 1, 2019, the Company has adopted IFRS 16 – *Leases* ['IFRS 16'] as described in Note 4 of these financial statements.

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

i. As a lessee

As a lessee, leases are recognized as right-of-use [‘ROU’] assets and a lease liability at the lease commencement date. ROU assets are initially measured at cost, and subsequently carried at cost less accumulated depreciation and impairments, if any. The initial cost of an ROU asset equals the amount of the initial measurement of the corresponding lease liability, plus any initial direct costs incurred to bring the assets into operation. ROU assets are classified within property, plant and equipment in these financial statements.

Lease liabilities are initially measured at the present value of lease payments that are not paid at the commencement

3. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

(n) Leases [continued]

i. As a lessee [continued]

date. The lease payments are discounted using the rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate which reflects the Company's ability to borrow money over a similar term, for an asset of similar value to the underlying asset, similar security or in a similar economic environment. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability.

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

When a lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the ROU asset, or is recorded in profit or loss if the carrying amount of the ROU asset has been reduced to zero. Payments under lease liabilities are apportioned between interest expense and a reduction of the outstanding lease liability.

Where the Company is reasonably certain it will obtain ownership of the ROU asset before the end of the lease term, the asset is depreciated over its useful life on a straight-line basis. Otherwise, depreciation is calculated over the shorter period of the lease term and the asset's useful life. The lease term includes periods covered by an option to extend if the Company is reasonably certain to exercise that option.

Payments related to short-term [12 months or less] and low value leases are recognized as operating expenses over the lease term in the statement of income.

ii. As a lessor

The Company enters into lease agreements as a lessor with respect to certain investment properties. The terms of these lease arrangements do not transfer substantially all the risks and rewards of ownership to the lessee, and therefore have been classified as operating leases. Rental income from operating leases is recognised on a straight-line basis over the term of the applicable lease.

4. NEW ACCOUNTING PRONOUNCEMENTS

On January 1, 2019, the Company adopted IFRS 16 – *Leases* ['IFRS 16'] using the modified retrospective approach, which does not require restatement of prior period financial information, as it recognizes the cumulative impact on the opening balance sheet and applies the standard prospectively. Accordingly, the comparative information continues to be reported under International Accounting Standard 17 – *Leases* ['IAS 17'] and International Financial Reporting Interpretations Committee, Interpretation 4 – *Determining whether an Arrangement contains a Lease* ['IFRIC 4'].

IFRS 16 eliminates the former dual model [on and off balance sheet] and provides greater comparability between companies who lease assets and those who purchase assets with a single on-balance sheet approach. Under IFRS 16, all leases from the lessee's perspective are recognized on the balance sheet, with exemptions for short-term [12 months or less] and low-value leases. Lessor accounting remains substantially unchanged.

[in thousands of Canadian dollars]

4. NEW ACCOUNTING PRONOUNCEMENTS [CONTINUED]

On transition to IFRS 16, the Company elected to use a practical expedient permitting the Company to not apply IFRS 16 to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4. The Company applied the definition of a lease under IFRS 16 to contracts entered into or changed on or after January 1, 2019. Additionally, the Company elected to use the practical expedient for short-term [12 months or less] and low-value leases.

The adoption of IFRS 16 by the Company did not result in the recognition of any new ROU assets or lease liabilities.

5. ACCOUNTS RECEIVABLE

	2019 **$**	2018 $
Receivables from contracts with customers		
Electricity receivable	**58,218**	59,933
Unbilled receivables related to electricity	**78,417**	80,180
Other receivables	**32,184**	15,571
Amounts due from related party [Note 25]	**10,380**	7,995
Less: loss allowance [Note 17(c)]	**(1,981)**	(2,368)
	177,218	161,311
Receivables from other sources		
Conservation and demand management	**2,472**	1,503
	179,690	162,814

[in thousands of Canadian dollars]

6. REGULATORY BALANCES

Information about the Company's regulatory balances is as follows:

	Remaining recovery/ reversal [years]	2018 $	Balances arising in the year $	Recovery/ reversal $	Other movements(1) $	**2019 $**
Regulatory debit balances						
RARA	1	392	125	4	-	**521**
Settlement variances	1-5	2,003	4,203	-	(1,265)	**4,941**
Facilities Y Factor	1	-	2,592	-	-	**2,592**
OPEB cash versus accrual	1-5	6	1,522	-	(278)	**1,250**
LRAM	1-5	3,100	1,436	-	-	**4,536**
Loss on asset disposal	1-5	1,383	2,218	-	-	**3,601**
Regulatory asset for deferred income taxes	(2)	25,806	12,253	-	-	**38,059**
Other variances and deferred costs	1-5	1,977	1,192	-	-	**3,169**
		34,667	25,541	4	(1,543)	**58,669**
Regulatory credit balances						
RLRA	1	1,623	8,179	(8,051)	-	**1,751**
Settlement variances	1-5	13,437	(1,787)	-	(897)	**10,753**
ESM	1-5	3,387	387	-	-	**3,774**
Gain on sale of former facilities	1	-	2,152	-	-	**2,152**
OPEB deferral account	1-5	272	12	-	(278)	**6**
Other variance and deferred costs	1-5	973	2,673	-	(368)	**3,278**
		19,692	11,616	(8,051)	(1,543)	**21,714**

[in thousands of Canadian dollars]

6. REGULATORY BALANCES [CONTINUED]

	Remaining recovery/ reversal [years]	2017 $	Balances arising in the year $	Recovery/ reversal $	Other movements[(1)] $	2018 $
Regulatory debit balances						
RARA	1	-	437	196	(241)	392
Settlement variances	1-5	2,508	(505)	-	-	2,003
OPEB deferral account	1-5	782	-	-	(782)	-
LRAM	1-5	2,571	529	-	-	3,100
OPEB cash vs accrual	1-5	-	6	-	-	6
Regulatory asset for deferred income taxes	(2)	16,797	9,009	-	-	25,806
Loss on asset disposal	1-5	907	476	-	-	1,383
Other variances and deferred costs	1-5	1,464	513	-	-	1,977
		25,029	10,465	196	(1,023)	34,667
Regulatory credit balances						
RLRA	1	1,464	13,214	(13,056)	-	1,622
Settlement variances	1-5	20,761	(7,325)	-	-	13,436
ESM	1-5	1,385	2,002	-	-	3,387
OPEB deferral account	1-5	-	1,054	-	(782)	272
Other variances and deferred costs	1-5	899	76	-	-	975
		24,509	9,021	(13,056)	(782)	19,692

(1) Other movements represent reclassifications of balances
(2) The balance is being reversed through timing differences in the recognition of deferred income tax assets [Note 3(e)]

The following regulatory balances include accrued interest which is presented in net movements in regulatory balances:

- The RARA/RLRA includes accrued interest revenue of $105 [2018 – interest costs of $145].
- Settlement variances include accrued interest revenue of $26 [2018 – interest costs of $52].
- Other variance and deferred costs include accrued interest costs of $80 [2018 – interest revenue of $36]

Details and descriptions pertaining to the regulatory debt and credit balances are disclosed in Note 3(a) of these financial statements.

[in thousands of Canadian dollars]

7. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings $	Distribution assets $	Equipment and other $	Assets under construction $	Total $
Cost					
Balance at December 31, 2017	86,445	898,833	35,428	69,094	1,089,800
Additions, net of transfers	3,628	110,378	4,997	69,940	188,943
Disposals	-	(563)	(337)	-	(900)
Balance at December 31,2018	90,073	1,008,648	40,088	139,034	1,277,843
Additions, net transfers	78,147	130,865	16,624	(92,111)	133,525
Disposals	(21,647)	(5,260)	(4,228)	-	(31,135)
Balance at December 31, 2019	**146,573**	**1,134,253**	**52,484**	**46,923**	**1,380,233**
Accumulated depreciation					
Balance at December 31, 2017	(10,412)	(104,624)	(11,101)	-	(126,137)
Depreciation	(2,527)	(33,221)	(4,282)	-	(40,030)
Disposals	-	383	200	-	583
Balance at December 31,2018	(12,939)	(137,462)	(15,183)	-	(165,584)
Depreciation	(3,891)	(36,358)	(5,296)	-	(45,545)
Disposals	7,096	2,530	3,919	-	13,545
Balance at December 31, 2019	**(9,734)**	**(171,290)**	**(16,560)**	**-**	**(197,584)**
Net book value					
At December 31, 2018	77,134	871,186	24,905	139,034	1,112,259
At December 31, 2019	**136,839**	**962,963**	**35,924**	**46,923**	**1,182,649**

During the year, the Company capitalized borrowing costs of $2,353 [2018 – $2,423] to property, plant and equipment. The average annual interest rate for 2019 was 3.4% [2018 – 3.4%].

In 2019, the Company sold two facilities [including land and building] inherited from pre-amalgamation utilities [i.e. prior to October 3, 2000] for total cash proceeds of $16,000. In addition, on December 20, 2019, the Company sold vacant land to 2725163 Ontario Inc. [a newly formed company under common control by Hydro Ottawa Holding Inc.] for cash proceeds of $1,827.

During the year, the Company recognized a loss on disposal of property, plant and equipment of $30 [2018 – gain on disposal of $256], which includes a gain on sale of vacant land to 2725163 Ontario Inc. of $1,759.

[in thousands of Canadian dollars]

8. INTANGIBLE ASSETS

	Land rights $	Computer software $	Capital contributions $	Assets under development $	Total $
Cost					
Balance at December 31, 2017	2,294	64,972	20,776	11,688	99,730
Additions, net of transfers	(5)	1,657	2,200	(517)	3,335
Balance at December 31, 2018	2,289	66,629	22,976	11,171	103,065
Additions, net transfers	438	1,921	11,710	(1,681)	12,388
Disposals	-	(1,947)	-	-	(1,947)
Balance at December 31, 2019	**2,727**	**66,603**	**34,686**	**9,490**	**113,506**
Accumulated amortization					
Balance at December 31, 2017	(216)	(26,088)	(1,079)	-	(27,383)
Amortization	(59)	(8,972)	(477)	-	(9,508)
Balance at December 31, 2018	(275)	(35,060)	(1,556)	-	(36,891)
Amortization	(65)	(6,143)	(627)	-	(6,835)
Disposals	-	1,942	-	-	1,942
Balance at December 31, 2019	**(340)**	**(39,261)**	**(2,183)**	**-**	**(41,784)**
Net book value					
At December 31, 2018	2,014	31,569	21,420	11,171	66,174
At December 31, 2019	**2,387**	**27,342**	**32,503**	**9,490**	**71,722**

The Company is party to various Connection and Cost Recovery Agreements ['Capital contributions'] with Hydro One Networks Inc. ['HONI']. These agreements govern the construction by HONI of new or modified transformer stations for the purpose of serving the Company's customers, including anticipated electricity load growth. All terms and conditions of CCRAs follow the *Transmission System Code* [the 'Code'] issued by the OEB.

After conducting a review of the useful lives of its intangible assets, management determined that the useful life of two key computer software programs needed to be extended to align with the Company's IT replacement strategy. The impact of this change in estimate is a reduction in amortization expense of approximately $2,200 in the current year.

During the year, the Company capitalized borrowing costs of $278 [2018 – $73] to intangible assets. The average annual interest rate for 2019 was 3.4% [2018 – 3.4%].

During the year, the Company recognized a loss on disposal of intangible assets of $5 [2018 – $nil]

[in thousands of Canadian dollars]

9. INVESTMENT PROPERTIES

	2019	2018
	$	$
Net book value, beginning of year	**2,338**	2,456
Additions	**45**	-
Depreciation	**(124)**	(118)
Net book value, end of year	**2,259**	2,338

The fair value of investment properties is $5,461, which is based on the latest Municipal Property Assessment Corporation valuation dated May 16, 2019.

10. CREDIT FACILITY

The Company has access to a $90,000 [December 31, 2018 – $90,000] revolving demand credit facility and a $400 [December 31, 2018 – $400] commercial card facility available from Hydro Ottawa Holding Inc. As at December 31, 2019, the Company has drawn $26,323 [December 31, 2018 – $27,673] in bank indebtedness and $nil [December 31, 2018 – $47,000] in bankers acceptances against this credit facility. The rate of interest is based on the rate applicable to Hydro Ottawa Holding Inc.'s outstanding bankers' acceptances drawn on that date. Otherwise, the rate of interest is based on the Bank of Canada's 'Bankers Acceptances 1 month' rate.

11. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2019	2018
	$	$
Purchased power payable	**88,494**	74,747
Trade accounts payable and accrued liabilities	**30,709**	39,298
Customer deposits	**18,899**	20,057
Customer credit balances	**11,739**	10,964
Due to related parties [Note 25]	**5,227**	2,788
	155,068	147,854

In 2019, the Company conducted a true-up calculation in connection with one of its cost recovery agreements with HONI as described in Note 23. As a result, the Company has determined that it is obligated to make up a shortfall and accordingly set-up a provision of $2,200, which is included in accounts payable and accrued liabilities.

[in thousands of Canadian dollars]

12. DEFERRED REVENUE

	2019	2018
	$	$
Capital contributions from customers	**76,380**	61,888
Capital contributions from developers	**65,807**	53,881
	142,187	115,769

13. EMPLOYEE FUTURE BENEFITS

(a) Pension plans

The Company's participating employer contributions under OMERS for the year ended December 31, 2019 amounted to $5,721 [2018 – $5,905].

(b) Other employee future benefits

Employee future benefits are calculated using an annual compensation rate increase of 2.0% [2018 – 2.0%] and a discount rate of 3.1% [2018 – 3.9%] to calculate the liabilities. The valuations also include several other economic and demographic assumptions including mortality rates. The mortality assumption is based on the *Canadian Pensioners' Mortality* report published by the Canadian Institute of Actuaries in February 2014.

Information about the Company's employee future benefits other than pension plans is as follows:

	2019	2018
	$	$
Defined benefit obligation, beginning of year	**12,367**	13,334
Current service costs	**305**	338
Past service costs	**70**	-
Interest on accrued benefit obligation	**857**	398
Benefit payments	**(717)**	(649)
Actuarial loss (gain)	**1,522**	(1,054)
Defined benefit obligation, end of year	**14,404**	12,367

An actuarial valuation was performed as at December 31, 2019. As a result of this exercise, the Company increased the accumulated liability by $2,037 [December 31, 2018 – decreased by $967 based on an actuarial extrapolation].

Significant changes in actuarial assumptions related to discount rates, future health and dental costs, mortality rates and retirement age may affect the valuation of the defined benefit obligation.

[in thousands of Canadian dollars]

14. NOTES PAYABLE

The Company currently has the following promissory notes and grid promissory notes payable to Hydro Ottawa Holding Inc.:

	2019	2018
	$	$
4.97% promissory note, due December 19, 2036	**50,000**	50,000
4.14% for the first five years [3.99% thereafter] promissory note, issued May 14, 2013 and due May 14, 2043	**107,185**	107,185
2.72% for the first five years [2.61% thereafter] promissory note, issued February 9, 2015 and due February 3, 2025	**138,667**	138,667
3.77% for the first five years [3.64% thereafter] promissory note, issued February 9, 2015 and due February 2, 2045	**121,333**	121,333
2.72% for the first five years [2.61% thereafter] promissory note, issued June 25, 2015 and due June 25, 2025	**15,999**	15,999
3.77% for the first five years [3.64% thereafter] promissory note, issued June 25, 2015 and due June 25, 2045	**14,001**	14,001
2.66% promissory note, due October 16, 2029	**87,500**	-
3.21% promissory note, due October 16, 2049	**162,500**	-
3.72% grid promissory note, due on demand, repaid during the year	**-**	60,000
4.12% grid promissory note, due on demand, repaid during the year	**-**	60,000
4.41% grid promissory note, due on demand, repaid during the year	**-**	30,000
	697,185	597,185

On October 17, 2019, the Company repaid all outstanding advances on the grid promissory note to Hydro Ottawa Holding Inc. It then issued two new promissory notes on the same date in the amount of $87,500 [10-year] and $162,500 [30-year] to Hydro Ottawa Holding Inc.

The grid promissory note facility bears fixed-rate interest based on the cost of long-term debt for Ontario's Regulated Utilities in accordance with the OEB`s cost of capital calculations.

15. CAPITAL DISCLOSURES

The Company’s main objectives when managing capital are to:

- Ensure continued access to funding to maintain and improve the operations and infrastructure of the Company;
- Ensure compliance with covenants related to the credit facilities and senior unsecured debentures entered into by its parent company, Hydro Ottawa Holding Inc.; and
- Align Hydro Ottawa Limited's capital structure with the debt to equity structure recommended by the OEB.

[in thousands of Canadian dollars]

15. CAPITAL DISCLOSURES [CONTINUED]

The Company's capital consists of the following:

	2019 **$**	2018 $
Bank indebtedness	**26,323**	27,673
Notes payable	**697,185**	597,185
Total debt	**723,508**	624,858
Shareholder's equity	**380,318**	360,918
Total capital	**1,103,826**	985,776
Debt capitalization ratio	**65.55 %**	63.39 %

The Company is in compliance with all financial covenants and limitations associated with its credit facilities and its long-term debt.

The Company is deemed by the OEB to have a capital structure that is funded by 56% long-term debt, 4% short-term debt and 40% equity. The OEB uses this deemed structure only as a basis for setting distribution rates. As such, the Company's actual capital structure may differ from the OEB deemed structure.

The Company met its capital management objectives, which have not changed during the year.

16. SHARE CAPITAL

(a) Authorized

Unlimited number of voting first preferred shares, redeemable at one dollar per share
Unlimited number of non-voting second preferred shares, redeemable at ten dollars per share
Unlimited number of non-voting third preferred shares, redeemable at one hundred dollars per share
Unlimited number of voting fourth preferred shares [ten votes per share], redeemable at one hundred dollars per share
Unlimited number of voting Class A common shares
Unlimited number of non-voting Class B common shares
Unlimited number of non-voting Class C common shares, redeemable at the price at which such shares are issued

The above shares are without nominal or par value.

Holders of second preferred shares, fourth preferred shares and common shares are entitled to receive dividends as and when declared by the Board of Directors at their discretion.

[in thousands of Canadian dollars]

16. SHARE CAPITAL [CONTINUED]

(b) Issued

	2019	2018
	$	$
154,789,001 Class A common shares	**167,081**	167,081

Any invitation to the public to subscribe for shares of the Company is prohibited by shareholder resolution.

On April 16, 2019, the Board of Directors declared a $12,300 dividend on the common shares of the Company outstanding on December 31, 2018. The dividend was paid to the sole shareholder, Hydro Ottawa Holding Inc. on April 23, 2019 [2018 – April 19, 2018, the Board of Directors declared a $11,900 dividend which was paid on April 26, 2018].

On September 23, 2019, the Board of Directors declared a $6,000 dividend on the common shares of the Company outstanding on June 30, 2019. The dividend was paid to the sole shareholder, Hydro Ottawa Holding Inc. on September 30, 2019.

17. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

(a) Fair value disclosures

The carrying values of the Company's financial instruments, except for notes payable, approximates fair value because of the short maturity and nature of the instruments. The fair value measurement of the financial instrument for which the fair value has been disclosed is included in Level 2 of the fair value hierarchy [Note 3(f)].

The Company has estimated the fair value of the notes payable as at December 31, 2019 as amounting to $754,161 [December 31, 2018 – $600,195]. The fair value has been determined based on discounting all future payments of interest and the principal repayment on January 1, 2020, at the estimated interest rate of 2.9% [2018 – 3.7%] that would be available to the Company on December 31, 2019.

(b) Market risk

The Company is exposed to market risk, which is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices are comprised of three types of risks: interest rate risk, foreign exchange risk and commodity price risk.

(i) Interest rate risk

The Company is exposed to interest rate risk on its borrowings. The Company mitigates exposure to interest rate risk by fixing interest rates on its notes payable with its parent company. Under Hydro Ottawa Holding Inc.'s credit facilities, any advances on its operating line would expose the Company to fluctuations in short term interest rates related to prime rate loans and bankers' acceptances as all short-term financing requirements are obtained through its parent company, which passes on its borrowing costs. The interest rate risk is deemed to be low due to the immaterial cost of its short-term borrowings. For the most part, the borrowing requirements are for a very short duration as the advances serve to bridge gaps between the cash outflow related to the monthly power bill and the inflows related to the settlements with customers and, as such, there is very limited exposure to interest rate risk.

A sensitivity analysis was conducted to examine the impact of a change in the prime rate on the Company’s advances from Hydro Ottawa Holding Inc. A variation of 1% [100 basis points], with all other variables held constant, would increase or decrease the annual interest expense by approximately $446.

17. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT [CONTINUED]

(b) Market risk [continued]

The Company is also exposed to fluctuations in interest rates as its regulated rate of return is derived using a complex formulaic approach which is in part based on the forecast for long-term Government of Canada bond yields. This rate of return is approved by the OEB as part of the approval of distribution rates.

(ii) Foreign exchange risk

As at December 31, 2019, the Company has limited exposure to fluctuations in foreign currency exchange rates. The Company does purchase a small proportion of goods and services that are denominated in foreign currencies, predominately the US dollar. The impact of the fluctuation of foreign currencies on the gains or losses of accounts payable denoted in foreign currencies is not material.

(iii) Commodity price risk

The Company does not have commodity price risk due to the flow-through nature of power purchases.

(c) Credit risk

Credit risk is the risk that a counterparty will default on its obligations, causing a financial loss to the Company. Concentration of credit risk associated with accounts receivable is limited due to the large number of customers the Company services. The Company has approximately 340,000 customers, the majority of which are residential. As a result, the Company did not earn a significant amount of revenue and does not have a significant receivable from any individual customer.

The Company performs ongoing credit evaluations of its customers and requires collateral to support non-residential customer accounts receivable on specific accounts to mitigate significant losses in accordance with OEB legislation. As at December 31, 2019, the Company held security deposits related to power recovery and distribution sales in the amount of $14,713 [December 31, 2018 – $16,009] with respect to these customers.

The Company monitors and limits its exposure to credit risk on a continuous basis.

The Company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade and other receivables. The expected loss rates for trade receivables are based on the payment profiles of sales over a period of 12 months before December 31, 2019 or December 31, 2018 respectively and the corresponding historical credit losses experienced within this period and other information. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

[in thousands of Canadian dollars]

17. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT [CONTINUED]

(c) Credit risk [continued]

On that basis, the loss allowance as at December 31, 2019 and December 31, 2018 was determined as follows for trade and other receivables.

	Gross carrying amount	Weighted average loss rate	Loss allowance	Net carrying amount
	$		$	$
December 31, 2019				
Outstanding for 30 days or less	93,502	0.00 %	-	93,502
Outstanding for more than 30 days but not more than 120 days	7,360	6.89 %	507	6,853
Outstanding for more than 120 days	2,392	56.06 %	1,341	1,051
Unbilled receivables related to electricity	78,417	0.17 %	133	78,284
	181,671		**1,981**	**179,690**
December 31, 2018				
Outstanding for 30 days or less	73,286	0.00 %	-	73,286
Outstanding for more than 30 days but not more than 120 days	7,585	9.70 %	736	6,849
Outstanding for more than 120 days	4,131	35.85 %	1,481	2,650
Unbilled receivables related to electricity	80,180	0.19 %	151	80,029
	165,182		2,368	162,814

The following table reconciles the opening and closing loss allowance for trade and other receivables:

	2019	2018
	$	$
Loss allowance, beginning of year	**2,368**	2,371
Net remeasurement of loss allowance	**887**	1,694
Write-offs	**(1,496)**	(2,023)
Recoveries of amounts previously written-off	**222**	326
Loss allowance, end of year	**1,981**	2,368

[in thousands of Canadian dollars]

17. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT [CONTINUED]

(c) Credit risk [continued]

Impairment losses on trade and other receivables are presented as net impairment losses within the statement of income. When a receivable is deemed to be uncollectible, it is written off and the expected loss allowance is adjusted accordingly. Subsequent recoveries of receivables previously provisioned or written off result in a reduction of impairment losses included in operating costs in the statement of income.

As at December 31, 2019, there were no significant concentrations of credit risk with respect to any class of financial assets or counterparties and the Company's maximum exposure to credit risk is equal to the carrying value of accounts receivable less customer deposits held.

(d) Liquidity risk

Liquidity risk is the risk that the Company will not meet its financial obligations as they come due. The Company's parent, Hydro Ottawa Holding Inc., manages all the financing and investing activities for the Company. The Company has access to credit facilities with Hydro Ottawa Holding Inc. [Note 10]. These credit facilities are available to the Company to help meet its financial obligations as they come due.

Liquidity risks associated with financial commitments are as follow:

	2019		
	Due within one year $	**Due between one and five years $**	**Due after five years $**
Bank indebtedness	**26,323**	-	-
Accounts payable and accrued liabilities	**153,062**	-	-
Notes payable			
4.97% promissory note, due December 19, 2036	-	-	**50,000**
4.14% for the first five years [3.99% thereafter] promissory note, due May 14, 2043	-	-	**107,185**
2.72% for the first five years [2.61% thereafter] promissory note, due February 3, 2025	-	-	**138,667**
3.77% for the first five years [3.64% thereafter] promissory note, due February 2, 2045	-	-	**121,333**
2.72% for the first five years [2.61% thereafter] promissory note, due June 25, 2025	-	-	**15,999**
3.77% for the first five years [3.64% thereafter] promissory note, due June 25, 2045	-	-	**14,001**
2.66% promissory note, due October 16, 2029	-	-	**87,500**
3.21% promissory note, due October 16, 2049	-	-	**162,500**
Interest to be paid on notes payable	**23,919**	**93,093**	**347,578**
	203,304	**93,093**	**1,044,763**

Account payable and accrued liabilities in the above table exclude $2,006 of accrued interest which is included in interest to be paid on notes payable.

[in thousands of Canadian dollars]

18. REVENUE FROM CONTRACTS WITH CUSTOMERS AND OTHER SOURCES

The Company's revenue breakdown is as follows:

	2019	2018
	$	$
Revenue from contracts with customers		
Power recovery and distribution		
Residential service [(1)]	**357,161**	339,947
General service [(2)]	**658,205**	628,599
Large users [(3)]	**72,879**	69,887
Other		
Service work related to distribution operations	**9,854**	6,510
Pole attachment and duct rentals	**4,454**	4,440
Capital contributions from customers amortized to revenue	**2,048**	1,555
Account-related charges	**3,048**	3,303
Shared service agreements and miscellaneous	**4,049**	4,005
	1,111,698	1,058,246
Revenue from other sources		
Other		
Investment property rentals	**820**	904
Capital contributions from developers amortized to revenue	**1,719**	1,395
	1,114,237	1,060,545

[(1)] Residential service means a service that is for domestic or household purposes, including single family or individually metered multifamily units and seasonal occupancy.
[(2)] General service means a service supplied to premises other than those receiving Residential Service and Large Users and typically includes small businesses and bulk-metered multi-unit residential establishments. This service is provided to customers with a monthly peak demand of less than 5,000 kW averaged over a twelve-month period.
[(3)] Large users means a service provided to a customer with a monthly peak demand of 5,000 kW or greater averaged over a twelve-month period.

[in thousands of Canadian dollars]

19. OPERATING COSTS

	2019	2018
	$	$
Salaries, wages and benefits	**74,856**	77,285
Contracted services - distribution system maintenance	**11,300**	10,828
Contracted services - customer owned plant	**15,669**	19,340
Other electricity distribution costs	**9,570**	8,331
Other general and administrative expenses	**30,797**	31,728
Loss (gain) on disposals of property, plant and equipment	**35**	(256)
Capital recovery	**(30,637)**	(31,488)
	111,590	115,768

20. FINANCING COSTS

	2019	2018
	$	$
Long-term interest	**22,732**	21,374
Short-term interest and fees	**2,102**	881
Less: capitalized borrowing costs	**(2,631)**	(2,496)
	22,203	19,759

21. INCOME TAXES

Income tax expense recognized in net income comprises the following:

	2019	2018
	$	$
Current tax expense		
Current income tax expense	**1,311**	4,689
Deferred tax expense		
Origination and reversal of temporary differences	**12,802**	8,629
Income tax expense recognized in net income	**14,113**	13,318

Income tax expense recognized in other comprehensive income comprises the following:

	2019	2018
	$	$
Income tax effect of actuarial (loss) gain on defined benefit obligations	**(549)**	380

[in thousands of Canadian dollars]

21. INCOME TAXES [CONTINUED]

The provision for income taxes differs from the amount that would have been recorded using the combined Canadian federal and Ontario statutory income tax rates. A reconciliation between the statutory and effective tax rates is provided as follows:

	2019 **$**	2018 $
Federal and Ontario statutory income tax rate	**26.50 %**	26.50 %
Income before income taxes	**51,813**	50,477
Income taxes at statutory rate	**13,730**	13,376
Increase (decrease) in income taxes resulting from:		
Permanent differences	**(62)**	48
Other	**445**	(106)
	14,113	13,318
Effective income tax rate	**27.24 %**	26.38 %

The Company, as a rate-regulated enterprise, can recognize deferred income tax assets and liabilities and related regulatory balances for the amount of deferred income taxes expected to be refunded to, or recovered from, customers in future electricity rates.

Significant components of the Company's deferred income liability are as follows:

	2019 **$**	2018 $
Property, plant and equipment and intangible assets	**(43,874)**	(30,602)
Employee future benefits	**5,193**	4,459
Other temporary differences	**622**	337
	(38,059)	(25,806)

Movements in the deferred income tax (liability) asset during the year were as follows:

	2019 **$**	2018 $
Deferred tax, beginning of year	**(25,806)**	(16,797)
Recognized in net income	**(12,802)**	(8,629)
Recognized in OCI related to employee future benefits	**549**	(380)
Deferred tax, end of year	**(38,059)**	(25,806)

The Company's regulatory deferral account debit balance for the amounts of deferred income taxes expected to be refunded/(collected) to/from customers in future electricity rates is $38,059 [2018 – $25,806].

[in thousands of Canadian dollars]

22. CHANGES IN NON-CASH WORKING CAPITAL AND OTHER OPERATING BALANCES

	2019	2018
	$	$
Accounts receivable	**(16,876)**	16,306
Prepaid expenses	**(1,737)**	(756)
Accounts payable and accrued liabilities	**10,957**	(2,971)
Net change in accruals related to property, plant and equipment	**8,633**	2,829
Net change in accruals related to intangible assets	**(4,800)**	58
Customer deposits in accounts receivable	**-**	(14,586)
	(3,823)	880

23. CONTINGENT LIABILITIES

Purchasers of electricity in Ontario including the Company, through the Independent Electricity System Operator ['IESO'], are required to provide security to mitigate the risk of their default based on their expected activity in the market. The IESO could draw on these guarantees if the Company fails to make a payment required by a default notice issued by the IESO. A prudential support obligation is calculated based upon a default protection amount and the distributor's trading limit less a reduction for the distributor's credit rating. As at December 31, 2019, the Company had drawn standby letters of credit in the amount of $10,000 [December 31, 2018 – $10,000] against its credit facility to cover its prudential support obligation.

The Company participates with other electrical utilities in Ontario in an agreement to exchange reciprocal contracts of indemnity through the Municipal Electrical Association Reciprocal Insurance Exchange. The Company is liable for additional assessments to the extent premiums collected and reserves established are not sufficient to cover the cost of claims and costs incurred. If any additional assessments were required in the future, their cost would be charged to income in the year during which they occur.

The Company is party to connection and cost recovery agreements with HONI as described in Note 8. Each of the Company's CCRAs has a term of 25 years. To the extent that the cost of the project is not recoverable from future transformation connection revenues, the Company is obligated to pay a capital contribution equal to the difference between these revenues and the construction costs allocated to the Company. These agreements require periodic reviews whereby a comparison of actual to forecasted load is conducted, and a true-up calculation performed. When a true-up calculation shows the Company’s actual load for the past period and updated load forecast for the future period are lower than the initial load, the Company is obligated to make up this shortfall. When the Company's actual load and updated load forecast are higher than the initial load, the Company is entitled to a rebate. True-up calculations are made in years 5 and 10 and in year 15 if the difference between the actual incremental load and initial load at the end of year 10 is greater than 20%.

Various lawsuits have been filed against the Company for incidents that arose in the ordinary course of business. In the opinion of management, the outcomes of the lawsuits, now pending, are neither determinable nor material. Should any loss result from the resolution of these claims, such losses would be claimed through the Company’s insurance carrier, with any unrecoverable amounts charged to income in the year of resolution.

24. COMMITMENTS

The Company has $122,564 in total open commitments for 2020 to 2026. This includes commitments relating to a call centre service agreement, construction projects, facilities, and overhead and underground services.

25. RELATED PARTY TRANSACTIONS

Transactions with related parties occur in the normal course of business, and are transacted at the amount of consideration determined and agreed to by the related parties. Trade amounts due from and to related parties are non-interest bearing, result from normal operations and are due within one year.

(a) Transactions with ultimate shareholder and its subsidiaries

During the year, the Company earned revenue from the sale of electricity to the City of Ottawa and its subsidiaries, which is billed at prices and terms approved by the OEB, and earned other revenue totaling $455 [2018 – $387]. The Company also received $4,268 [2018 – $3,580] in contributions relating to the upgrade and/or expansion of the Company's existing electricity distribution infrastructure.

The Company incurred $2,855 [2018 – $2,433] in property taxes and $1,002 [2018 – $2,711] in conservation and demand management rebate costs, and purchased $794 [2018 – $634] in fuel, permits and other services during the year, which is included in operating costs. The Company also incurred $504 [2018 – $269] in building permit costs and development charges, which are included in property, plant and equipment.

At December 31, 2019, the Company's accounts receivable and customer deposits include $8,873 [December 31, 2018 – $7,473] and $1,053 [December 31, 2018 – $652], respectively, while the Company's accounts payable and accrued liabilities include $125 [December 31, 2018 – $54] due to the City of Ottawa and its subsidiaries.

(b) Transactions with parent

During the year, the Company earned revenue of $1,209 [2018 – $1,242] relating to the provision of administrative and corporate services and interest charges.

The Company incurred $3,074 [2018 – $3,315] in operating costs related to the purchase of administrative and corporate support services that includes compensation for certain key management personnel, and $2,088 [2018 – $881] in short-term financing costs. The Company also purchased power of $20 [2018 – $38].

At December 31, 2019, the Company's accounts payable and accrued liabilities include $2,291 [December 31, 2018 – $414] due in respect of the transactions described.

The Company incurred $22,732 [2018 – $21,374] in financing costs during the year on its notes payable to Hydro Ottawa Holding Inc. described in Note 14 of these financial statements.

(c) Transactions with other related parties

During the year, the Company earned revenue from the sale of electricity to other related parties, which is billed at prices and terms approved by the OEB, and earned other revenue of $3,652 [2018 – $3,012]. The Company also received $4,019 [2018 – $691] in contributions relating to the upgrade and/or expansion of the Company's existing electricity distribution infrastructure. During the year, the Company purchased power of $4,942 [2018 – $6,566], and incurred $534 [2018 – $362] in operating costs.

In 2019, the Company sold vacant land to a related party for cash proceeds of $1,827, as described in Note 7.

At December 31, 2019, the Company's accounts receivable include $454 [December 31, 2018 – $522] due in respect of the transactions above while accounts payable and accrued liabilities include $2,811 [December 31, 2018 – $2,320] due to other related parties.

26. COMPARATIVE FIGURES

In certain instances, the 2018 information presented for comparative purposes has been reclassified to conform to the financial statement presentation adopted for the current year.

27. SUBSEQUENT EVENT

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

RECONCILIATION OF AUDITED FINANCIAL STATEMENTS

1. INTRODUCTION

Section 2.1.9 of the *Chapter 2 Filing Requirements for Electricity Distribution Rate Applications*, as updated on July 12, 2018 and addended on July 15, 2019, requires distributors to submit a "detailed reconciliation of the financial results shown in the audited financial statements with the regulatory financial results filed in the application, including a reconciliation of the fixed assets in order to, as one example, separate non-distribution businesses."

The following pages in this Schedule provide such reconciliation for the years 2016, 2017, and 2018.

2. 2016 RECONCILIATION

Table 1 below provides a reconciliation of Hydro Ottawa's 2016 Audited Statement of Income to information for the 2016 Historical Year that is provided in this Application.

Table 1 – 2016 Statement of Income ($'000s)

Statement of Income	Audited 2016	IFRS 14 Adjustment[1]	Unregulated Business[2]	2016 Regulated Balances
REVENUE AND OTHER INCOME				
Power Recovery Revenue	$974,207	$(8,968)	$0	$965,239
Distribution Revenue	$165,729	$986	$0	$166,715
Conservation & Demand Management Income	$19,643	$0	$(19,643)	$0
Other Revenue	$16,941	$0	$(156)	$16,785
TOTAL REVENUE AND OTHER INCOME	**$1,176,520**	**$(7,982)**	**$(19,799)**	**$1,148,739**
EXPENSES				
Purchased Power	$968,069	$(2,830)	$0	$965,239
Operating Costs	$107,205	$(242)	$(18,905)	$88,058
Amortization/Depreciation	$41,829	$0	$(110)	$41,719
Financing Costs	$16,514	$0	$0	$16,514
PILS	$11,898	$(8,250)	$0	$3,648
TOTAL EXPENSES	**$1,145,515**	**$(11,322)**	**$(19,015)**	**$1,115,178**
Net Movements in Regulatory Balances, Net of Tax	$3,340	$(3,340)	$0	$ 0
NET INCOME	**$34,345**	**$0**	**$(784)**	**$33,561**

[1] IFRS 14 requires a one-line separate presentation of the net movement within Hydro Ottawa's regulatory deferral accounts related to income (i.e. the debit and credit balances, net of taxes) within its statement of income.

[2] In accordance with OEB policies, all revenue and expenses associated with conservation and demand management ("CDM") have been excluded from the costs and revenues in this Application. In addition, revenues and expenses related to other non-utility operations, such as rental of properties not in rate base and solar energy facilities (FIT and MicroFIT), have also been excluded.

Table 2 below provides a reconciliation of Capital Assets as reported in the 2016 Audited Financial Statements to information for the 2016 Historical Year that is provided in this Application.

Table 2 – Capital Assets ($'000s)

	Audited 2016	Unregulated Business[3]	2016 Regulated Balances
Property, plant and equipment	$879,169	$(285)	$878,884
Intangible assets	$62,963	$0	$62,963
Investment properties	$2,149	$(2,149)	$0
Deferred revenue	$(77,004)	$0	$(77,004)
TOTAL	**$867,277**	**$(2,415)**	**$864,843**

[3] This pertains to non-utility assets.

3. 2017 RECONCILIATION

Table 3 below provides a reconciliation of Hydro Ottawa's 2017 Audited Statement of Income to information for the 2017 Historical Year that is provided in this Application.

Table 3 – 2017 Statement of Income ($'000s)

Statement of Income	Audited 2017	IFRS 14 Adjustment[4]	Unregulated Business[5]	2017 Regulated Balances
REVENUE & OTHER INCOME				
Power Recovery Revenue	$896,528	$(20,726)	$0	$875,802
Distribution Revenue	$171,400	$(418)	$0	$170,982
Conservation & Demand Management Income	$23,976	$0	$(23,976)	$0
Other Revenue	$18,581	$0	$(102)	$18,479
TOTAL REVENUE & OTHER INCOME	**$1,110,485**	**$(21,144)**	**$(24,078)**	**$1,065,263**
EXPENSES				
Purchased Power	$910,810	$(35,008)	$0	$875,802
Operating Costs	$111,891	$(307)	$(23,866)	$87,718
Amortization/Depreciation	$44,055	$0	$(111)	$43,944
Financing Costs	$17,612	$0	$0	$17,612
PILS	$13,170	$(9,342)	$0	$3,828
TOTAL EXPENSES	**$1,097,538**	**$(44,657)**	**$(23,977)**	**$1,028,904**
Net Movements in Regulatory Balances, Net of Tax	$23,513	$(23,513)	$0	$0
NET INCOME	**$36,460**	**$0**	**$(101)**	**$36,359**

[4] IFRS 14 requires a one-line separate presentation of the net movement within Hydro Ottawa's regulatory deferral accounts related to income (i.e. the debit and credit balances, net of taxes) within its statement of income.
[5] In accordance with OEB policies, all revenue and expenses associated with CDM have been excluded from the costs and revenues in this Application. In addition, revenues and expenses related to other non-utility operations, such as rental of properties not in rate base and solar energy facilities (FIT and MicroFIT), have also been excluded.

Table 4 below provides a reconciliation of Capital Assets as reported in the 2017 Audited Financial Statements to information for the 2017 Historical Year that is provided in this Application.

Table 4 – 2017 Capital Assets ($'000s)

	Audited 2017	Unregulated Business[6]	2017 Regulated Balances
Property, plant and equipment	$963,639	$(270)	$963,393
Intangible assets	$72,347	$0	$72,347
Investment properties	$2,456	$(2,456)	$0
Deferred revenue	$(95,383)	$0	$(95,383)
TOTAL	**$943,083**	**$(2,726)**	**$940,357**

[6] This pertains to non-utility assets.

4. 2018 RECONCILIATION

Table 5 below provides a reconciliation of Hydro Ottawa's 2018 Audited Statement of Income to information for the 2018 Historical Year that is provided in this Application.

Table 5 – 2018 Statement of Income ($'000s)

Statement of Income	Audited 2018	IFRS 14 Adjustment[7]	Unregulated Business[8]	2018 Regulated Balances
REVENUE & OTHER INCOME				
Power Recovery Revenue	$857,383	$(4,466)	$0	$852,917
Distribution Revenue	$181,050	$(834)	$0	$180,216
Conservation & Demand Management Income	$24,865	$0	$(24,865)	$0
Other Revenue	$22,112	$0	$(439)	$21,673
TOTAL REVENUE & OTHER INCOME	**$1,085,410**	**$(5,300)**	**$(25,304)**	**$1,054,806**
EXPENSES				
Purchased Power	$864,442	$(11,525)	$0	$852,917
Operating Costs	$115,768	$162	$(21,274)	$94,656
Amortization/Depreciation	$49,656	$0	$(119)	$49,537
Financing Costs	$19,759	$0	$0	$19,759
PILS	$13,318	$(8,629)	$0	$4,689
TOTAL EXPENSES	**$1,062,943**	**$(19,992)**	**$(21,393)**	**$1,021,558**
Net Movements in Regulatory Balances, Net of Tax	$14,692	$(14,692)	$0	$0
NET INCOME	**$37,159**	**$0**	**$(3,911)**	**$33,248**

[7] IFRS 14 requires a one-line separate presentation of the net movement within Hydro Ottawa's regulatory deferral accounts related to income (i.e. the debit and credit balances, net of taxes) within its statement of income.
[8] In accordance with OEB policies, all revenue and expenses associated with CDM have been excluded from the costs and revenues in this Application. In addition, revenues and expenses related to other non-utility operations, such as rental of properties not in rate base and solar energy facilities (FIT and MicroFIT), have also been excluded.

Table 6 below provides a reconciliation of Capital Assets as reported in the 2018 Audited Financial Statements to information for the 2018 Historical Year that is provided in this Application.

Table 6 – 2018 Capital Assets ($'000s)

	Audited 2018	Unregulated Business[9]	2018 Regulated Balances
Property, plant and equipment	$1,112,259	$(254)	$1,112,005
Intangible assets	$66,174	$ 0	$66,174
Investment properties	$ 2,338	$(2,338)	$ 0
Deferred revenue	$(115,769)	$0	$(115,769)
TOTAL	**$1,065,002**	**$(2,592)**	**$1,062,410**

[9] This pertains to non-utility assets.

ANNUAL REPORT AND MANAGEMENT DISCUSSION AND ANALYSIS

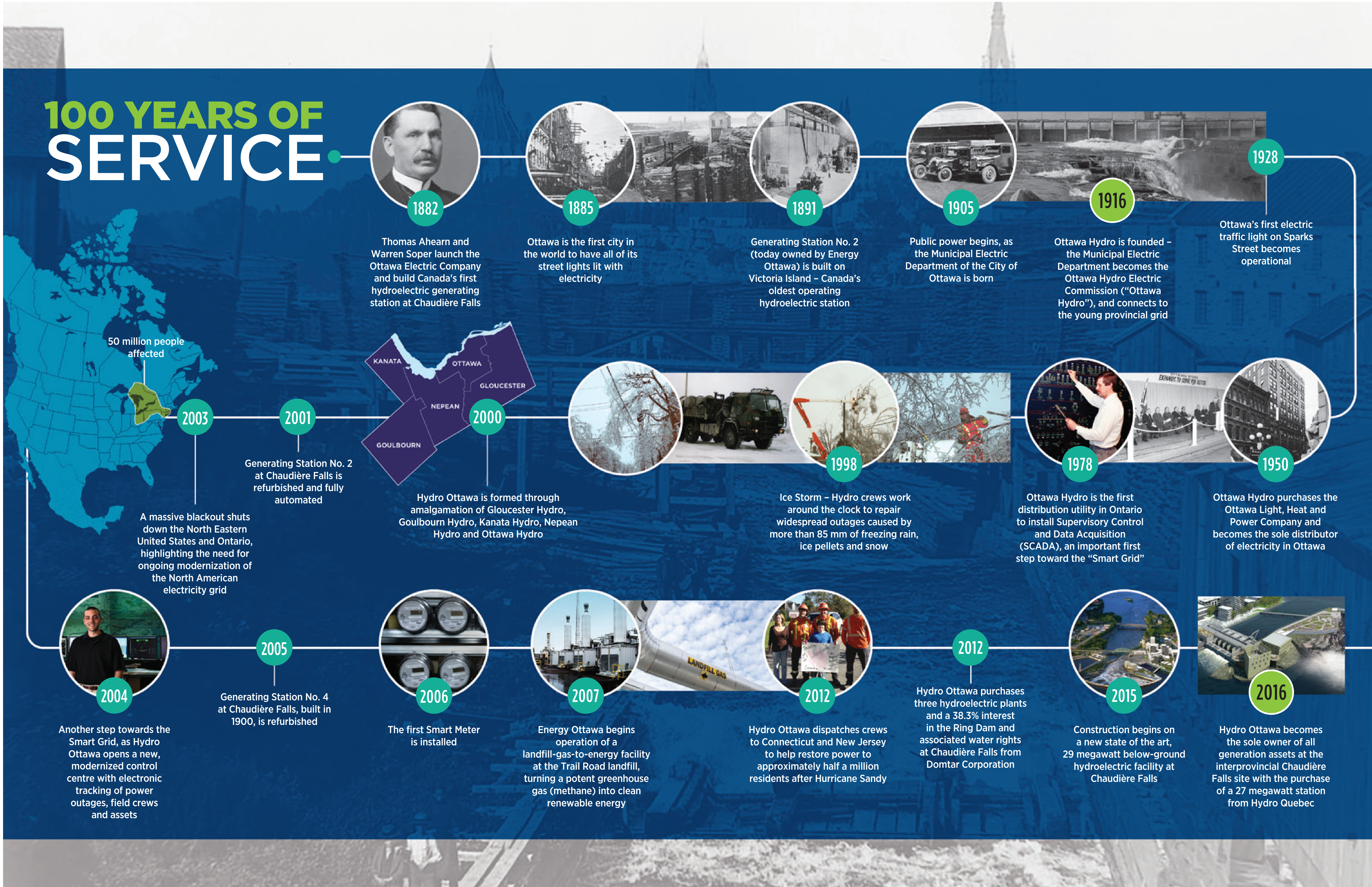
The parent company of Hydro Ottawa is Hydro Ottawa Holding Inc. (“the Holding Company”). Appended to this Schedule are copies of the following Annual Reports and Management Discussion and Analysis prepared by the Holding Company:

- Attachment 1-3-3(A): 2016 Hydro Ottawa Holding Inc. Annual Report
- Attachment 1-3-3(B): 2017 Hydro Ottawa Holding Inc. Annual Report
- Attachment 1-3-3(C): 2018 Hydro Ottawa Holding Inc. Annual Report

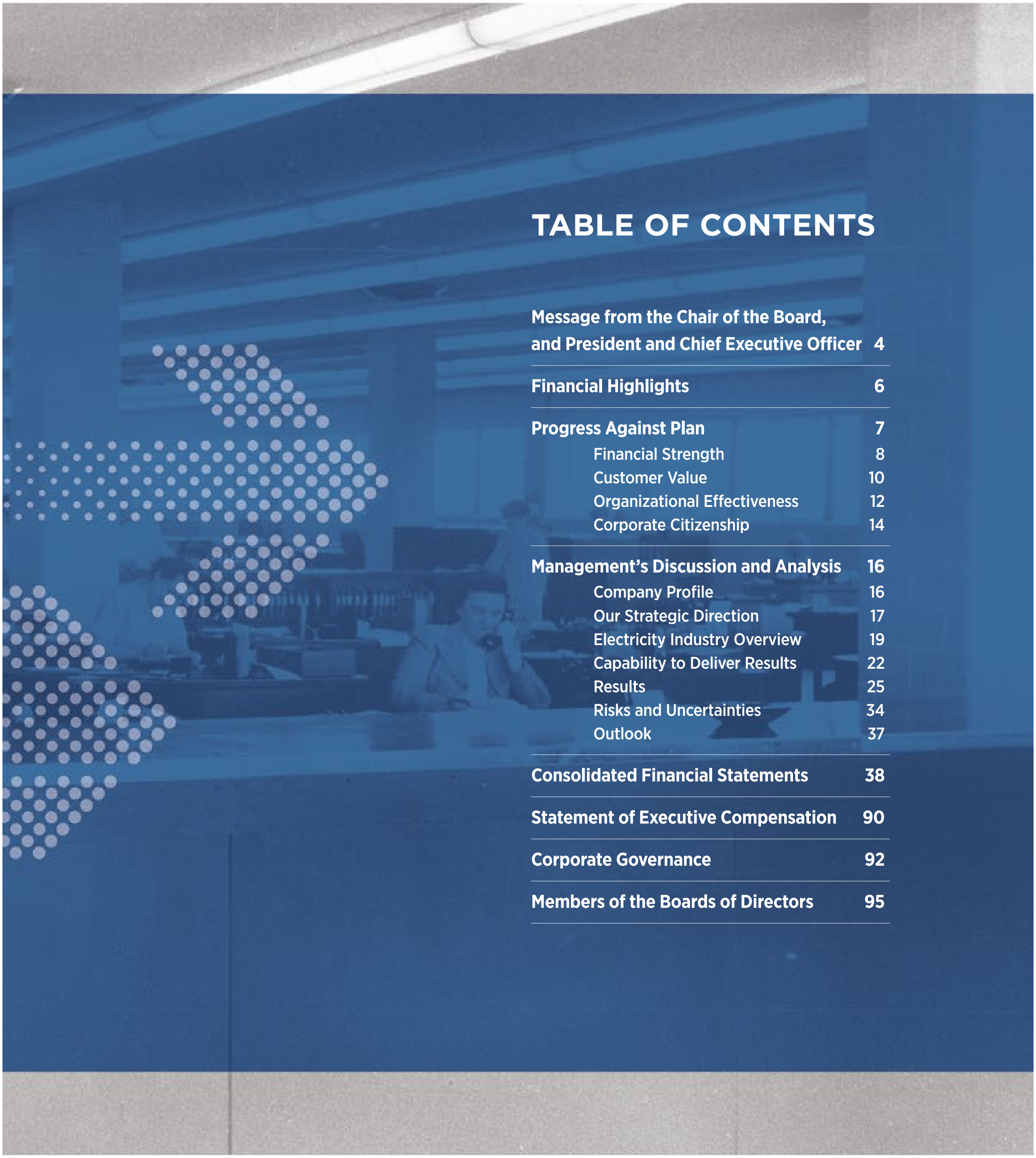
Hydro Ottawa Holding Inc.

100 YEARS OF SERVICE

Annual Report 2016


100 YEARS OF SERVICE
1882
Thomas Ahearn and Warren Soper launch the Ottawa Electric Company and build Canada's first hydroelectric generating station at Chaudière Falls
1885
Ottawa is the first city in the world to have all of its street lights lit with electricity
1891
Generating Station No. 2 (today owned by Energy Ottawa) is built on Victoria Island – Canada's oldest operating hydroelectric station
1905
Public power begins, as the Municipal Electric Department of the City of Ottawa is born
1916
Ottawa Hydro is founded – the Municipal Electric Department becomes the Ottawa Hydro Electric Commission ("Ottawa Hydro"), and connects to the young provincial grid
1928
Ottawa's first electric traffic light on Sparks Street becomes operational
1950
Ottawa Hydro purchases the Ottawa Light, Heat and Power Company and becomes the sole distributor of electricity in Ottawa
1978
Ottawa Hydro is the first distribution utility in Ontario to install Supervisory Control and Data Acquisition (SCADA), an important first step toward the "Smart Grid"
1998
Ice Storm – Hydro crews work around the clock to repair widespread outages caused by more than 85 mm of freezing rain, ice pellets and snow
KANATA
OTTAWA
GLOUCESTER
NEPEAN
GOULBOURN
2000
Hydro Ottawa is formed through amalgamation of Gloucester Hydro, Goulbourn Hydro, Kanata Hydro, Nepean Hydro and Ottawa Hydro
2001
Generating Station No. 2 at Chaudière Falls is refurbished and fully automated
50 million people affected
2003
A massive blackout shuts down the North Eastern United States and Ontario, highlighting the need for ongoing modernization of the North American electricity grid
2004
Another step towards the Smart Grid, as Hydro Ottawa opens a new, modernized control centre with electronic tracking of power outages, field crews and assets
2005
Generating Station No. 4 at Chaudière Falls, built in 1900, is refurbished
2006
The first Smart Meter is installed
2007
Energy Ottawa begins operation of a landfill-gas-to-energy facility at the Trail Road landfill, turning a potent greenhouse gas (methane) into clean renewable energy
2012
Hydro Ottawa dispatches crews to Connecticut and New Jersey to help restore power to approximately half a million residents after Hurricane Sandy
2012
Hydro Ottawa purchases three hydroelectric plants and a 38.3% interest in the Ring Dam and associated water rights at Chaudière Falls from Domtar Corporation
2015
Construction begins on a new state of the art, 29 megawatt below-ground hydroelectric facility at Chaudière Falls
2016
Hydro Ottawa becomes the sole owner of all generation assets at the interprovincial Chaudière Falls site with the purchase of a 27 megawatt station from Hydro Quebec


Our Mission
To create long-term value for our shareholder, benefitting our customers and the communities we serve
Our Organizational Values
Teamwork, Integrity, Excellence and Service
Our Vision
Hydro Ottawa – a leading partner in a smart energy future



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Message from the Chair of the Board, and President and Chief Executive Officer

On behalf of the Board of Directors and management of Hydro Ottawa, it is our pleasure to provide this 2016 Annual Report.

Jim Durrell, C.M.
Chair, Board of Directors

Bryce Conrad
President and Chief Executive Officer

As the theme of this report highlights, 2016 marked 100 years that Hydro Ottawa and its predecessor utilities have been serving our community – ever since the formation of the Ottawa Hydro Electric Commission in 1916. Some elements of our business go back even further: our Generating Station No. 2 at Chaudière Falls, Canada's oldest operating generating station, was built in 1891.

It is fitting that we are reaching this milestone as Ottawa welcomes the world to the nation's capital to celebrate Canada's 150th year. We are proud to have played our part in building the vibrant and increasingly green and sustainable national capital that will be showcased during the Ottawa 2017 celebrations.

In marking our 100th year, it is not simply the company's rich heritage and deep community roots that we wish to highlight. Rather, it is the unique mix of service and innovation that has characterized our company over time, and which continues to be at its heart. Since Ahearn and Soper built Canada's first hydro plant here in 1882, the spirit of innovation has been alive and well. Ottawa would become the first community anywhere to electrify all of its streetlights in 1885, and nearly a century later, in 1978, Ottawa Hydro became the first distribution utility in Ontario to install SCADA – an early precursor of today's emerging Smart Grid.

Service also has deep roots in our company, as anyone knows who has seen the unmistakable orange suits of our crews, out working around the clock to repair outages in extreme conditions – never more memorably than during the 1998 ice storm.

As we guide the company through a transformational period in our industry, these themes of service and innovation continue to

be guiding lights. Our five-year Strategic Direction for 2016-2020 retains a focus on what has driven our success to date – putting the customer at the centre of everything we do – while setting out a new vision for the company: to be a leading partner in a smart energy future.

2016 was the first year of implementation for this refreshed corporate strategy, and we are pleased with the progress that was made. Financial results were excellent, with a consolidated net income of $34.8 million, yielding a record dividend payment to the shareholder of $20.6 million. Our consolidated return on equity was 8.4 percent.

Even more important than these one-year financial results were the steps taken to position the company for future success. Through a transaction that closed in December 2016, Hydro Ottawa completed the acquisition of all generating infrastructure and water rights at the inter-provincial Chaudière Falls site. Our redevelopment and expansion of two stations on the Ontario side of the river continued to track on-time and on-budget towards a 2017 in-service date, and will cap a more than five-fold expansion of our generating capacity since 2012. We continued to renew our workforce and our infrastructure, and made good progress on replacing obsolete facilities – a key efficiency and modernization initiative. And we launched new business lines leveraging our expertise in utility services, in areas such as cable testing and power quality monitoring.

With respect to service, we achieved our best reliability performance in the last five years, with the number and duration of outages continuing to trend downward. We also lengthened service hours at our contact centre, increased customer engagement through social media, and set the stage for new digital and mobile tools to be launched in 2017, increasing customer control and convenience.

Hydro Ottawa also continued to be an engaged, responsible corporate citizen, working to reduce our environmental impact, consulting with our stakeholders, and contributing to quality of life in our community. In this, we take our lead from our employees, whose resolve to contribute and give where they live is a constant source of inspiration.

In sum, it was a year of noteworthy achievements for Hydro Ottawa in 2016, and one that fittingly capped off 100 years of service. This company and its predecessors have played a central role in Ottawa's evolution from rough-hewn lumber town to sophisticated G7 capital. We have transformed local generation assets from the power behind pulp production, to nodes within an increasingly green and diverse energy grid. We look forward to continuing to be of service as we launch into Hydro Ottawa's second century.

Jim Durrell, C.M.
Chair, Board of Directors

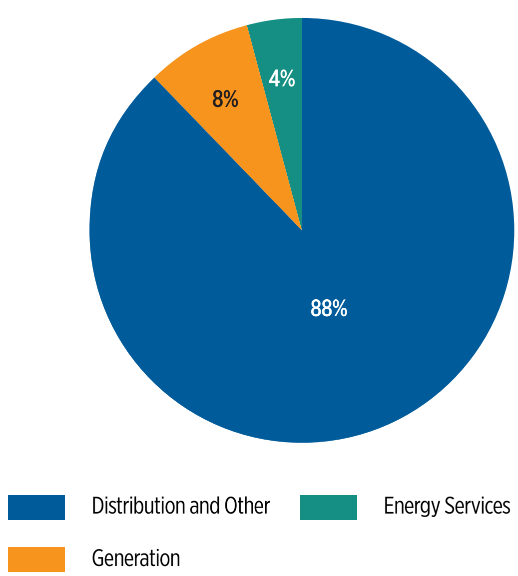
Bryce Conrad
President and Chief Executive Officer

Financial Highlights

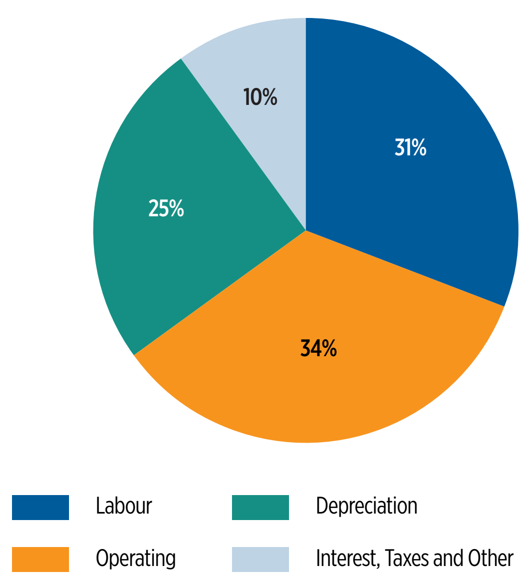
[in thousands of Canadian dollars]

	2016	2015
Operations		
Total revenue [1]	**1,189,360**	1,087,181
Distribution revenue [1]	**166,715**	159,509
Generation revenue	**17,489**	16,238
EBITDA [1]	**103,341**	96,394
Net income	**34,836**	32,370
Dividends	**(20,600)**	(19,400)
Balance Sheet		
Total assets and regulatory balances	**1,630,578**	1,284,363
Capital assets	**1,270,135**	1,075,091
Debentures	**772,960**	571,519
Shareholder's equity	**426,775**	413,397
Cash Flows		
Operating	**96,317**	100,557
Investing	**(349,777)**	(220,202)
Financing	**181,696**	154,515

Revenue by type [1, 2]



Expenses by type [1, 2]



1 Pre-IFRS 14

2 Excludes Power Recovery and Purchased Power

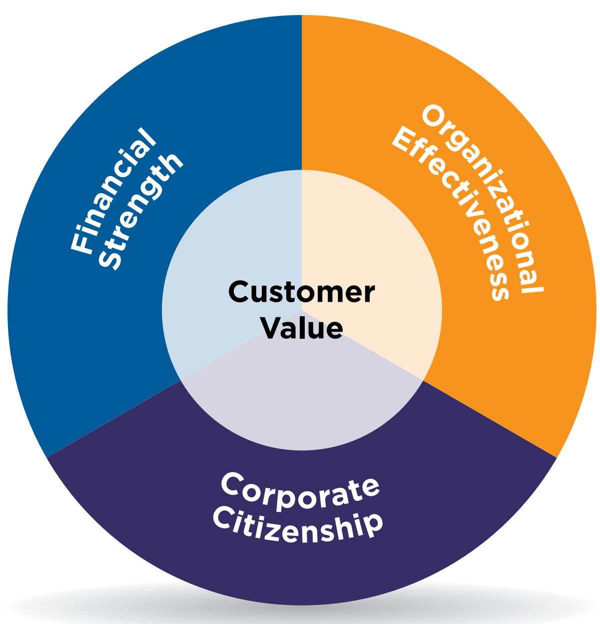
Progress Against Plan

Hydro Ottawa's 2016 Annual Report is the first to report against the Company's *2016-2020 Strategic Direction*, which outlines our business strategy and financial projections for the next five years. This strategy retains the core elements of the previous strategic plan [2012-2016 Strategic Direction], while responding to an altered strategic context and reflecting important changes to the Company itself – including the scale of its renewable generation business. It also outlines a new vision for Hydro Ottawa – to be a l*eading partner in a smart energy future*.

The essence of Hydro Ottawa's strategy is to put the customer at the centre of everything that we do. We believe that a sharp focus on the value we provide to our customers will generate positive results in all areas of performance – our financial strength and business growth, our operational efficiency and effectiveness, and our contributions to the community.

Hydro Ottawa's success in the past has been achieved by focusing on four critical areas of performance – our Four Key Areas of Focus: Customer Value, Financial Strength, Organizational Effectiveness, and Corporate Citizenship. These four Key Areas of Focus and supporting strategic objectives continue to guide our activities through the current plan and form the basis of our annual reporting in the pages that follow.

As before, the area of Customer Value takes on central importance as the most important driver of our business strategy.



FOUR KEY AREAS OF FOCUS

Customer Value

Strategic Objective

We will deliver value across the entire customer experience

By providing reliable, responsive and innovative services at competitive rates

Financial Strength

Strategic Objective

We will create sustainable growth in our business and our earnings

By improving productivity and pursuing business growth opportunities that leverage our strengths – our core capabilities, our assets and our people

Organizational Effectiveness

Strategic Objective

We will achieve performance excellence

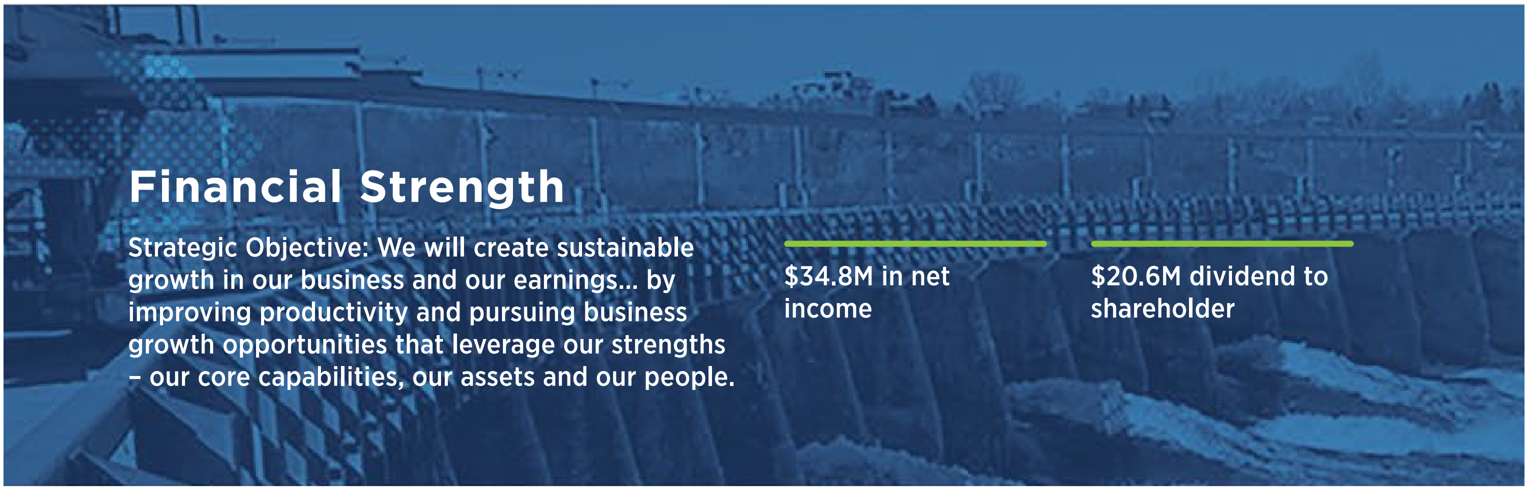
By cultivating a culture of innovation and continuous improvement

Corporate Citizenship

Strategic Objective

We will contribute to the well-being of the community

By acting at all times as a responsible and engaged corporate citizen



Financial Strength

Strategic Objective: We will create sustainable growth in our business and our earnings… by improving productivity and pursuing business growth opportunities that leverage our strengths – our core capabilities, our assets and our people.

$34.8M in net income

$20.6M dividend to shareholder

In 2016, Hydro Ottawa continued to achieve excellent financial results, while launching new business lines and advancing key strategic projects that position the company for future growth.

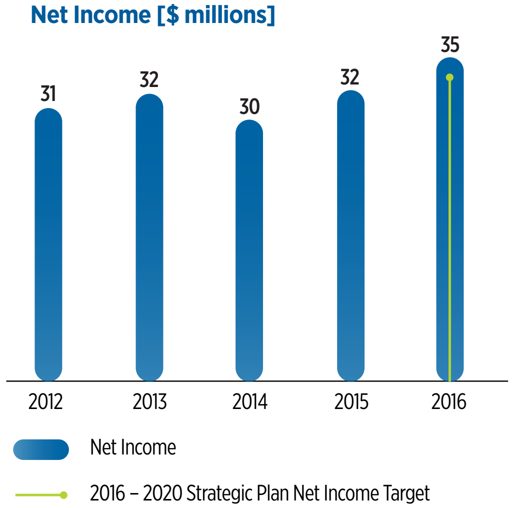
Our 2016 consolidated net income of $34.8 million exceeds the $34 million commitment in our 2016-2020 Strategic Direction, and is our highest to date. Notably, this was achieved while undertaking the largest capital project in the company's history – the Chaudière Falls expansion project – which will be a significant contributor to revenues in the future, but reduces revenues in the short-term while plants are shut down during construction.

With a consolidated return on equity of 8.4 percent, Hydro Ottawa continues to create value for its sole shareholder, the City of Ottawa.

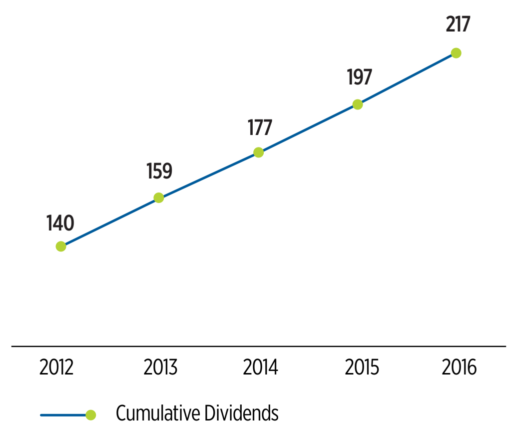
Our 2016 results yielded a dividend payment of $20.6 million – a record annual dividend, bringing cumulative dividends to $217 million since 2005.

In addition to these annual results, 2016 saw several important developments that position the company for future success. Hydro Ottawa acquired the 27-megawatt (MW) Centrale Hull 2 generating station from Hydro-Québec, together with the remaining one-third interest in the Ottawa River ring dam. With this acquisition, the company now owns 100 percent of the generating infrastructure and water rights at the inter-provincial Chaudière site. We also secured two 40-year power purchase agreements to sell power from the Quebec plants at Chaudière Falls into the Ontario

Net Income [$ millions]



Cumulative Dividends [$ millions]

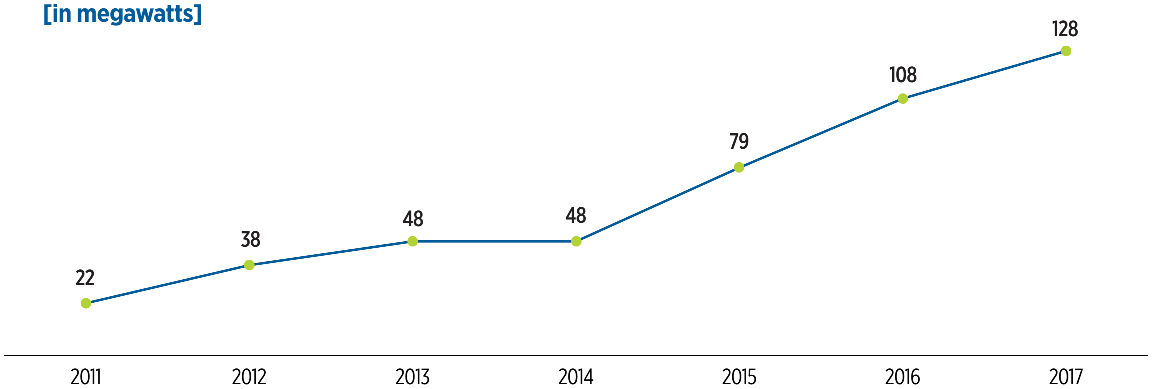


grid. This will alleviate the forecast capacity shortage in Ottawa's downtown core. Most importantly, our Chaudière Falls expansion project, involving the redevelopment and expansion of two stations on the Ontario side of the river, continued to track on-time and on-budget towards a 2017 in-service date. When finished, this project will cap a five-fold increase in Hydro Ottawa's generating capacity since 2012 – bringing the total to 128 MW – and will provide improved public access to the spectacular falls and surrounding historic site.

In keeping with our 2016-2020 Strategic Direction, Hydro Ottawa also took important steps to expand the range of energy and utility services we provide. The City of Ottawa street light conversion project proceeded ahead of schedule, and will deliver financial benefits for both parties while reducing environmental impacts. All eight City of Ottawa solar rooftop projects were also completed.

New business lines in utility cable testing and power quality monitoring were also launched and marketed at industry events throughout 2016. Hydro Ottawa holds an exclusive license with the National Research Council for a proprietary cable testing process, and is the exclusive supplier of PQ View, a web-based platform for power quality management and analysis.

Growth in Generation Capacity [in megawatts]



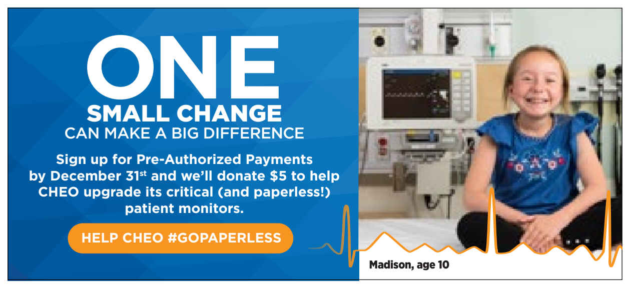
Customer Value

Strategic Objective: We will deliver value across the entire customer experience... by providing reliable, responsive and innovative services at competitive rates.

81% customer satisfaction rate

Highest e-billing participation in Ontario

The essence of Hydro Ottawa's business strategy is to put the customer at the centre of everything we do. In 2016, we provided highly reliable electricity service, made significant investments to maintain that standard of service, and increased our interaction and communication with customers, while keeping distribution rates as affordable as possible.

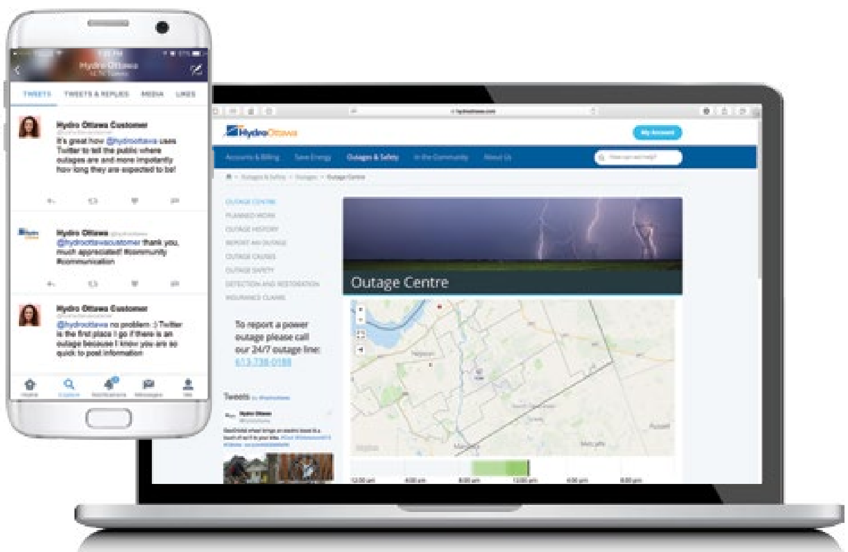


While we continue to extend the range of services we offer to customers, we know that most fundamentally they look to us for reliable electricity, where and when they need it. In 2016, we achieved our best reliability performance in the last five years, and the three-year rolling averages for both frequency and duration of outages continued to trend down.

To maintain this trend, we continue to replace aging infrastructure at an accelerated pace. In line with our OEB-approved five-year plan, we invested $65 million in 2016 to keep our system reliable, targeting aging infrastructure, localized reliability issues, and increasing station capacity. A further $38 million was invested to expand the system to meet customer needs.

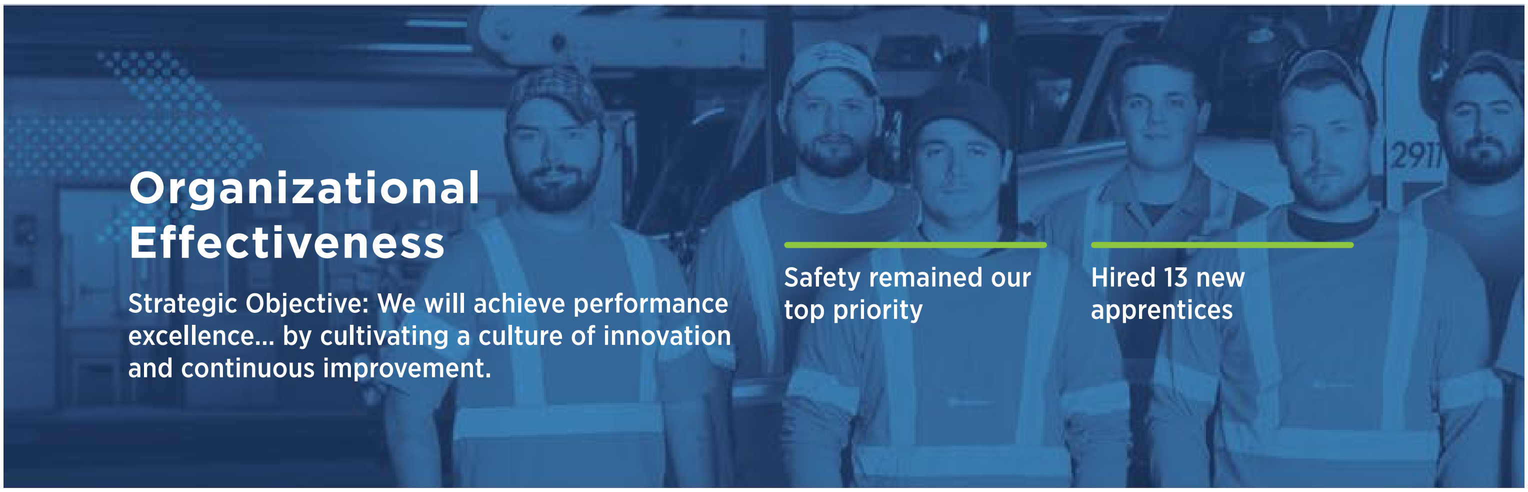
Our customer satisfaction rate was 81 percent in 2016. This is equal to the average for local electrical utilities in Ontario, but down from the 87 percent we achieved in 2015. Province-wide public debate and concern about electricity prices likely contributed to the drop.

We are working to sustain and improve customer satisfaction through our multi-year Customer Experience Strategy, and through the creation of the role of Chief Customer Officer, who will provide company-wide leadership in this area. Service levels and hours were extended at our contact centre in 2016. We also increased our interaction and communication through social media, which has become a primary contact point for many customers, especially during storms and outages when real-time information is vital. We increased our activity and engagement levels across all major platforms, and expanded our use of video content. A mobile app is under development and scheduled for launch in 2017.



E-billing and autopay options increase customer convenience and save money – a win-win. Hydro Ottawa has the highest e-billing participation rate of any utility in Ontario, at 38 percent, resulting in annual cost savings of $1.3 million. Our 2016 Go Paperless Campaign was our most successful ever, generating a $102,000 donation to the CHEO Foundation for patient monitors.

We also continued to help customers manage their energy consumption and costs through conservation and demand management (CDM) programs. Our six-year CDM plan (2015-2020) is expected to help our customers save 395 gigawatt hours of electricity. In 2016, our residential coupon program delivered 15 gigawatt-hours of savings, and we supported several major commercial projects. This includes a combined-heat-and-power project at Algonquin College that will reduce electricity consumption on the campus by about 40 percent.



Organizational Effectiveness

Strategic Objective: We will achieve performance excellence... by cultivating a culture of innovation and continuous improvement.

Safety remained our top priority

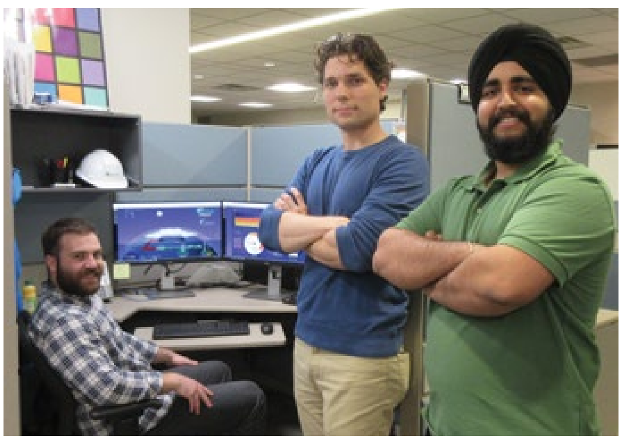
Hired 13 new apprentices

Our 2016-2020 Strategic Direction sets out an ambitious agenda for enhancing customer, shareholder and community value. Achieving these objectives will require an effective and constantly learning organization, with the right skills and organizational capacity to deliver on existing and new business lines. With this in mind, we continued to focus on three main outcomes in 2016: a safe and healthy work environment; an engaged, aligned and prepared workforce; and efficient and effective operations that enhance the customer experience.

Maintaining a healthy and safe work environment remained our top priority. Under our integrated Occupational Health, Safety and Environment [OHSE] management system, we implemented extensive education and training, field site monitoring, and internal and external program auditing with a view to continuous improvement. We provided more than 23 hours of safe work practices training per employee in 2016, with a particular focus on higher risk trades employees, who received an average of almost 35 hours of training. Our OHSE management system continued to be certified to the internationally-recognized standards of OHSAS 18001 and ISO 14001. Our generation division received the Canadian Electricity Association Vice President's Award for Safety Excellence for the second year in a row.

In 2016, we continued to implement a proactive and multi-faceted Talent Management Strategy to ensure a prepared and sustainable workforce over the next five to ten years. This includes a comprehensive succession planning process to identify and develop talent for all levels of leadership throughout the organization.

Like many other utilities, Hydro Ottawa faces challenging workforce demographics that require a concerted response. 37.5 percent of employees are eligible for retirement in the next 10 years, including

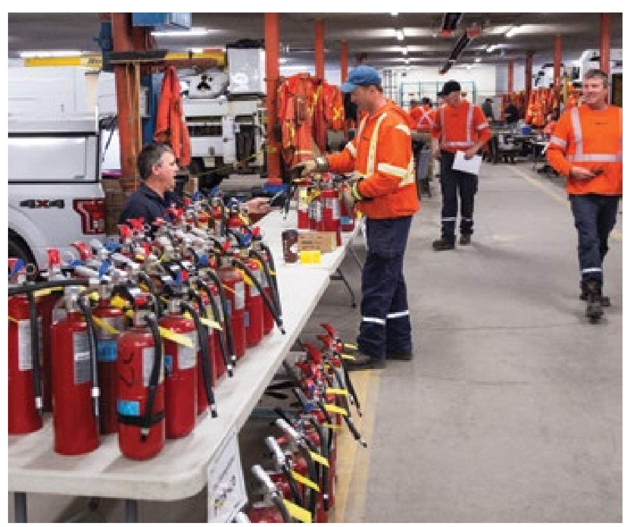


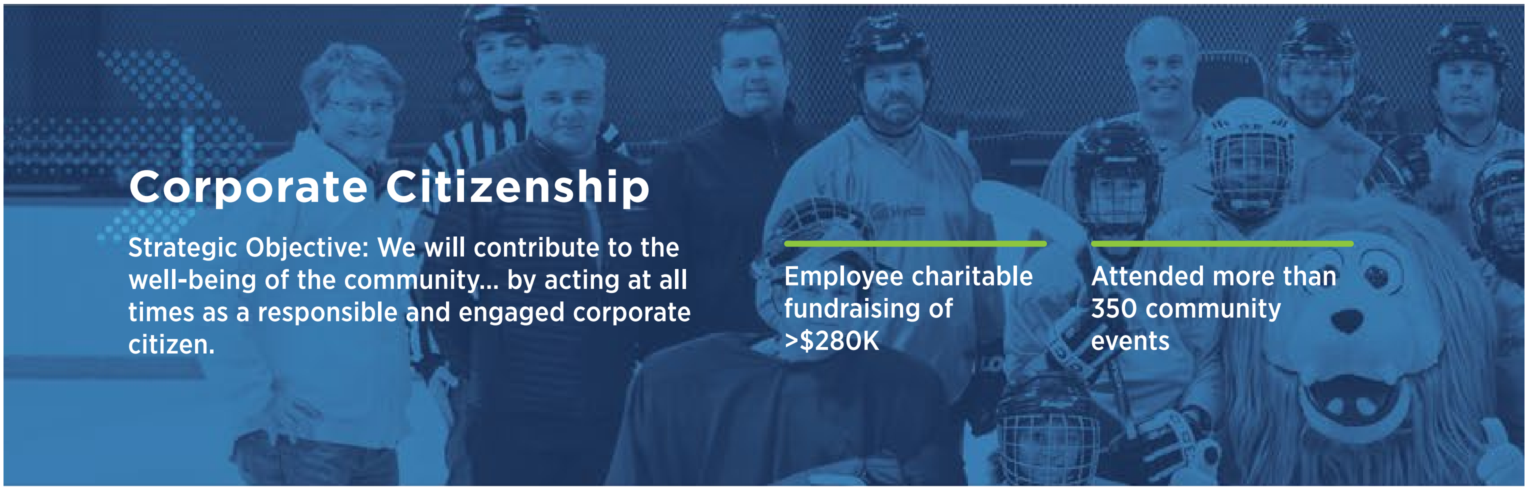
41 percent of trades and technical employees. At the same time, the company has already seen significant workforce renewal, and this process continues. Almost 20 percent of Hydro Ottawa's employees are under 30, and our in-house apprenticeship programs have produced 71 qualified journeypersons in the electrical trades since 2005. Our engineering intern program fills a similar role, enabling candidates to achieve the P.Eng. designation while developing in-house talent for mission-critical positions. In 2016, we hired 13 new apprentices and 3 new engineering interns. We also continued our partnerships with industry and educational institutions, including a renewed and expanded collaboration with Algonquin College to deliver the College's Powerline Technician programs in the eastern Ontario region for 2016-2020.

Pursuit of improved productivity remains a constant, and in 2016 we implemented a number of improvements and cost controls. These included equipment upgrades, crew location and transportation-time improvements, use of remote disconnect meters to reduce field-work, and termination of certain contractual arrangements in favour of more cost effective alternatives. These productivity gains helped the company to contain operating, maintenance and administration (OM&A) costs to a 2 percent increase year over year.

Technology plays a key role in our efforts to enhance performance and productivity, as well as customer service. To ensure we use it effectively, the converging functions of operational and information technology have been integrated under Hydro Ottawa's Chief Information and Technology Officer. In 2016, we invested $9.8 million in next generation technology systems to support customer service, operational efficiency, grid modernization, and cybersecurity.

We also took significant steps forward in our Facilities Renewal Plan – a key modernization and operational efficiency initiative that will see the company relocate from obsolete, end of life facilities (specifically, our main office and south and east operations centres) in 2019. The project is on track with a design-build contract now in place.





Corporate Citizenship

Strategic Objective: We will contribute to the well-being of the community… by acting at all times as a responsible and engaged corporate citizen.

Employee charitable fundraising of >$280K

Attended more than 350 community events

In 2016, Hydro Ottawa built on its 100-year heritage as a responsible, community-focused company – one that is well-governed, open and engaged with our stakeholders, environmentally responsible, and a significant contributor to quality of life in our community.

To ensure we are visible and accessible to our stakeholders, we have stepped up our community presence in recent years. In 2016, we participated in more than 350 community events – a 34 percent increase over 2015 – and hosted our first Hydro Ottawa Community Forum. Our community activities include energy-related educational programs in schools, a Conservation Team that attends diverse community, corporate and retail events, and a wide range of other tours, presentations and open houses. We also increased our online presence and social media engagement.

We enhanced our communication with community associations and business improvement areas in 2016, launching newsletters dedicated to keeping these stakeholders up to date. Our Community Forum allowed us to consult and inform stakeholders about our CDM programs, tree trimming efforts, planned work, and low-income assistance programs.

Environmental leadership continues to be a high priority for Hydro Ottawa. In 2016, we diverted 92 percent of non-hazardous wastes (liquid and solid) away from landfill, cut our paper consumption and use of physical servers, and continued the conversion of our fleet to lower-impact vehicles. We became a charter member of carbon 613, contributing to a more sustainable National Capital Region. Through that initiative, we have baselined our greenhouse gas emissions and will target annual improvement. We have also continued to play a leading role in the City of Ottawa's Energy Evolution initiative.

Increased online engagement by 85%

Earned 12 performance excellence awards

Diverted 92% of non-hazardous wastes from landfill

Our Brighter Tomorrows community investment program continued to contribute to the well-being of our community in carefully chosen ways, led by our employees' resolve to "give where they live." Our annual employee charitable fundraising campaign raised $282,000. More than $200,000 from this campaign will be used to help build an expanded Breast Health Centre at the Ottawa Hospital – the first installment of a five-year, $1 million commitment. Our employees also contributed to the community with their time. More than 100 employees took up the offer to spend one paid day doing volunteer work, including 41 who volunteered at Special Needs Day at the Capital Fair – a highlight of the year for many Hydro Ottawa employees.

As in past years, our *Brighter Tomorrows Fund* – a partnership with the United Way – helped frontline agencies serving the homeless in Ottawa, or those at risk of homelessness, to cut their operating costs through energy efficiency improvements. Eight agencies received $140,000 through this Fund in 2016. We also renewed our long-standing partnership with Christie Lake Kids, supporting recreation and skills and leadership training for economically disadvantaged youth.

We were once again pleased in 2016 to have our efforts recognized with third-party awards and rankings in the areas of best employer, human resources innovation, safety and customer programs, and environmental performance.

Management's Discussion and Analysis

INTRODUCTION

The Management's Discussion and Analysis ['MD&A'] reviews Hydro Ottawa Holding Inc.'s operational performance and financial results, and should be read in conjunction with the audited consolidated financial statements and accompanying notes for the year ended December 31, 2016. On January 1, 2015, Hydro Ottawa Holding Inc. adopted International Financial Reporting Standards ['IFRS'] including early adoption of IFRS 14 Regulatory Deferral Accounts ['IFRS 14']. The accompanying consolidated financial statements are prepared in accordance with IFRS, as issued by the International Accounting Standards Board ['IASB'], and are expressed in thousands of Canadian dollars.

The MD&A contains forward-looking statements, including, but not limited to, statements as to future operating results and plans. These statements reflect management's expectations as of the date of approval of the consolidated financial statements. The impacts of risks and uncertainties may cause actual results, performance or achievements to differ materially from those projected here.

CORE BUSINESS AND STRATEGY

Company Profile

Hydro Ottawa Holding Inc. ['Hydro Ottawa', 'the Company' or 'the Corporation'] is 100 percent owned by the City of Ottawa. It is a private company, registered under the Ontario *Business Corporations Act*, and overseen by an independent Board of Directors consisting of 11 members appointed by City Council. The core businesses of the Corporation are electricity distribution, renewable energy generation and energy and utility services. Hydro Ottawa owns and operates two subsidiary companies.

Hydro Ottawa Limited, the first of these two subsidiaries, is a regulated electricity local distribution company ['LDC'] operating in the City of Ottawa and the Village of Casselman. As the third-largest municipally-owned electrical utility in Ontario, Hydro Ottawa Limited maintains one of the safest, most reliable and cost-effective electricity distribution systems in the province, serving approximately 328,000 residential and commercial customers across 1,100 square kilometres. As a condition of its distribution licence, the Company is required to meet conservation and demand management ['CDM'] targets established by the Ontario Energy Board ['OEB']. The Company's customer base grows by an average of one percent per year.

Energy Ottawa Inc. ['Energy Ottawa'], the second of these subsidiaries, is the largest municipally-owned producer of green power in Ontario, and provides commercial energy and infrastructure management services to large energy-consuming organizations. These include turnkey energy efficiency solutions, non-destructive cable testing and smart data monitoring systems. Energy Ottawa also owns and operates six run-of-the-river hydroelectric generation plants at Chaudière Falls near Ottawa's core, along with the historic Ottawa River Ring Dam, and 10 other run-of-the-river facilities in Ontario and upstate New York. It also holds majority interests in two gas-to-energy joint ventures, which produce clean, renewable energy from landfill gas at the Trail Road and Laflèche landfill sites in Ottawa and Moose Creek, Ontario, and has 14 solar installations across the City of Ottawa. A multi-year project is under way to expand Energy Ottawa's Ontario generation facilities at Chaudière Falls. With the completion of this project, scheduled for 2017, the Company will have over 128 megawatts of installed green generation capacity – enough to power 107,000 homes.

For a complete list of entities included in Hydro Ottawa's consolidated financial results, refer to Note 1 [Description of Business and Corporate Information] in the consolidated financial statements included in this report.

Our Strategic Direction

In 2016, Hydro Ottawa issued a new strategic plan [2016-2020 Strategic Direction], outlining the Company's business strategy and financial projections for the next five years. This strategy retains the core elements of the previous strategic plan [2012-2016 Strategic Direction], while responding to an altered strategic context and reflecting important changes to the Company itself – including the scale of its renewable generation business. It also outlines a new Vision for Hydro Ottawa – to be a *leading partner in a smart energy future*.

Strategy

The essence of Hydro Ottawa's strategy is to put the customer at the centre of everything we do. Reorienting our business around the customer was the primary goal of our 2012-2016 Strategic Direction, and customer centrality continues to drive our business strategy. We believe that a sharp focus on the value we provide to our customers will generate positive results in all areas of performance – our financial strength and business growth, our operational efficiency and effectiveness, and our contributions to the well-being of our community.

A core premise of our 2016-2020 Strategic Direction is that the electricity service model is in the midst of significant transformation – taking on a more decentralized, customer-centric, technologically advanced and environmentally sustainable form. The transition to a more customer-driven and customer-centric model of electricity will present opportunities for energy providers that are able to innovate, and challenges for those that fail to adapt. Our strategy for responding to this emerging landscape involves eight core elements:

- Taking customer experience to the next level;
- Continuing to achieve strategic growth, including continued growth in our renewable energy business, evaluating opportunities to grow our electricity distribution business, and expanding the range of services we provide;
- Ensuring access to capital for growth;
- Making sure we have the right skill sets and organizational capacity to deliver on existing and new business lines;
- Continuing to enhance operational performance, including productivity and safety;
- Delivering on critical projects such as the Chaudière expansion project;
- Continuing to build public confidence and trust; and
- Being ready to embrace change and disruption in our industry.

Our aim is to be the trusted energy advisor for our customers – large and small – and our community. As the energy needs and options of our customers and our community evolve, and as signature projects and developments proceed, Hydro Ottawa will play a leading role in helping our City to transition to a smart energy future.

We will also continue to grow shareholder value, maintaining a focus on strategic business growth within our core areas of strength. Our growth agenda involves four basic components:

- **Electricity Distribution**: continuing to evaluate opportunities to increase our distribution service territory;
- **Renewable Generation**: increasing the supply of clean energy for customers and earnings for our shareholder by making smart investments in renewable generation;

- **Energy Services**: providing innovative solutions to help consumers, businesses and communities meet their energy objectives, through energy management, conservation, efficient street lighting, energy generation, energy storage, district energy, and demand response opportunities, among others; and
- **Utility Services**: leveraging our assets and expertise to help other utilities to enhance the value they provide, creating new revenue streams and economies of scale.

Taken as a whole, we believe this strategy for the Company's future presents a balanced program for solid performance, adaptation to a changing business environment, and sustainable and profitable business growth.

Mission, Vision & Guiding Principles

OUR MISSION – *To create long-term value for our shareholder, benefitting our customers and the communities we serve*

Hydro Ottawa is both a community asset and an investment for our shareholder, the City of Ottawa. As a community asset, our purpose is to provide efficient and reliable services and a first-class customer experience to our customers, and to continue to be a strong strategic partner with the City, helping to deliver on its economic development and environmental agendas. As an investment, our purpose is to provide stable, reliable and growing returns, and to increase shareholder value both in the short- and long-term.

OUR VISION – *Hydro Ottawa – a leading partner in a smart energy future*

OUR GUIDING PRINCIPLES

Hydro Ottawa is committed to creating long-term value in a manner that will withstand the test of public scrutiny and inspire confidence and trust. To that end, we strive to achieve excellent operating and financial results while abiding by professional standards of conduct. We are guided not only by legal obligations, but also by best governance and business practices, and standards established by independent agencies. These expectations provide the foundation for our commitment to all of our stakeholders, and are reflected in our organizational values, our Code of Business Conduct, and our operating policies and procedures.

OUR ORGANIZATIONAL VALUES

At Hydro Ottawa we are committed to an organizational environment that fosters and demonstrates ethical business conduct at all levels and reflects our shared values of teamwork, integrity, excellence and service. Every employee must lead by example in this endeavour.

OUR COMMITMENTS TO OUR STAKEHOLDERS

Hydro Ottawa takes into account the interests of all our stakeholders including employees, customers, suppliers, our shareholder, and the communities and environment in which we operate.

Employees

The quality of our workforce is our strength and we will strive to hire and retain the best-qualified people available and maximize their opportunities for success. We are committed to maintaining a safe, secure and healthy work environment enriched by diversity and characterized by open communication, trust, and fair treatment.

Customers

Our continued success depends on the quality of our customer interactions, and we are committed to delivering value across the entire customer experience. We are honest and fair in our relationships with our customers, and provide reliable, responsive and innovative products and services in compliance with legislated rights and standards for access, safety, health and environmental protection.

Suppliers and Contractors

We are honest and fair in our relationships with our suppliers and contractors and purchase equipment, supplies and services on the basis of merit, with a preference for local procurement. We pay suppliers and contractors in accordance with agreed terms, encourage them to adopt responsible business practices, and require them to adhere to our health, safety and environment standards when working for Hydro Ottawa.

Community and the Environment

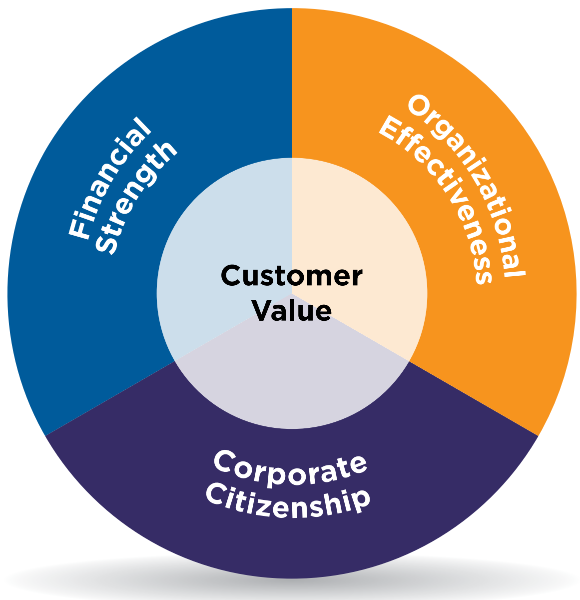
We are committed to being a responsible corporate citizen and will contribute to making the communities in which we operate better places to live and do business. We are sensitive to the community's needs, and dedicated to protecting and preserving the environment where we operate.

Shareholder and Other Suppliers of Finance

We are financially accountable to our shareholder and to the institutions that underwrite our operations, and communicate to them all matters material to our organization. We protect our shareholder's investment, and manage risks effectively. We communicate to our shareholder all matters that are material to an understanding of our corporate governance.

FOUR KEY AREAS OF FOCUS

Hydro Ottawa's success in the past has been achieved by focusing on four critical areas of performance – our four Key Areas of Focus. In each of these areas, we have set one overarching objective:



CUSTOMER VALUE: We will deliver value across the entire customer experience by providing reliable, responsive and innovative services at competitive rates;

FINANCIAL STRENGTH: We will create sustainable growth in our business and our earnings by improving productivity and pursuing business growth opportunities that leverage our strengths – our core capabilities, our assets and our people;

ORGANIZATIONAL EFFECTIVENESS: We will achieve performance excellence by cultivating a culture of innovation and continuous improvement; and

CORPORATE CITIZENSHIP: We will contribute to the well-being of the community by acting at all times as a responsible and engaged corporate citizen.

These four areas of focus and strategic objectives will continue to guide our activities through the current plan. As before, the area of Customer Value takes on central importance as the most important driver of our business strategy.

Electricity Industry Overview

Within the broader electricity sector, different entities are responsible for generating electricity, transmitting it, delivering it to customers' homes and businesses, directing grid and market operations, and overseeing and regulating the system. These entities are different in the three markets where Hydro Ottawa operates: Ontario, Québec and upstate New York.

System Operators

The *Independent Electricity System Operator* ['IESO'] connects all participants in Ontario's power system — generators that produce electricity, transmitters that send it across the province, retailers that buy and sell it, industries that use it in large quantities, and local distribution companies that deliver it to homes and businesses. The IESO forecasts electricity demand throughout the province every five minutes and collects offers from generators to provide the required amount of electricity to the province's electricity market. Customers buying directly from the market can therefore see prices fluctuate based on current supply and demand, and respond accordingly. The IESO monitors the system, identifies what is required to maintain reliability in the future, and publishes its findings in regular reports. It also coordinates emergency preparedness for the province's electricity system.

The *New York Independent System Operator* ['NYISO'] is at the heart of New York's electricity system, monitoring the grid and power infrastructure, administering and monitoring the wholesale electricity markets, and planning for the state's energy future. The NYISO was created to provide fair and open access to the electrical grid. New York is divided into 11 electricity zones and, within each, the NYISO is responsible for scheduling generation and load, contracting for the services necessary to maintain grid reliability, and scheduling imports and exports. The NYISO is also responsible for publishing current demand [or load] every five minutes. Hydro Ottawa's New York State assets are located in the NYISO Zone E – Mohawk Valley.

Hydro-Québec operates the entire electricity system in Québec through various divisions; the division that performs the system operator role is Hydro-Québec TransÉnergie.

Electricity Generation

Electricity is created by generating stations — hydroelectric, nuclear, fossil-fueled, wind, biomass and biogas, and solar power – as well as small-scale 'distributed energy' installations [mainly renewables] at or near the end-user's location. Some facilities operate continuously [e.g., nuclear and large hydroelectric stations], while others operate intermittently [e.g. wind power], or can start up or slow down as required to follow demand fluctuations [e.g. natural gas stations]. Hydro Ottawa, through its subsidiary, Energy Ottawa, has a fleet of hydroelectric, landfill gas-to-energy and solar generating stations, and is Ontario's largest municipally-owned producer of green power.

Electricity Transmission

Electricity is transmitted from generating stations to local distribution companies and large industrial customers through a high-voltage network of transformer stations, transmission towers and wires. In Ontario, the transmission network is primarily operated by Hydro One, while in Québec it is operated by Hydro-Québec TransÉnergie. In New York State, the transmission system is operated by a number of private and public entities such as National Grid and the New York Power Authority, these are collectively referred to as New York Transmission Owners.

Electricity Distribution

After transmission, electricity is distributed at lower voltages to homes, businesses, hospitals, schools, factories, and farms by LDCs such as Hydro Ottawa Limited. LDCs deal directly with electricity customers, maintain their community's system of electricity wires, and create and implement electricity conservation programs for customers. LDCs are the primary electricity billing agent collecting all electricity charges. Hydro Ottawa Limited is a municipally-owned LDC that operates in the City of Ottawa and the Village of Casselman.

While it is always an LDC that delivers electricity through its distribution lines to a home or business, electricity customers have the choice of buying their electricity from their LDC or an electricity retailer. Most Ontario customers choose to buy from their LDC. New York residents and businesses can also choose their electricity supplier while retaining access to the same delivery infrastructure.

Regulatory Framework

In Ontario, the Ministry of Energy [Ministry] sets the overall policy for the energy sector, guided by relevant laws and regulations. The Ministry oversees the IESO and the Ontario Energy Board [OEB], which regulates the energy sector as set out primarily in three statutes – the Ontario Energy Board Act, 1998 ['OEB Act']; the Electricity Act, 1998; and the Energy Consumer Protection Act, 2010. The OEB Act establishes the authority of the OEB to approve and fix all rates for the transmission and distribution of electricity in Ontario, and to set standards of service, conduct and reporting that must be adhered to as a condition of being licensed.

In the United States, electric utilities and independent power producers are regulated at both the federal and state levels. Under the Federal Power Act, the Federal Energy Regulatory Commission ['FERC'], an independent agency within the U.S. Department of Energy, regulates the transmission and wholesale sale of electricity in interstate commerce. Unless otherwise exempt, any entity that owns or operates facilities used for the wholesale sale or transmission of electric energy in interstate commerce is a public utility subject to FERC's jurisdiction. NYISO is also under the oversight of the FERC.

In Québec, the electricity sector is regulated by La Régie de l'énergie [the Régie], an independent agency. The Act Respecting the Régie de l'énergie grants the Régie de l'énergie exclusive authority to determine or modify the rates and conditions under which electricity is transmitted and distributed by Hydro-Québec.

Rates

Hydro Ottawa Limited recovers its costs from customers through electricity distribution rates. These include the costs to:

- Design, build, and maintain overhead and underground distribution lines, poles, stations and local transformers;
- Operate local distribution systems, including smart meters; and
- Provide customer service and emergency response.

Costs and rates vary from one distributor to another, depending on factors such as the age and condition of assets, geographic terrain and distance, population density and growth and the proportion of residential to commercial and industrial consumers.

Hydro Ottawa Limited's distribution charge to its customers represents less than 20 percent of the total amount the customer pays. Hydro Ottawa collects the whole amount, but keeps only this portion. The other 80 percent is passed on, without mark-up, to regulators, the provincial government, and the other companies responsible for generating and transmitting electricity.

Hydro Ottawa Limited's distribution rates are set by the OEB, based on applications submitted for rate changes. For more information on the rate-setting framework and Hydro Ottawa Limited's rates, see Note 3(e) [Significant Accounting Policies – Regulation] to the consolidated financial statements included in this report.

Energy Ottawa's hydroelectric generation rates drive its generation revenues, and are dependent on the contractual arrangement in place for each of its generating facilities. For hydroelectric facilities delivering power to Québec and Ontario, Energy Ottawa operates under fixed power purchase agreements with Hydro-Québec and the IESO respectively, whereby a "base contractual rate" is determined at the outset of each agreement. In Ontario, an indexing factor is applied on an annual basis until the completion of the contract term while for Québec facilities the rate is locked in for the first two years after which the rate will fluctuate based on applicable market rates. For hydroelectric stations located in upstate New York, Energy Ottawa's power purchase agreements [all of which are with the Niagara Mohawk Power Corporation – a subsidiary of National Grid plc] are currently market-based. As a result, the rates that drive generation revenues from these stations fluctuate depending on the economic forces that impact electricity pricing in the area.

Capability to Deliver Results

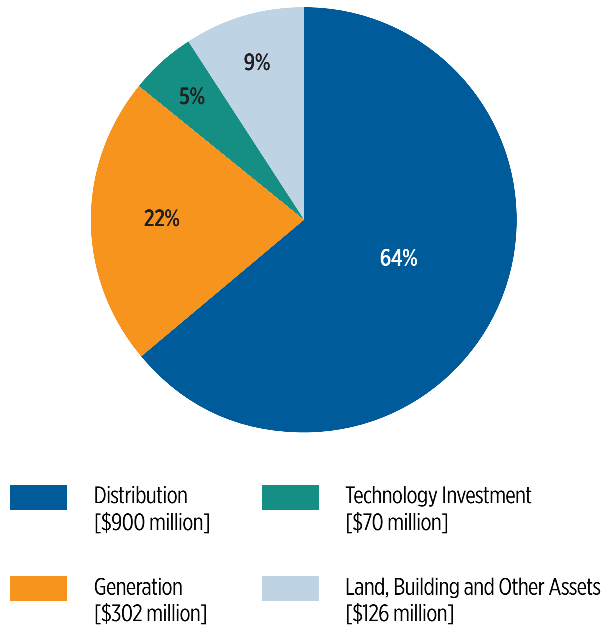
Hydro Ottawa's capability to achieve the objectives set out in its strategic direction is a function of its expertise, assets, both tangible and intangible, systems and capital resources across the following areas.

Assets

Hydro Ottawa's gross asset base is $1.4 billion, with significant ongoing investments in distribution and generation infrastructure and technology systems. Like all utilities, Hydro Ottawa is affected by the industry-wide reality of aging infrastructure, and continues to manage this through increased infrastructure investments and a detailed Distribution System Plan to target spending where it will have the most benefit. In 2016, the Corporation invested $65 million to maintain its distribution system and a further $38 million to expand the system to meet customer needs [see 'Investing Activities' for more details]. These investments are having the desired impact, with electricity service reliability continuing to improve system wide. Hydro Ottawa has also recognized the need for a replacement of core work and operational centres that are at the end of their useful life. In 2016, work progressed on the Company's Facilities Renewal Project, including the contract award to the design builder. Hydro Ottawa also continues to grow its renewable generation infrastructure with $84 million invested in 2016.

- ***Electricity Distribution Assets*** – For more than 100 years, Hydro Ottawa and its predecessor companies have delivered a reliable supply of electricity to homes and businesses.
  - › Service Area – 1,116 square kilometers
  - › Circuitry – 5,609 kilometers
  - › Substations – 88
  - › Transformers – 45,414
  - › Poles – 49,247
- ***Renewable Generation Assets*** – Largest municipally-owned producer of green power in Ontario with 128 megawatts [upon completion of Chaudière Falls expansion] of installed generation capacity, enough to power 107,000 homes.
  - › Run-of-the-River Hydroelectric Generating Stations – 16
  - › Landfill Gas-to-Energy Plants – 2
  - › Solar Installations – 14

Gross Tangible and Intangible Assets



Workforce

A highly skilled, properly trained and knowledgeable workforce, and a safe and healthy work environment are essential to Hydro Ottawa's continued success. Achieving the company's strategic objectives will require an effective and constantly learning organization, with the right skill sets to deliver on existing and new business lines.

Hydro Ottawa employed approximately 720 people at the end of 2016 across the enterprise; Hydro Ottawa Limited accounted for 89 percent of this workforce.

Like many other utilities, Hydro Ottawa faces challenging workforce demographics that require a concerted response. The Company has put in place a comprehensive and integrated talent management strategy aimed at anticipating and meeting talent needs, through planning, talent attraction and acquisition, effective deployment of resources, and performance management and development. This includes:

- Extensive in-house apprenticeship programs, and an engineering intern training and development program, to ensure the availability of qualified journeypersons and professional engineers. Our programs continued to grow in 2016 with 13 new apprentices hired (bringing the total to 39, or 22 percent of our trades workforce). Fourteen apprentices reached journeyperson status in 2016.

- Programs for succession planning and management, as well as training and development, to ensure that there are qualified employees in the talent pipeline for key positions.
- A proactive approach to knowledge management and knowledge transfer for key positions, including an older worker and retiree engagement strategy so that work is seamlessly transitioned from our veteran workforce to the next generations.
- A Diversity Plan, which fosters an inclusive culture that leverages diversity and enhances employee engagement and innovation.
- Partnerships with industry and educational institutions to support the implementation of the talent management strategy. These include, most notably, collaborations with Algonquin College to deliver the College's Powerline Technician programs in the eastern Ontario region, and with Carleton University's Sustainable and Renewable Energy Engineering Department for the establishment of a smart grid laboratory. The latter fosters innovative research on electrical power systems and promote the training of engineers in the smart grid environment.

The Company's employee compensation programs continued to support a high-performance culture, and include market-driven and performance-based components to attract and retain key employees.

As our business is changing, the profile of our workforce is changing as well. It is increasingly diverse in age, skills, background, belief, ethnicity, sexual orientation, and in many other ways. We aim to create a thriving and respectful workplace for all.

A fundamental component of Hydro Ottawa's commitment to operating efficiently and effectively is the very high priority we place on protecting the health and safety of our employees and our community. Hydro Ottawa has established an integrated health, safety and environment management system that has achieved and maintained certification to the international standards of Occupational Health and Safety Assessment Series 18001 and International Organization for Standardization 14001 since November 2007.

Systems and Processes

Hydro Ottawa has made significant investments in technology systems to enhance the Company's effectiveness. These include customer information and billing systems, advanced metering, and information and operational technologies such as geographic information systems, system control, outage management, and mobile workforce management systems. We take seriously the security of our critical infrastructure against cyber threats is a very important priority for Hydro Ottawa, and we collaborate proactively with government, regulators and private sector partners across North America to manage this risk. Our technology decisions continue to be based on three basic considerations: enhancing service to our customers; creating efficiencies that will increase our competitiveness; and improving functionality to be more agile and resilient in the face of industry disruption.

Hydro Ottawa is also focused on maximizing the efficiency and effectiveness of our operations by optimizing productivity at every opportunity. Examples of initiatives undertaken in 2016 include:

- Introduced innovative equipment into our fleet to enable crews to work more safely and efficiently on distribution assets located in rear lots;
- Installed 2,500 remote disconnect meters eliminating the need to dispatch vehicles and helping to reduce our carbon footprint;
- Initiated online payment options for service requests;
- Completed the procurement of a new customer contact centre to increase service levels and reduce annual costs; and
- Continued implementation of a Mobile Workforce Management system [a comprehensive scheduling and dispatch tool] that improves resource productivity, reduces overtime costs, and increases the ability to meet customer service commitments.

Capital Resources

Liquidity and Capital Resources

The Corporation's primary sources of liquidity and capital resources are operating activities, banking facilities, and proceeds from bond issuances as and when required. Liquidity and capital resource requirements are primarily for: capital expenditures to maintain the Hydro Ottawa Limited electricity distribution system; investments in generation assets; cost of power; interest expense; and prudential requirements.

On July 12, 2016, the Corporation renewed its credit facility for $341 million. The Corporation may use up to $75 million of the facility for general operating requirements and annual capital expenditures. A further $100 million, three-year revolving term credit line remains available for larger capital expenditures and acquisitions. To ensure appropriate liquidity, an additional $150 million, one-year revolving term credit line was also placed to provide short-term bridge financing for large capital projects and acquisitions. In 2016, the $150 million facility was mainly used to finance the Chaudière expansion project until long-term financing was placed.

Capital expenditure requirements in excess of the credit facility, if any, will be funded through future bond issuances. The utility sector continues to be a very attractive investment in the capital markets with strong demand across all bond tenures. This provides the Corporation access to significant market capacity to support its ongoing investment requirements. The Corporation's existing corporate bond profile is very strong with a weighted average maturity of 20 years at an average weighted cost of 3.49 percent. The Corporation demonstrated its ability to raise financing again in 2016 with the issuance of a $204 million non-recourse project bond for the expansion at Chaudière Falls at a rate of 4.08 percent. For additional details regarding the Corporation's sources of liquidity and capital resources, see Notes 13, 16 and 17 to the consolidated financial statements.

Credit Ratings

On May 27, 2016 Dominion Bond Rating Service Inc. ['DBRS'] reaffirmed Hydro Ottawa's rating at 'A' with a stable trend during the year. On June 21, 2016, DBRS commented that the mid-year acquisition of a 27 megawatt hydroelectric generation station at Chaudière Falls, and the remaining 33 percent interest in the Ring Dam from Hydro-Québec, did not warrant any negative rating action, but noted that Hydro Ottawa's business risk profile may be negatively affected if earnings from the non-regulated segment exceeds 20 percent. On August 25, 2016, Standard & Poor's ['S&P'] lowered its rating from 'A-' to 'BBB+' with a stable outlook due to the increasing proportion of forecast cash flows coming from the non-regulated segment following the acquisition of the Hydro-Québec generation assets. S&P noted that Hydro Ottawa continues to have an excellent business risk profile due to its operation under a transparent, consistent, and predictable regulatory framework for electricity distribution, its large and diverse customer base, and the quality of its government-backed power purchase agreements for generation assets, which provide steady, predictable and stable cash flows. The majority of Hydro Ottawa's generation operations [82 percent] are supported by fixed rate long-term power purchase agreements. As demonstrated by the $204 million project financing raised on September 7, 2016, this downgrade has not impaired the Corporation's access to capital.

Results – Progress against Plan

To ensure Hydro Ottawa makes steady progress towards achieving the corporate strategy set out in our 2016-2020 Strategic Direction, the Company has set enterprise strategic objectives in each of its four key areas of focus, and establishes Board-approved performance goals in relation to these strategic objectives each year. The table below summarizes Hydro Ottawa's performance in relation to its goals for 2016.

KEY AREAS OF FOCUS	ENTERPRISE STRATEGIC OBJECTIVES	2016 PERFORMANCE GOALS	2016 PERFORMANCE HIGHLIGHTS
FINANCIAL STRENGTH	We will create sustainable growth in our business and our earnings *by improving productivity and pursuing business growth opportunities that leverage our strengths – our core capabilities, our assets and our people*	Grow revenues from new sources Enhance / protect revenues from existing business lines	• Achieved consolidated net income of $34.8M, exceeding 2016-2020 Strategic Direction commitment by $0.8M • Increased our generation capacity by 27 megawatts [MW] with the acquisition of a generating station from Hydro-Québec • Chaudière Falls expansion project continued on schedule and on budget > Largest project in the Company's history > Will bring total generation capacity to 128 MWs [500% growth since 2012] > Secured 40-year non-recourse project bond financing at 4.08% • Secured two 40-year power purchase agreements [PPAs] to sell power from Chaudière Falls [Québec plants] into the Ontario grid > Will alleviate the forecast capacity shortage in Ottawa's downtown core • 82% of our 128 MW generation capacity is contracted through long-term PPA rates • All eight City of Ottawa solar rooftop projects met their IESO commercial operation dates • Continued to diversify revenue streams – launched Cable Testing and Power Quality businesses
CUSTOMER VALUE	We will deliver value across the entire customer experience *by providing reliable, responsive and innovative services at competitive rates*	Assist customers in managing their energy consumption and electricity costs Deliver on customer expectations for service quality and responsiveness Maintain overall distribution system reliability	• Achieved our best reliability results in the past five years, and invested $65M to keep our distribution system safe and reliable • Extended the hours and increased the service levels of our customer contact centre • Ranked 18th out of 71 utilities in terms of lowest operating costs per customer • 81% customer satisfaction rate –industry context continues to put pressure on customer satisfaction numbers, as public concern over electricity prices is high • Highest e-billing participation in Ontario [38% of customers], saving $1.3M per year • Increased our social media presence – including real-time information during storms and outages

KEY AREAS OF FOCUS	ENTERPRISE STRATEGIC OBJECTIVES	2016 PERFORMANCE GOALS	2016 PERFORMANCE HIGHLIGHTS
ORGANIZATIONAL EFFECTIVENESS	We will achieve performance excellence *by cultivating a culture of innovation and continuous improvement*	Continue to enhance operational performance and productivity Maintain leading health and safety record Enhance organizational and employee capability	• Safety remained our top priority – provided an average of 23 hours of safe work practices training for all employees • Continued our heavy focus on productivity • Invested $9.8M in next generation technology systems to support customer service, operational efficiency, grid modernization, and cybersecurity • Maintained certifications for our Occupational Health, Safety and Environment Management System to internationally-recognized standards • Substantial progress on Facilities Renewal Project, including selection and contracting of the design builder • Continued our workforce renewal – hired 13 new apprentices without increasing position complement, and implemented comprehensive talent management programs
CORPORATE CITIZENSHIP	We will contribute to the well-being of the community *by acting at all times as a responsible and engaged corporate citizen*	Enhance our brand image in the community and the industry Continue to improve our environmental performance and reduce our impact on the environment	• Provided community support through our Community Investment Program, employee volunteer efforts, and delivering provincial programs in our community • Raised over $282,000 as part of our 2016 Employee Charitable Fundraising campaign • Increased our engagement with the community > Attended more than 350 community events > Launched newsletters for Community Associations and BIAs > Hosted our first Community Forum > Online engagement increased by 85%; Twitter followers rose by 18%, Facebook by 174% and LinkedIn by 30% • Became a catalyst member of carbon^{613}, contributing to a more sustainable National Capital Region • Diverted 92% of non-hazardous solid and liquid waste away from landfill • Received 12 awards for performance excellence, including as one of Canada's Greenest Employers [6th year] and one of the National Capital Region's Top Employers [8th year]

Financial Results

The selected consolidated financial results of the Corporation presented below should be viewed in conjunction with the audited consolidated financial statements and accompanying notes for the year ended December 31, 2016.

Consolidated Statement of Income [Summary]

As a result of the adoption of International Financial Reporting Standards ['IFRS'] in 2015 – including the early adoption of IFRS 14 – several of the Corporation's line items in its audited consolidated statement of income are subject to high volatility. Specifically, IFRS 14 requires a one-line separate presentation of the net movement within the Corporation's regulatory deferral accounts related to income [i.e. the debit and credit balances, net of taxes] within its consolidated statement of income. This net movement of regulatory balances primarily arises when there is a timing difference between the cost of power purchased and the cost of power recovered. This difference is recorded as a settlement variance, representing future amounts to be recovered from or refunded to customers through future billing rates approved by the OEB. Consequently, the Corporation's power recovery and purchased power line items can be significantly impacted by these timing differences. For the purposes of the analysis and interpretation of financial variances presented below, management has identified and excluded impacts resulting from the adoption of IFRS 14, and used 'pre-IFRS 14' results as the basis for its discussion unless otherwise noted. Management believes this more accurately represents the true financial performance of the Corporation, given its rate-regulated environment as prescribed by the Ontario Energy Board ['OEB'].

[in thousands of Canadian dollars]

	2016	IFRS 14 Impact	2016 (Pre-IFRS 14)	2015	IFRS 14 Impact	2015 (Pre-IFRS 14)	Change (Pre-IFRS 14)
Revenue							
Power recovery	**974,207**	**(14,021)**	**960,186**	890,116	(22,365)	867,751	92,435
Distribution sales	**165,729**	**986**	**166,715**	162,037	(2,528)	159,509	7,206
Other	**62,459**	**–**	**62,459**	59,921	–	59,921	2,538
	1,202,395	**(13,035)**	**1,189,360**	1,112,074	(24,893)	1,087,181	102,179
Expenses							
Purchased power	**966,072**	**(7,883)**	**958,189**	865,178	(154)	865,024	93,165
Operating costs	**128,072**	**(242)**	**127,830**	126,138	(375)	125,763	2,067
	1,094,144	**(8,125)**	**1,086,019**	991,316	(529)	990,787	95,232
Earnings before Interest, Taxes, Depreciation and Amortization [EBITDA]	**108,251**	**(4,910)**	**103,341**	120,758	(24,364)	96,394	6,947
Depreciation and amortization	**49,642**	**–**	**49,642**	42,632	–	42,632	7,010
Financing costs, interest income and taxes	**28,172**	**(8,250)**	**19,922**	33,458	(11,557)	21,901	(1,979)
Share of profit from joint ventures	**(1,059)**	**–**	**(1,059)**	(509)	–	(509)	(550)
	76,755	**(8,250)**	**68,505**	75,581	(11,557)	64,024	4,481
Net income	**31,496**	**3,340**	**34,836**	45,177	(12,807)	32,370	2,466
Net movements in regulatory balances, net of tax	**3,340**	**(3,340)**	**–**	(12,807)	12,807	–	–
Net income after net movements in regulatory balances	**34,836**	**–**	**34,836**	32,370	–	32,370	2,466

Net Income

Net income increased by approximately $2.5 million or 8 percent in 2016. This increase was primarily due to a $7.2 million increase in distribution sales, a $2.5 million increase in generation and other revenue, and a $3.1 million decrease in income tax expense. These positive variances were partially offset by increases in operating costs and in depreciation and amortization of $2.1 million and $7.0 million, respectively, and by a $0.8 million decrease in interest income.

Revenue

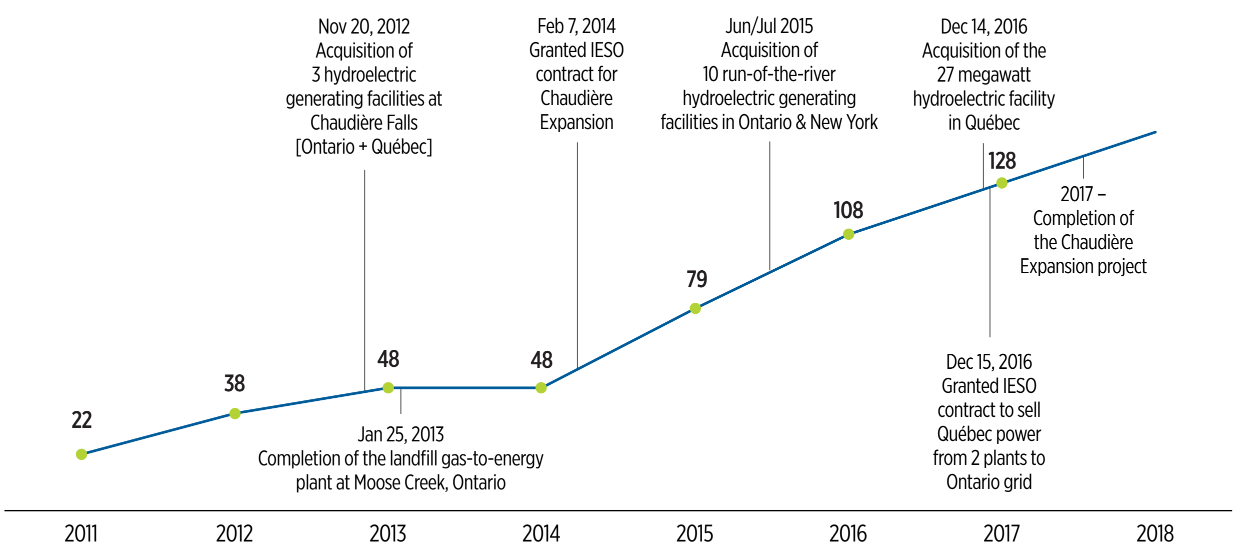
Revenue is earned from electricity distribution, renewable energy generation, energy management and utility services, as well as from conservation and demand management ['CDM'] programs and sundry activities. In 2016, Hydro Ottawa's total revenue amounted to approximately $1.2 billion, an increase of 9 percent.

The largest component of Hydro Ottawa's total revenue is the cost of power recovered from customers through provincially-established rates. The cost of power is a flow-through amount, which poses limited risk to Hydro Ottawa's financial performance. However, variances arise between the cost of power purchased and the cost of power recovered, due to timing differences in invoicing from the Independent Electricity System Operator ['IESO'] for the former, and receipt of payment from customers for the latter. This difference is recorded as a settlement variance. Hydro Ottawa Limited's power recovery revenue increased by $92.4 million, mainly due to increased commodity and global adjustment rates included in purchased power costs.

Distribution sales are recorded based on OEB-approved distribution rates, set at a level intended to recover the costs incurred by Hydro Ottawa Limited in delivering electricity to customers, and they include revenue related to the collection of OEB-approved rate riders. 2016 marks the first year of rates approved under Hydro Ottawa Limited's 2016-2020 custom incentive rate-application. Distribution sales revenue increased $7.2 million or 4 percent from 2015 largely due to this application and the associated recovery of large investments in capital infrastructure.

Energy Ottawa's generation revenues continued to grow. The Company made significant strides in the past few years to grow its generation capacity as detailed in the chart below. The most notable addition in 2016 was the purchase of a 27 megawatt hydroelectric generating station on the Québec side of Chaudière Falls along with the remaining 33 percent interest in the Ottawa River Ring Dam, giving Energy Ottawa full ownership of all hydroelectric facilities on both sides of the river at the Chaudière site as of December 14, 2016 [see Note 5 in the consolidated financial statements for more information]. Generation revenues, however, increased by a relatively modest $1.2 million over 2015, due to the full year shutdown of two generating stations on the Ontario side of Chaudière Falls to enable completion of the expansion project.

Generation Capacity Growth [in megawatts]



The expansion is scheduled to be completed in 2017, resulting in a further increase in generation revenues in 2017, with a full-year revenue impact in 2018. In addition, Energy Ottawa had a full year's operation of the 10 run-of-the-river facilities in Ontario and upstate New York, which were acquired in 2015. The New York facilities were, however, impacted by depressed energy prices and did not yield as much revenue as expected.

Other revenues also increased by $1.3 million as a result of the streetlight maintenance and conversion projects commencing in 2016 for the City of Ottawa, as well as new endeavors such as the cable and power quality testing business lines. This increase was achieved despite a decrease in CDM revenues which were $5.1 million lower than in 2015. That was due in large part to the $2.3 million cost-efficiency incentive, recognized in 2015, for achievement of the Company's performance objectives at the conclusion of its 2011-2014 CDM program.

Expenses

Purchased Power and Operating Costs

Purchased power represents the cost of electricity delivered to customers within Hydro Ottawa Limited's distribution service territory. These costs consist of the commodity, wholesale market service charges, transmission charges and the global adjustment. The cost of purchased power increased by $93.2 million in 2016, mainly due to increased commodity and global adjustment rates. The global adjustment accounts for differences between the market price and the rates paid to regulated and contracted generators, and for the cost of CDM programs. When the spot market price of electricity is lower, the global adjustment is higher in order to cover the additional variance relative to the costs of energy contracts and other regulated generation.

Operating costs in 2016 of $127.8 million increased by $2.1 million due in part to the $1.4 million in additional costs arising from a full year's operation of the 10 run-of-the-river hydroelectric facilities acquired in 2015. In addition, there were new expenses relating to the streetlight maintenance and conversion projects, offset by a reduction in CDM-related expenditures. Operating costs in 2016 also included a $1.0 million write-off of a power purchase agreement ['PPA'] acquired in 2012. The PPA was terminated upon closing of the December 14, 2016 acquisition to make way for the eventual sale of electricity from these assets to Ontario via the new PPA with the IESO. Moreover, included in operating costs were acquisition costs of $1.7 million relating to the aforementioned transaction, which were lower than the $2.7 million incurred in business acquisition costs in 2015.

Depreciation and Amortization

Depreciation and amortization on Hydro Ottawa's property, plant and equipment and intangible assets increased in 2016 by $7.0 million primarily due to the ongoing investment in and expansion of the Corporation's electricity distribution infrastructure and of its portfolio of generation assets.

Share of Profit from Joint Ventures

Share of profit from joint ventures represents the Corporation's share of net income from the continuing operations of Moose Creek Energy LP [50.05 percent] and of PowerTrail Inc. [60 percent]. For more information regarding the Corporation's joint ventures, see Note 11 to the consolidated financial statements.

Financing Costs, Interest Income and Taxes

Financing costs increased by $0.4 million, while interest income decreased by $0.8 million. The variance in interest income is largely attributable to the amount of temporary investments the Corporation holds in a year. In 2015, the Corporation earned interest income on cash it held temporarily from the February 2015 issuance of two new senior unsecured debentures totaling $375 million. Of this amount, $200 million was used to repay a debenture that was due on February 9, 2015; and $175 million was used to indirectly finance the mid-2015 acquisition of 10 run-of-the-river hydroelectric facilities, as well as for other ongoing infrastructure investments.

The Corporation's effective tax rate decreased from 32.3 percent in 2015 to 20.6 percent in 2016 as a result of permanent and temporary differences between the accounting treatment and tax basis of assets and liabilities that arose during the year. The $3.1 million decrease in income tax expense is largely a result of the recognition of tax benefits arising from the loss carryforwards of Energy Ottawa's operations recognized in the current year. For more information regarding income taxes, see Note 22 to the consolidated financial statements.

Net Movement in Regulatory Balances [Net of Tax]

In accordance with IFRS 14, the Corporation has separately presented the net movement in regulatory balances in the consolidated statement of income. The changes in the regulatory debit and credit balances for the year on the consolidated balance sheet [$0.7 million and $4.1 million respectively], equal the net movement in regulatory balances, net of tax on the consolidated statement of income [increase of $3.3 million, along with $0.1 million in comprehensive income]. The net movement in regulatory balances was primarily due to an increase in regulatory debit balances due to deferred taxes and operating costs to be recovered through future rates [$8.3 million and $0.2 million, respectively], and the refund of regulatory credit balances through distribution sales rate riders of $1.0 million; offset by an increase in settlement variance credit balances of $6.1 million arising from timing differences between power recovery and purchased power. As Hydro Ottawa Limited passes on the benefit of deferred income taxes through annual distribution rate adjustments approved by the OEB, it records a regulatory deferral account credit [or debit] balance for the amounts of deferred taxes expected to be refunded to [or recovered from] customers in future rates.

Consolidated Balance Sheet [Summary]

[in thousands of Canadian dollars]

	2016	2015	Change
Current assets	**283,446**	181,376	102,070
Non-current assets	**1,333,388**	1,088,557	244,831
Total assets	**1,616,834**	1,269,933	346,901
Regulatory account balances	**13,744**	14,430	(686)
Total assets and regulatory account balances	**1,630,578**	1,284,363	346,215
Current liabilities	**267,524**	159,976	107,548
Non-current liabilities	**899,574**	670,165	229,409
Total liabilities	**1,167,098**	830,141	336,957
Shareholder's equity	**426,775**	413,397	13,378
Total liabilities and shareholder's equity	**1,593,873**	1,243,538	350,335
Regulatory account balances	**36,705**	40,825	(4,120)
Total liabilities, shareholder's equity and regulatory account balances	**1,630,578**	1,284,363	346,215

Assets

Total assets increased by approximately $347 million in 2016. This increase is largely attributable to property, plant and equipment, and to intangible assets, which have collectively increased by $195 million. This is a result of the acquisition of the 27 megawatt Centrale Hull-2 hydroelectric generating station from Hydro Québec, the ongoing construction at Chaudière Falls, and continuing investment in electrical distribution and generation infrastructure. In addition, $124 million of the $204 million project bond financing has been placed in "Blocked Accounts" from which withdrawals may only be made with the authorization of the Trustee. As a result, the $124 million in proceeds is classified as restricted cash on the balance sheet. The release of $80 million of the funds is dependent upon monthly submissions of qualifying costs with respect to the Chaudière expansion, and is therefore classified as current. The remaining $44 million in funds are expected to be available to the Corporation in 2018 and are therefore classified as a non-current asset. Finally, the Corporation saw an increase of $21 million in its accounts receivable, which is largely explained by the increase in year over year revenues, including cost of power, and the fluctuation in the global adjustment amount classified as unbilled revenue.

Liabilities

Total liabilities increased by $337 million in 2016. On September 7, 2016, the Corporation through its subsidiary Chaudiere Hydro L.P. completed the offering of senior secured amortizing bonds of $204 million to fund the expansion at Chaudière Falls. These bonds carry an interest rate of 4.08 percent and are due on March 31, 2057. At December 31, 2016, the Corporation had used $80 million of the $204 million total offering to directly-finance construction costs and bond-issuance costs. Moreover, the Corporation's current liabilities increased $108 million as a result of its bank indebtedness of $69 million and accounts payable and accrued liabilities, which increased by $37 million due in large part to higher capital activity. The Corporation also saw a $19 million increase in deferred revenue due to capital contributions received in 2016, net of amortization.

Regulatory Account Balances

IFRS 14 defines a regulatory account balance as the balance of any expense or (income) account that would not be recognized as an asset or liability in accordance with other IFRS standards, but that qualifies for deferral because it is included, or is expected to be included, by the regulator in establishing the rate[s] that can be charged to customers. As at December 31, 2016, Hydro Ottawa Limited has recognized $13.7 million in regulatory account debit balances [assets] and $36.7 million in regulatory account credit balances [liabilities].

The $0.7 million decrease in regulatory account debit balances is largely due to a $3.0 million decrease in debit balances relating to the settlement of electricity and global adjustment pass-through costs, a $4.3 million decrease in the post-employment deferral account debit balance, and a $1.1 million decrease in other deferred debit balances. These decreases were offset by a $7.7 million increase in the regulatory asset for deferred income taxes.

The $4.1 million decrease in regulatory account credit balances is largely due to a $6.0 million decrease in the stranded meter credit balances, and to the $4.5 million disposition of the regulatory liability refund account, offset by a $6.2 million increase in the settlement of electricity and global adjustment pass-through cost credit balances.

In December 2016, the OEB approved the disposition of certain deferral and variance accounts as at December 31, 2015 amounting to a repayment of $22.5 million over a one-year period commencing January 1, 2017.

Consolidated Statement of Cash Flows [Summary]

[in thousands of Canadian dollars]

	2016	2015	Change
Cash (bank indebtedness), beginning of year	**4,002**	(30,927)	34,929
Cash provided by Operating Activities	**96,317**	100,557	(4,240)
Cash used in Investing Activities	**(349,777)**	(220,202)	(129,575)
Cash provided by Financing Activities	**181,696**	154,515	27,181
Foreign exchange impact on cash held in US dollars	**(7)**	59	(66)
Cash (bank indebtedness), end of year	**(67,769)**	4,002	(71,771)
Cash (bank indebtedness) consists of:			
Cash	**982**	4,002	(3,020)
Bank indebtedness	**(68,751)**	–	(68,751)
	(67,769)	4,002	(71,771)

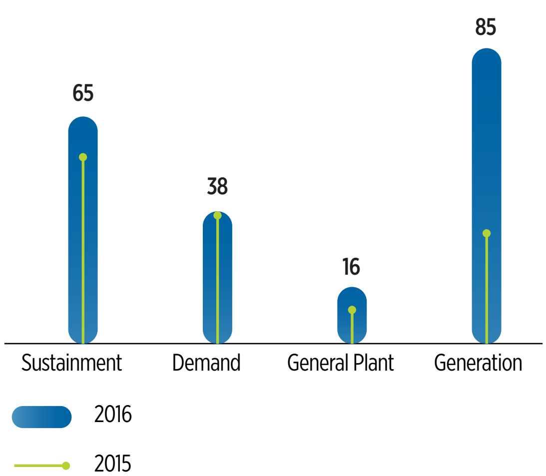
Operating Activities

Cash generated by operating activities decreased by $4.2 million in 2016. The majority of this decrease relates to the net movement in regulatory balances, which is primarily due to changes impacting settlement variance balances, and a change in customer deposits. This decrease was partially offset by the change in working capital, namely an upswing in accounts payable and accrued liabilities.

Investing Activities

Cash used in investing activities increased by $129.6 million in 2016. Investing activities includes the acquisition of the 27 megawatt Centrale Hull-2 hydroelectric generating station from Hydro-Québec, the ongoing construction at Chaudière Falls and our continuing investment in electrical distribution and generation infrastructure. The total investment in property, plant and equipment and intangible assets was $203.5 million in 2016. The chart below shows Hydro Ottawa's capital investments by category for both 2016 and 2015.

Gross Capital Expenditures [in millions]



Capital investments in 2016 included $65 million on sustainment capital to replace aging infrastructure and to modify the existing distribution system; $38 million on demand projects, which includes third-party-driven growth projects such as new residential or commercial installations, and municipal improvement projects including the City of Ottawa's Light Rail Transit project; $16 million on general plant including information technology infrastructure, fleet, and other sundry items; and $84 million in generating plants, of which 87 percent relates to the expansion at Chaudière Falls.

In 2016, 1,135 new poles, 398 overhead transformers, and 270 km of overhead cables were installed. Over 200 demand capital projects were initiated, including the addition of 2,738 new residential and 502 new commercial connections.

Cash flows from investing activities also include $124 million in restricted cash relating to the project financing for the expansion at Chaudière Falls.

Financing Activities

Financing activities include dividends paid to the Shareholder, the City of Ottawa, as well as proceeds from the issuance of long-term debt.

Dividends were paid to the Shareholder in 2016 in accordance with the approved dividend policy. The 2016 payment totaled $19.4 million based on 2015 results, and the 2015 payment totaled $18.2 million based on 2014 results. Revisions to the dividend policy were approved by the City of Ottawa on June 22, 2016. The amended policy is based on the greater of 60 percent of Hydro Ottawa Limited's net income or $20 million. This positions the Corporation to reinvest in its growth, and will help strengthen its key credit metrics.

As discussed above, the Corporation completed the offering of senior secured amortizing bonds representing a cash inflow of $204 million in 2016. In 2015, the Corporation issued two new senior unsecured debentures totaling $375 million, of which $200 million was used to repay a debenture that was due, resulting in a net cash inflow of $175 million.

Accounting Matters

Significant Accounting Estimates

The preparation of consolidated financial statements, in conformity with IFRS, requires management to make estimates and assumptions that affect the reported amounts of consolidated revenues, expenses, assets, liabilities, and the disclosure of commitments and contingencies as of the date of the consolidated financial statements.

These estimates are based on historical experience, current conditions and various other assumptions believed to be reasonable under the circumstances. Because they involve varying degrees of uncertainty, the amounts currently reported in the consolidated financial statements could prove to be inaccurate in the future.

Significant areas where estimates are made in the application of IFRS are as follows [references to associated notes in the consolidated financial statements are provided in brackets]:

- Accounts receivable [Note 2(d)(i)]
- Regulatory balances [Note 2(d)(ii)]
- Useful lives of depreciable assets [Note 2(d)(iii)]
- Impairment of non-financial assets [Note 2(d)(iv)]
- Employee future benefits [Note 2(d)(v)]
- Capital Contribution obligations [2(d)(vi)]
- Fair value of assets and liabilities acquired [Note 2(d)(vii)]
- Deferred Income taxes [Note 2(d)(viii)]

Future Accounting Changes

A number of new standards, amendments and interpretations are not yet effective for the year ended December 31, 2016 and have not been applied in preparing the consolidated financial statements. The Corporation continues to analyze these standards and has made initial determinations that the following could impact its consolidated financial statements.

- In May 2014, the IASB published a new standard, IFRS 15 Revenue from Contracts with Customers ['IFRS 15'], which replaces most of the detailed guidance on revenue recognition that currently exists under IFRS. IFRS 15 specifies how and when an entity will recognize revenue and additional disclosure requirements. In April 2016, the IASB issued amendments to IFRS 15 which clarifies how to identify a performance obligation in a contract, determine whether a company is a principal or an agent, and determine whether the revenue from granting a licence should be recognized at a point in time or over time. In addition to the clarifications, the amendments include two additional reliefs to reduce cost and complexity for a company when it applies the new standard. IFRS 15 is effective for annual periods beginning on or after January 1, 2018.
- In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments ['IFRS 9'], which replaces International Accounting Standards 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments and is effective for annual periods beginning on or after January 1, 2018.
- In January 2016, the IASB issued a new standard, IFRS 16 Leases. It replaces accounting requirements introduced more than 30 years ago that are no longer considered suitable and is a major revision of the way in which companies account for leases. The new standard becomes effective for reporting periods beginning on or after January 1, 2019. Early adoption is permitted if IFRS 15 is also adopted.
- On January 29, 2016, the IASB published amendments to replace International Accounting Standards 7 Statement of Cash Flows. The amendments are intended to improve information provided to users of financial statements about an entity's financing activities. They are effective for annual periods beginning on or after January 1, 2017, with earlier application being permitted.
- IFRS does not currently contain a permanent standard that specifically addresses the accounting for rate-regulated activities – IFRS 14 was a short-term measure to allow first-time adopters to continue to apply their existing generally accepted accounting principle recognition and measurement policies for regulatory balances until the IASB concludes the rate-regulated project. In the event, the rate-regulated project does not result in a standard that recognizes the financial effects of rate regulation, the Corporation will be required to derecognize some, or perhaps all, of its regulatory balances, which represent a significant proportion of the Corporation's assets and liabilities.

Risks and Uncertainties

Hydro Ottawa has adopted a systematic approach to the management of risks and uncertainties, integrating risk management into business processes and the periodic reporting of organizational performance. Capabilities and processes have been built across all business units to enable the effective identification of, and timely responses to, events likely to impede the achievement of corporate objectives.

The Corporation's Enterprise Risk Management [ERM] framework, established by the Board in 2006 and renewed annually, consolidates quarterly risk reporting to the President and Chief Executive Officer, and to the Board, highlighting potential risk factors that may have an impact upon Hydro Ottawa's near-term business objectives and strategic direction. The ERM framework supports and complements the Corporation's strategic planning and annual business planning cycles, thereby enabling continuous review of assumptions and regularly refreshed environment scans.

Hydro Ottawa monitors sources of risk that are structural to the industry and to the regulated environment. These include, but are not restricted to: the weather; the policy and regulatory environment; the state of the economy and macro-economic trends; the state of financial markets and of investment in the utilities space; government policies relating to the production and procurement of renewable and clean energy, as well as carbon emissions and conservation; the convergence of information technology and operational technology; labour force demographics, with a particular emphasis on the renewal of human resources in the trades; and the impact of fiscal policies on customers. In combination, these sources of risk will shape the evolution of the industry, which could in turn present new and emerging risks that need to be managed effectively.

Policy and Regulatory Environment

Actual performance versus forecasts in electricity distribution

Hydro Ottawa's electricity distribution business has obtained approval from the Ontario Energy Board [OEB] for a re-basing of its distribution rates for 2016-2020. As a result, the Corporation expects to be able to carry out its planned capital programs, provide safe and reliable electricity to its customers, and earn the allowed rate of return. However, results may be affected if actual loads and energy consumption vary substantially from forecast, or if actual costs of operations, maintenance, administration, capital and financing materially exceed projections included in the approved revenue requirements.

Long-term impact of Government policies and incentives for LDCs

Over the long term, the Ontario Government's policies on the production, procurement, pricing and sale of renewable energy, coupled with financial and other incentives directed at consumers as part of the Province's conservation, demand management and climate change action programs, could result in significant changes in the business environment for rate-regulated LDCs such as Hydro Ottawa Limited.

Potential adverse impacts include "grid flight". For example, as costs decline for a range of energy generation and storage technologies, such as solar photovoltaics, battery storage, fuel cells, geothermal energy systems, micro turbines, and electric vehicle-enhanced storage, LDCs may see their customers move progressively towards these cost-competitive alternatives, thereby reducing customer need for and dependence on the grid.

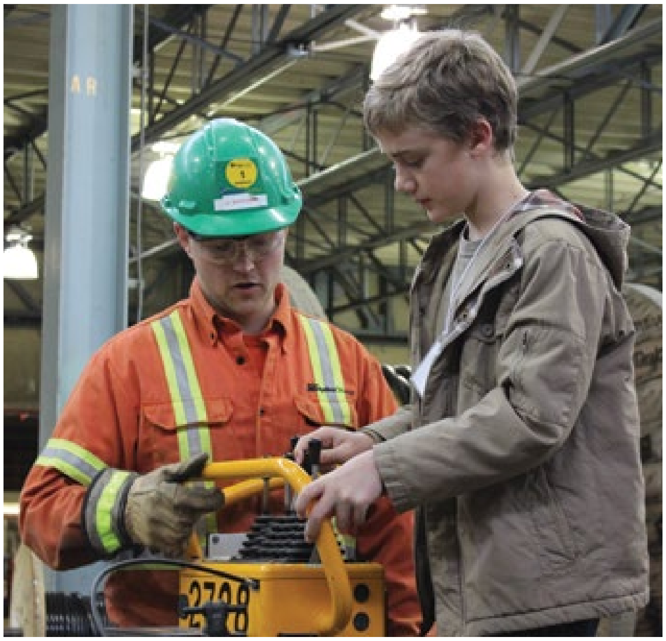
At this point, should trends such as grid flight materialize at a significant scale, policy and regulatory responses will be necessary to enable utilities to adapt while maintaining their century-old mandate to deliver electricity reliably, safely and at reasonable cost to their customers.

LDC Consolidation in Ontario

At a strategic level, the Corporation has identified consolidation with other municipally-owned LDCs as an opportunity to attain economies of scope and scale that would work to the benefit of the customers of all the participating utilities. However, the pursuit of this opportunity may be unviable if valuations for mergers and acquisitions remain at levels that Hydro Ottawa may consider excessive or potentially detrimental to the interests of its own Shareholder and ratepayers. The possibility of voluntary consolidation or collaboration with like-minded municipally-owned LDCs for mutual benefit exists if policy direction, regulatory guidance and tax incentives were appropriately aligned.

Market Prices for Electricity

Market prices for electricity fluctuate due to a number of factors, including: the amount of excess generating capacity relative to load in the market; the structure of the market; weather conditions that impact electrical load; growth in demand for electricity; absolute and relative prices for energy; developments in conservation and demand management and government policy direction.



A portion of the Corporation's generation revenue is directly linked to the market price for electricity in the state of New York. In the absence of a fixed rate power purchase agreement, the Corporation may explore a number of options to reduce its exposure to market fluctuations.

Major Generation Project Execution

The Corporation is actively engaged in the multi-year expansion of its power generation facilities at the Chaudière Falls on the Ottawa River, which includes the construction of large civil structures, turbine and generator installations and refurbishment of the related equipment and facilities. The successful and timely completion of this project is critical to the Corporation's long-term strategic direction, in particular its projected growth in generation revenue.

To date, this project has progressed in line with the planned scope, specifications, budget and timelines. There are nonetheless inherent risk factors in a project of this magnitude, including: construction delays; cost overruns; equipment performance not in accordance with expectations; delays in permissions and clearances from all levels of government and their agencies; and technical issues in interconnecting generation output. The Corporation has devised appropriate mechanisms to identify these risks and mitigate their impact, including rigorous due diligence, consistent project management principles and practices, specific contingency plans, and a Board-led project governance structure.

Exchange Rate Fluctuations

The Corporation's functional currency is the Canadian dollar. A significant depreciation of the value of the US dollar relative to the Canadian dollar may adversely affect the value of the Corporation's US-based assets and the related revenues. Conversely, a significant depreciation of the Canadian dollar relative to the US dollar may affect the Corporation's capacity to finance additional growth in the US market.

Aging Distribution Infrastructure

Hydro Ottawa has developed a long-term Distribution System Plan to phase in the investments required to replace its aging distribution infrastructure, and maintain high standards of reliability and operability, while keeping pace with the growth of its service territory. Aging electricity assets pose a dual risk to LDCs. Apart from being more prone to failure [during extreme weather events, for example], they make restoration of the distribution system more complex and financially onerous.

Economy

The state of the local, national and international economies could have a significant impact on the Corporation's business performance through factors such as inflation, customer credit risk, weakening demand for electricity and/or value-added services, and availability of market capital to fund growth. The economic climate could also have an effect on the stability and performance of some of Hydro Ottawa's key business partners.

Credit Ratings and Interest Rates

The Corporation's growing portfolio of generation assets prompted one credit rating agency to downgrade its assessment to BBB+, with a stable outlook. This downgrade has not impaired the Corporation's capacity to arrange financing for its long-term capital expenditures and investments, nor has it impaired access to funding for working capital requirements.

Nearly 90 percent of the Corporation's debt is subject to a fixed rate of interest, and is accordingly insulated from the impact of upward revision of interest rates. A rise in interest rates would affect the Corporation's credit facility, though its impact is not expected to be material.

Pension Plans

The Corporation provides a defined benefit pension plan for the majority of its employees through the Ontario Municipal Employees Retirement System ['OMERS']. As OMERS is a multi-employer, contributory, defined benefit pension plan, it is not practicable to determine the Corporation's portion of pension obligations or the fair value of plan assets. Future funding shortfalls and net losses at OMERS, if any, are subject to the OMERS Sponsors Corporation Funding Management Strategy, which outlines how benefits and contributions will be modified as the OMERS Primary Plan cycles through periods of funding deficit and surplus.

Hydro Ottawa has also established a separate defined benefit pension plan and a separate defined contribution pension plan for a small number of employees, with appropriate financial and investment procedures and oversight, as required by law. Pension benefit obligations and related net pension cost can be affected by volatility in the global financial and capital markets. There is no assurance that pension plan assets will earn the assumed long-term rates of return. Market-driven changes impacting the performance of the pension plan assets may result in material variations in actual returns on pension plan assets.

Technology Infrastructure

The Corporation's business performance is dependent upon complex information systems, covering frontline operations [e.g. geographic information system, outage management system, electricity system supervisory control and data acquisition system] as well as back office processes [e.g. customer information and billing systems, and ERP system]. The failure of one or more of these key systems, or a failure of the Corporation to either plan effectively for future technology needs or to transition effectively to new technology systems, could adversely impact the Corporation's business operations.

Many of these key systems also draw upon data and signals from several hundred thousand smart devices [chiefly, smart meters], as well as the related systems and web interfaces. The processing of data in many cases entails a number of automated interfaces, as well as multiple internal and external dependencies, including the Ontario's Smart Metering Entity. Risks arising from the reliability and performance of any single component of this integrated network, or of the system as a whole, could lead to a disruption of key business processes, such as the meter-to-cash cycle.

There is growing convergence of core operational systems with enterprise information systems, increasing automation, and extensive use of common technology in facilitating such integration and connectivity. This has the potential to heighten existing risks and to create new ones. The Corporation seeks to identify and manage such risks through rigorous technology planning, and best-in-class preventative and detective controls.

Cybersecurity

The Corporation's reliance on information systems and expanded data transmission and exchange networks, in conjunction with the growing extent of systems and data integration within the electricity sector, increases its exposure to information security threats, including cybersecurity risks. Hydro Ottawa's information systems and information assets could be put at risk by a security breach, data corruption or system failure at a shared resource or common service provider.

Customer and Media Perceptions

Electrical utilities across Ontario are confronted with risks arising from negative customer and media perceptions, which may become even more prominent over the next two years. These relate especially to high commodity prices, which are outside of the Company's control. While Hydro Ottawa's strong reputation, together with its focus on customer value, should enable it to manage the impact of growing customer dissatisfaction with the electricity sector at large, the precise scope and nature of this risk factor cannot be foreseen.

Labour Force Demographics

Across the electricity sector, retirements are outpacing new entrants to the workforce, which could have an adverse impact on the ability of the Corporation to build a sustainable workforce and achieve its business objectives. Hydro Ottawa's investments in apprenticeships, internships, diversity, knowledge management, succession planning and retiree and older worker engagement programs are designed to manage risks relating to workforce demographics.

Weather and Hydrology

Severe weather can significantly impact financial results, in part through increased capital and maintenance costs to repair or replace damaged equipment and infrastructure. Weather fluctuations also influence distribution revenues, which tend to increase with severe weather and decrease with moderate weather.

The amount of electricity generated at the Corporation's hydroelectric facilities depends upon available water flows and weather conditions, which vary naturally from season to season and from year to year. Water flows may also be affected by natural disaster or through government controls and policies on water levels.

Outlook

Subject to the risks and uncertainties discussed above, Hydro Ottawa will continue to provide efficient, reliable and competitively priced electricity distribution services to customers, to generate green power, and to provide energy and utility services and conservation expertise while maintaining sustainable earnings.

Hydro Ottawa Limited has an approved rate structure and capital investment plan for 2016-2020. The application was made using a rate-setting model designed to account for the local distribution company's significant capital requirements. Approved rates are expected to be sufficient to provide an appropriate return, while also supporting: prioritized replacement of aging infrastructure and other investments in system reliability; major infrastructure development and growth within the service territory; and introduction of new customer services.

Hydro Ottawa customers, meanwhile, will continue to benefit from stable, moderate, and predictable rate impacts. In the interests of moderating future rate increases as fully as possible, the Company remains committed to ongoing innovation, productivity and cost containment.

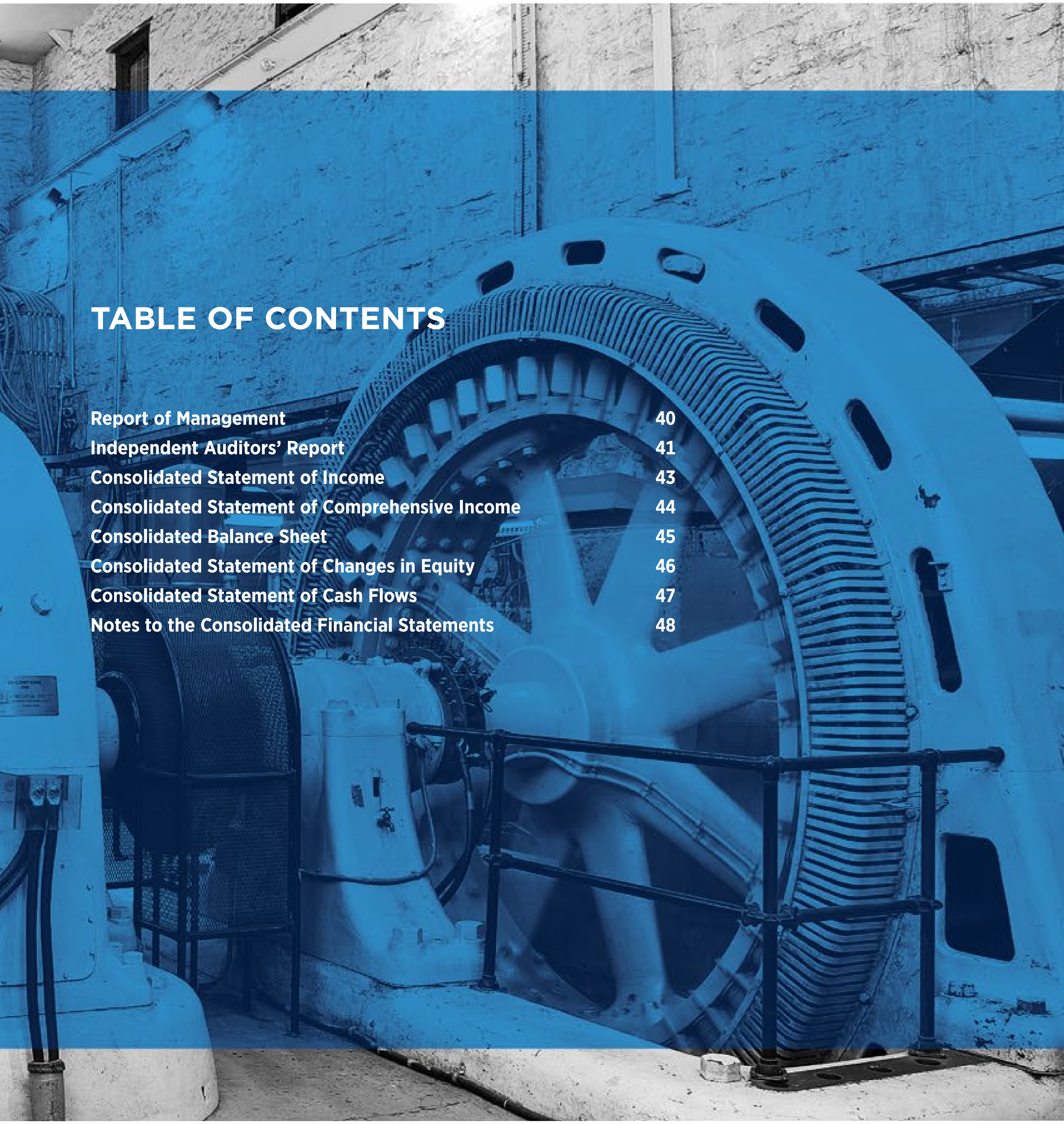
Completion of the Chaudière expansion will represent a further and particularly significant milestone in the buildout of Energy Ottawa's renewable generation portfolio – bringing total capacity to 128 megawatts. Long-term revenue stability is assured by the fact that the large majority of renewable output is sold under fixed rate power purchase agreements – including three recently concluded 40-year agreements applying to portions of the generation from the interprovincial Chaudière site.

Hydro Ottawa will also pursue expansion in other non-regulated areas, including energy and utility services. Both business lines will leverage existing assets and expertise, and may include: advisory, project-management and design-build services; partnerships and licensing arrangements with third parties; commercialization of Hydro Ottawa technologies; asset-renewal arrangements with municipalities; and outsourced service provision to other utilities. This is expected to represent a third driver of financial strength in future years, supplementing the core distribution business and renewable generation.

Hydro Ottawa Holding Inc.

Consolidated Financial Statements

December 31, 2016



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Report of Management

Management is responsible for the integrity of the financial data reported by Hydro Ottawa Holding Inc. [the 'Corporation']. Fulfilling this responsibility requires the preparation and presentation of consolidated financial statements and other data using management's best judgment and estimates, as well as International Financial Reporting Standards as issued by the International Accounting Standards Board.

Management maintains appropriate systems of internal control and corporate-wide policies and procedures, which provide reasonable assurance that the Corporation's assets are safeguarded and that financial records are relevant and reliable.

The Board of Directors, through the Audit Committee, ensures that management fulfills its responsibility for financial reporting and internal control. The Audit Committee consists of outside directors and, at regular meetings, reviews audit, internal control and financial reporting matters with management and external auditors. The Audit Committee has reviewed the consolidated financial statements and submitted its report to the Board of Directors.

On behalf of Management,

Bryce Conrad
President and Chief Executive Officer

Geoff Simpson
Chief Financial Officer

KPMG LLP
150 Elgin Street, Suite 1800
Ottawa ON K2P 2P8
Canada
Telephone 613-212-5764
Fax 613-212-2896

INDEPENDENT AUDITORS' REPORT

To the Shareholder of Hydro Ottawa Holding Inc.

We have audited the accompanying consolidated financial statements of Hydro Ottawa Holding Inc., which comprise the consolidated balance sheet as at December 31, 2016, the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated 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

KPMG

accounting estimates made by management, as well as evaluating the overall presentation of the consolidated 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 consolidated financial statements present fairly, in all material respects, the consolidated financial position of Hydro Ottawa Holding Inc. as at December 31, 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other Matter

The consolidated financial statements of Hydro Ottawa Holding Inc. as at and for the year ended December 31, 2015 were audited by another auditor who expressed an unmodified opinion on those consolidated statements on April 21, 2016.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

April 20, 2017

Ottawa, Canada

Hydro Ottawa Holding Inc.

Consolidated Statement of Income
Year ended December 31, 2016

	2016	2015
	$	$
Revenue		
Power recovery	**974,207**	890,116
Distribution sales	**165,729**	162,037
Generation	**17,489**	16,238
Other	**44,970**	43,683
	1,202,395	1,112,074
Expenses		
Purchased power	**966,072**	865,178
Operating costs [Note 20]	**128,072**	126,138
Depreciation [Notes 8 and 10]	**37,502**	34,819
Amortization [Note 9]	**12,140**	7,813
	1,143,786	1,033,948
Operating income	**58,609**	78,126
Financing costs [Note 21]	**19,398**	19,042
Interest income	**(267)**	(1,056)
Share of profit from joint ventures [Notes 11(a) and (b)]	**(1,039)**	(509)
Income before income taxes	**40,517**	60,649
Income tax expense [Note 22]	**9,041**	15,472
Net income	**31,476**	45,177
Net movements in regulatory balances, net of tax [Note 7]	**3,340**	(12,807)
Net income after net movements in regulatory balances	**34,816**	32,370
Attributable to non-controlling interest [Note 18(c)]	**(20)**	-
Net income after net movements in regulatory balances attributable to equity shareholder	**34,836**	32,370

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

Hydro Ottawa Holding Inc.

Consolidated Statement of Comprehensive Income
Year ended December 31, 2016

	2016	2015
	$	$
Net income after net movements in regulatory balances attributable to equity shareholder	**34,836**	32,370
Other comprehensive income		
Items that may be subsequently reclassified to net income		
Exchange differences on translation of foreign operations, net of tax	**(1,852)**	6,905
Items that will not be subsequently reclassified to net income		
Actuarial loss on post-employment benefits, net of tax	**(280)**	(267)
Net movement in regulatory deferral account balances related to other comprehensive income, net of tax [Note 7]	**94**	-
Other comprehensive income, net of tax	**(2,038)**	6,638
Total comprehensive income	**32,798**	39,008

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

Hydro Ottawa Holding Inc.

Consolidated Balance Sheet
As at December 31, 2016
[in thousands of Canadian dollars]

	2016	2015
	$	$
Assets		
Current assets		
Cash	**982**	4,002
Accounts receivable [Note 6]	**192,670**	172,024
Restricted cash [Note 16]	**79,975**	-
Income taxes receivable	**1,762**	1,677
Prepaid expenses	**4,431**	2,941
Inventory [Note 12(c)]	**1,577**	-
Current portion of notes receivable from related parties [Note 12]	**2,049**	732
	283,446	181,376
Non-current assets		
Restricted cash [Note 16]	**44,110**	-
Property, plant and equipment [Note 8]	**1,146,170**	959,372
Intangible assets [Note 9]	**121,668**	113,359
Investment properties [Note 10]	**2,297**	2,360
Deferred income tax asset [Note 22]	**5,645**	2,250
Notes receivable from related parties [Note 12]	**5,462**	4,035
Investments in joint ventures [Note 11(a)]	**7,875**	6,794
Retirement benefit asset [Note 15(a)]	**161**	387
Total assets	**1,616,834**	1,269,933
Regulatory balances [Note 7]	**13,744**	14,430
Total assets and regulatory balances	**1,630,578**	1,284,363
Liabilities and shareholder's equity		
Current liabilities		
Bank indebtedness [Note 13]	**68,751**	-
Accounts payable and accrued liabilities [Note 14]	**196,251**	158,939
Income taxes payable	**2,522**	1,037
	267,524	159,976
Non-current liabilities		
Deferred revenue	**71,208**	52,676
Employee future benefits [Note 15(b)]	**13,335**	11,332
Customer deposits	**18,402**	18,206
Long-term debt [Note 16]	**772,960**	571,519
Deferred income tax liability [Note 22]	**20,936**	13,695
Other liabilities	**2,733**	2,737
Total liabilities	**1,167,098**	830,141
Shareholder's equity		
Share capital [Note 18]	**228,453**	228,453
Accumulated other comprehensive income	**4,637**	6,675
Retained earnings	**193,705**	178,269
Non-controlling interest [Note 18(c)]	**(20)**	-
Total liabilities and shareholder's equity	**1,593,873**	1,243,538
Regulatory balances [Note 7]	**36,705**	40,825
Total liabilities, shareholder's equity and regulatory balances	**1,630,578**	1,284,363

Contingent liabilities and commitments [Notes 24 and 25]

On behalf of the Board:

Director

Director

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

Hydro Ottawa Holding Inc.

Consolidated Statement of Changes in Equity
Year ended December 31, 2016

	Share capital $	Accumulated other comprehensive income $	Non-controlling interest $	Retained earnings $	Total $
Balance at December 31, 2014	228,453	37	-	164,099	392,589
Net income after net movements in regulatory balances	-	-	-	32,370	32,370
Other comprehensive income	-	6,638	-	-	6,638
Dividends [Note 18]	-	-	-	(18,200)	(18,200)
Balance at December 31, 2015	228,453	6,675	-	178,269	413,397
Net income (loss) after net movements in regulatory balances	-	-	(20)	34,836	34,816
Other comprehensive income	-	(2,038)	-	-	(2,038)
Dividends [Note 18]	-	-	-	(19,400)	(19,400)
Balance at December 31, 2016	**228,453**	**4,637**	**(20)**	**193,705**	**426,775**

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

Hydro Ottawa Holding Inc.

Consolidated Statement of Cash Flows
Year ended December 31, 2016

	2016	2015
	$	$
Net inflow (outflow) of cash related to the following activities:		
Operating		
Net income	**34,816**	32,370
Adjustments for:		
Depreciation	**37,502**	34,819
Amortization	**12,140**	7,813
Loss on disposal of non-financial assets [Notes 8 and 9]	**1,816**	538
Amortization of debt-issuance costs	**136**	166
Share of profit from joint ventures [Notes 11(a) and (b)]	**(1,039)**	(509)
Amortization of deferred revenue	**(1,628)**	(985)
Future employee benefits	**1,647**	231
Financing costs, net of interest income	**19,131**	17,986
Income tax expense	**9,041**	15,472
Unrealized foreign exchange loss	**75**	-
Net changes in non-cash working capital and other operating balances [Note 23]	**(11,393)**	(29,801)
Income taxes paid, net of refunds received	**(2,863)**	2,863
Financing costs paid, net of interest income received	**(20,689)**	(19,186)
Additions to deferred revenue	**20,160**	20,276
Change in customer deposits	**805**	5,697
Net movements in regulatory balances	**(3,340)**	12,807
	96,317	100,557
Investing		
Acquisition of property, plant and equipment	**(172,775)**	(128,615)
Acquisition of intangible assets	**(13,256)**	(15,394)
Proceeds from disposal of property, plant and equipment	**640**	704
Acquisition of subsidiaries, net of cash acquired [Note 5]	**(41,131)**	(90,564)
Restricted cash held in-trust	**(124,085)**	-
Repayment of notes receivable from joint ventures	**830**	13,667
	(349,777)	(220,202)
Financing		
Proceeds from issuance of long-term debt, net of debt-issuance costs	**201,096**	372,715
Dividends paid [Note 18]	**(19,400)**	(18,200)
Debentures repaid [Note 16]	**-**	(200,000)
	181,696	154,515
Effects of exchange rate changes on cash held in U.S. dollars	**(7)**	59
Net change in cash	**(71,771)**	34,929
Cash, net of bank indebtedness, beginning of year	**4,002**	(30,927)
Bank indebtedness, net of cash, end of year	**(67,769)**	4,002

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

Hydro Ottawa Holding Inc.

Notes to the Consolidated Financial Statements
Year ended December 31, 2016

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1. DESCRIPTION OF BUSINESS AND CORPORATE INFORMATION

Hydro Ottawa Holding Inc. ['HOHI' or the 'Corporation'] was incorporated on October 3, 2000 pursuant to the *Business Corporations Act (Ontario)* as mandated by the Ontario government's *Electricity Act, 1998*. The Corporation is wholly-owned by the City of Ottawa. The Corporation owns 100% of Hydro Ottawa Limited, Energy Ottawa Inc. ['Energy Ottawa'] and Telecom Ottawa Holding Inc. which does not maintain active operations. The Corporation is incorporated and domiciled in Canada with the registered head office located at 3025 Albion Road North, Ottawa, Ontario, K1G 3S4.

Hydro Ottawa Limited is a regulated electricity distribution company that owns and operates electricity infrastructure in the City of Ottawa and the Village of Casselman and is responsible for the safe, reliable delivery of electricity to homes and businesses in its licensed service area. In addition to billing for distribution services, Hydro Ottawa Limited invoices customers for amounts it is required to pay to other organizations in Ontario's electricity system for providing wholesale generation and transmission services.

Energy Ottawa's principal business is the generation of renewable energy [hydroelectric, solar and landfill gas], and the provision of expert energy management and procurement services to large energy-consuming organizations. Energy Ottawa holds interests in the following entities:

- Chaudiere Hydro L.P. ['CHLP'] is a wholly-owned subsidiary formed on June 22, 2012 to acquire, own and operate hydroelectric generation plants located in Ottawa, Ontario and Gatineau, Québec at Chaudière Falls.

- Chaudiere Hydro North L.P. ['CHLP North'] is a wholly-owned subsidiary formed on December 7, 2015. On January 1, 2016, CHLP transferred, assigned and conveyed assets relating to its hydroelectric generating facilities located in Gatineau, Québec to CHLP North. As CHLP and CHLP North are wholly-owned subsidiaries combined into the Corporation's consolidated financial statements, there is no impact on the present and future consolidated financial reporting of the Corporation as a result of this conveyance.

- 2425932 Ontario Inc. is a wholly-owned subsidiary incorporated on July 9, 2014. 2425932 Ontario Inc. holds five wholly-owned subsidiaries [EO Generation GP Inc., EO Generation Limited Partnership, Gananoque Water Power Company, EONY Generation Limited ['EONY'] and EONY Generation Holding Inc.] that collectively own and operate ten run-of-the-river hydroelectric generation facilities located throughout Ontario and New York State. Energy Ottawa holds its interest in 2425932 Ontario Inc. through common shares, and special shares held by EO Holding Trust, a trust formed by the Corporation on June 17, 2015 for which the beneficiary is HOHI and/or all of its non-regulated subsidiaries [i.e. excluding Hydro Ottawa Limited].

- 9927891 Canada Inc. is a wholly-owned subsidiary incorporated on September 30, 2016 that ultimately holds Hull Energy L.P., a partnership that was formed on October 18, 2016 to acquire, own and operate a generation plant in Gatineau, Québec as described in Note 5(a) of these consolidated financial statements. Energy Ottawa holds its interest in 9927891 Canada Inc. through common shares, and special shares held by Hull Energy Holding Trust, a trust formed by the Corporation on September 30, 2016 for which the beneficiary is HOHI and its non-regulated subsidiaries [i.e. excluding Hydro Ottawa Limited] with the exception of CHLP.

- Energy Ottawa Cable Testing Services Inc. is a wholly-owned subsidiary incorporated on November 15, 2016 which offers proprietary non-destructive cable testing services on a world-wide basis through an exclusive license with National Research Council Canada ['NRC'].

- CPS Current Power Services (2016) Ltd. ['CPS'] is an 89.90% owned subsidiary incorporated on February 23, 2016 and is the exclusive supplier [reseller] of PQ View, a web-based offering for power quality database management and analysis. CPS provides installation, training and power quality analysis services on a fee-for-service basis.

Hydro Ottawa Holding Inc.

Notes to the Consolidated Financial Statements
Year ended December 31, 2016

1. DESCRIPTION OF BUSINESS AND CORPORATE INFORMATION [CONTINUED]

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- Chaudiere Water Power Inc. ['CWPI'] is a wholly-owned subsidiary incorporated on August 12, 1980 to act as an agent for the four principals of CWPI: Energy Ottawa, CHLP, CHLP North and Hull Energy L.P. with a mandate to operate the Chaudière Dam facilities on the Ottawa River. The facilities are not owned by CWPI; they are jointly owned by the principals. In accordance with the shareholders' agreement, all expenses incurred by CWPI directly related to the facilities are fully reimbursed in accordance with each principal's ownership percentage. Prior to December 14, 2016, CWPI was a joint arrangement - as Hydro-Québec was one of the four principals of CWPI until all of its shares were acquired by Hull Energy L.P. as described in Note 5(a) of these consolidated financial statements. As CWPI is a cost-recovery operation, it does not carry on external revenue-generating operations.

- Moose Creek Energy L.P. ['Moose Creek LP'] is a 50.05% owned joint arrangement formed on April 19, 2011 to construct and operate a generation plant and gas collection system at the Laflèche landfill site in Moose Creek, Ontario.

- PowerTrail Inc. ['PowerTrail'] is a 60.00% owned joint arrangement incorporated on August 10, 2005 to construct and operate a generation plant and gas collection system at the Trail Road landfill site in Ottawa, Ontario.

- SolarTrail LP is an 84.99% owned joint arrangement formed on July 31, 2015 which does not have active operations through December 31, 2016.

2. BASIS OF PRESENTATION

(a) Statement of compliance

These consolidated financial statements have been prepared by management on a going-concern basis in accordance with International Financial Reporting Standards ['IFRS'] as issued by the International Accounting Standards Board ['IASB']. In the opinion of management, all adjustments necessary for fair presentation are reflected in these consolidated financial statements. These consolidated financial statements have been approved and authorized by the Corporation's Board of Directors for issue on April 20, 2017.

(b) Basis of measurement

The Corporation’s consolidated financial statements are prepared on a historical cost basis.

(c) Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars, which is the Corporation’s functional currency.

(d) Use of estimates

The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of revenue, expenses, assets, liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements.

Due to the inherent uncertainty involved, actual results could differ from estimates recorded in preparing these consolidated financial statements, including changes as a result of future decisions made by the Ontario Energy Board ['OEB'] or the Ontario provincial government. Management reviews its estimates on an ongoing basis using the most current information available. These consolidated financial statements have, in management's opinion, been properly prepared using reasonable limits of materiality and within the framework of the significant accounting policies. Significant areas where estimates are made in the application of IFRS are as follows:

2. BASIS OF PRESENTATION [CONTINUED]

(d) Use of estimates [continued]

(i) Accounts receivable

Accounts receivable, which includes unbilled revenue, are reported based on the amounts expected to be recovered less an estimated allowance for uncollectible amounts. Management utilizes historical loss experience in conjunction with the aging and arrears status of accounts receivable at year-end in the determination of the allowance. The measurement of unbilled revenue is based on an estimate of the amount of electricity consumed by customers between the date of the last bill and the year-end date.

(ii) Regulatory balances

The recognition and measurement of regulatory balances is subject to certain estimates and assumptions, including assumptions made in the interpretation of the OEB's regulations and decisions.

(iii) Useful lives of depreciable assets

Depreciation and amortization expenses are calculated based on estimates of the useful lives of property, plant and equipment, intangible assets and investment properties. Management estimates the useful lives of the various types of assets using assumptions and estimates of life characteristics of similar assets based on a long history of electricity distribution and generation industry experience.

(iv) Impairment of non-financial assets

Non-financial assets are reviewed by management for impairment using the future cash flows method as outlined in Note 3(o). By their nature, estimates of future cash flows, including estimates of future capital expenditures, revenue, operating expenses, discount rates and market pricing are subject to measurement uncertainty.

(v) Employee future benefits

The measurement of employee future benefits involves the use of numerous estimates and assumptions. Actuaries make assumptions for items such as discount rates, future salary increases and mortality rates in the determination of benefits expenses and defined benefit obligations.

(vi) Capital contribution obligations

The measurement of capital contribution obligations requires forecasts of future electricity usage as part of the determination of any obligation or rebate due to third parties.

(vii) Fair value of assets and liabilities acquired

The purchase of an existing business requires management to assign fair values to the assets and liabilities acquired, as well as the consideration transferred [including contingent consideration]. Fair values can be determined by applying judgment based on experience in the industry, third-party independent appraisals and by examining open market data for similar assets in the same industry.

2. BASIS OF PRESENTATION [CONTINUED]

(d) Use of estimates [continued]

(viii) Deferred income taxes

Tax interpretations, regulations and legislation in the various jurisdictions in which the Corporation and its subsidiaries operate are subject to change. Deferred income tax assets are assessed by management at the end of each reporting period to determine the likelihood that they will be realized from future taxable income.

(e) Key management judgments

(i) Evidence of asset impairment

At the end of each reporting period, or earlier if required, management uses its judgment to assess whether there is an indication that the carrying amount of a non-financial asset [or cash-generating unit, 'CGU'] exceeds its recoverable amount. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. This assessment involves the consideration of whether any events or changes in circumstances could have affected the recoverability of the carrying amount of a non-financial asset or CGU. Management considers various indicators including, but not limited to, adverse changes in the industry or economic conditions, changes in the degree or method of use of an asset, a lower-than-expected economic performance of an asset or a significant change in market returns or interest rates.

Based on management's judgment, an indicator of impairment [under International Accounting Standards 36 *Impairment of Assets* ['IAS 36']] existed within EONY at December 31, 2016 pertaining to the energy market prices in New York State. However, management's discounted cash flow analysis under the value-in-use method [as prescribed by IAS 36] resulted in no impairment to be recognized in the 2016 fiscal year. Assumptions with respect to these cash flows are sensitive to the various inputs into the value-in-use calculation, and thus are subject to measurement uncertainty [Note 2(d)(iv)].

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of consolidation

The consolidated financial statements include the accounts of the Corporation and its subsidiaries: Hydro Ottawa Limited, Telecom Ottawa Holding Inc., and Energy Ottawa which includes the accounts of its own subsidiaries as described in Note 1 of these consolidated financial statements. Subsidiaries are entities controlled by the Corporation. The Corporation controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns by directing and controlling the activities of the entity. Subsidiaries are fully consolidated from the date on which the Corporation obtains control, and continue to be consolidated until the date that control ceases to exist. All intercompany balances and transactions have been eliminated in these consolidated financial statements. The financial statements of the subsidiaries are prepared for the same reporting period as the Corporation using consistent accounting policies.

Subsidiaries have non-controlling interests which are presented as part of equity.

Hydro Ottawa Holding Inc.

Notes to the Consolidated Financial Statements
Year ended December 31, 2016
[in thousands of Canadian dollars]

3. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

(b) Joint arrangements

The Corporation is party to a number of joint arrangements as described in Note 1 of these consolidated financial statements whereby control is shared with third parties via a contractual agreement. All joint arrangements are either classified as joint ventures or joint operations in accordance with IFRS 11 *Joint Arrangements*. Joint ventures are accounted for using the equity method. Under this method, the Corporation's interests in joint ventures are initially recorded at cost, and subsequently adjusted to recognize the Corporation's share of post-acquisition profits or losses, movements in other comprehensive income ['OCI'] and dividends or distributions received. Joint operations are included in the Corporation's accounts by recording its contractual share of assets, liabilities, revenue, expenses and OCI.

(c) Business combinations

Business combinations are accounted for using the acquisition method. The consideration for an acquisition is measured at the aggregate of the fair values, at the date of exchange, of the assets transferred, equity instruments issued, and the liabilities incurred to former owners of the acquired business in exchange for control. Identifiable assets acquired and liabilities assumed in a business combination are measured initially at their fair values at the date of acquisition.

The Corporation evaluates the integrated set of activities [inputs, processes, outputs] associated with an acquired asset group to determine whether it meets the definition of a business as prescribed by IFRS 3 *Business Combinations*.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Corporation will report in its consolidated financial statements provisional amounts for the items for which the accounting is incomplete. Within one year, the Corporation will retrospectively adjust the provisional amounts recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and, if known, would have affected the measurement of the amounts recognized as at that date.

Transaction costs with respect to a business combination are expensed as incurred and included in general and administrative expenses as part of operating costs.

(d) Foreign currency translation

Transactions denominated in foreign currencies are translated at exchange rates in effect at the transaction date. At each reporting date, monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rate in effect at the end of the reporting period. Non-monetary assets and liabilities carried at historical cost are not re-translated; they remain at the exchange rate in effect at the date of the original transaction. Non-monetary assets and liabilities carried at fair value are translated at the exchange rate in effect at the date the fair value was measured. Any resulting exchange gains or losses are included in net income for the year.

The assets and liabilities of EONY are translated into Canadian dollars at the exchange rate in effect at the end of the reporting period. Revenue and expenses are translated into Canadian dollars at the average exchange rate in effect during the reporting period. Any resulting exchange gains and losses arising from the translation are included in OCI for the year.

Fair value adjustments to identifiable assets acquired and liabilities assumed through acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences are recognized in OCI.

(e) Regulation

Hydro Ottawa Limited is regulated by the OEB under the authority of the *Ontario Energy Board Act*, *1998*. The OEB is charged with the responsibilities of approving or setting rates for the transmission and distribution of electricity, and ensuring that distribution companies fulfill obligations to connect and service customers.

Hydro Ottawa Holding Inc.

Notes to the Consolidated Financial Statements
Year ended December 31, 2016
[in thousands of Canadian dollars]

3. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

(e) Regulation [continued]

For the fiscal year ended December 31, 2016, Hydro Ottawa Limited operated under an incentive rate-setting application ['Custom IR'] prescribed by the OEB. The Custom IR is one of the rate-setting options contained in the *Renewed Regulatory Framework for Electricity Distributors: A Performance-Based Approach* ['RRFE'] policy. The RRFE provides distributors three rate-setting methods: 4th Generation IR, Custom IR and Annual IR Index. Hydro Ottawa Limited filed a Custom IR application with the OEB on April 29, 2015 seeking approval to change the rates that Hydro Ottawa Limited charges for electricity delivery, retail services, allowances, loss factor and specific service charges for a period of five years, to be effective January 1, 2016 to December 31, 2020. This application requested a revenue requirement to recover costs, and to provide a rate of return on a deemed capital structure applied to rate base assets. The OEB issued its partial decision and rate order in December 2015 ['approved settlement'] establishing the rates for 2016 with interim rates for pole attachment charges. The OEB issued its decision and rate order on pole attachment charges in February 2016.

On August 15, 2016, Hydro Ottawa Limited filed its Custom IR update application for distribution rates and other charges, effective January 1, 2017. This application was approved in December 2016 and included adjustments to base rates, low voltage, transmission, retailer services and specific services charges. As well it includes the approval for the disposition of certain deferral and variance accounts as at December 31, 2015.

Hydro Ottawa Limited applies for distribution rates based on estimated costs. Once the rate is approved, it is not adjusted as a result of actual costs being different from those that were estimated, other than for certain prescribed costs that are eligible for deferral treatment and are either collected or refunded in future rates. The OEB has the general power to include or exclude costs and revenue in the rates of a specific period, resulting in a change in the timing of accounting recognition from that which would have applied in an unregulated company.

Hydro Ottawa Limited continues to assess the likelihood of recovery of all regulatory debit balances subject to recovery through a future rate filing. The absence of OEB approval is a consideration in this evaluation. If the requirement for a provision becomes more likely than not, Hydro Ottawa Limited will recognize the provision in operating costs for the year.

The following regulatory treatments have resulted from the adoption of IFRS 14, *Regulatory Deferral Accounts* ['IFRS 14'] which permits rate-regulated entities to use its existing rate-regulated activities practices, if and only if, in its first IFRS financial statements, it recognized regulatory deferral account balances by electing to apply the requirements of IFRS 14.

(i) Regulatory balances

Regulatory debit balances primarily represent costs that have been deferred because it is probable that they will be recovered in future rates. Similarly, regulatory credit balances can arise from differences in amounts billed to customers for electricity services and the costs that Hydro Ottawa Limited incurs to purchase these services.

Hydro Ottawa Limited accrues interest on the regulatory balances as directed by the OEB.

Regulatory balances principally comprise of the following:

- Regulatory asset/liability refund account ['RARA'/'RLRA'] consists of balances of regulatory assets or regulatory liabilities approved for disposition by the OEB through temporary additional rates referred to as rate riders.

- Settlement variances relate primarily to the charges Hydro Ottawa Limited incurred for transmission services, the commodity, wholesale market operations and the global adjustment that were not settled with customers during the year. The nature of the settlement variances is such that the balance can fluctuate between assets and liabilities over time, and they are reported at year-end dates in accordance with rules prescribed by the OEB.

Hydro Ottawa Holding Inc.

Notes to the Consolidated Financial Statements
Year ended December 31, 2016
[in thousands of Canadian dollars]

3. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

(e) Regulation [continued]

(i) Regulatory balances [continued]

- Stranded meter costs represent the net book value of conventional meters removed upon the installation of smart meters.

- Other Post-employment Benefits deferral account ['OPEB deferral account'] was authorized by the OEB in 2011 to record the adjustment to employee future benefits other than pension relating to the cumulative actuarial gains or losses. This account is adjusted annually to record any changes in the cumulative actuarial gains or losses. No interest charges are recorded on this account as instructed by the OEB.

(ii) Other regulatory variances and deferred costs

Other regulatory variances and deferred costs principally comprise of the following:

- The OEB allows electricity distributors to record in a deferral account the difference between low voltage charges paid to Hydro One Networks Inc. ['HONI'] and those charged to customers.

- The OEB allows electricity distributors to record in a deferral account, the net cost of providing retailer billing services and transaction request services. As of January 1, 2016, Hydro Ottawa Limited has incorporated the net costs into its revenue requirement and will no longer record the net cost into the deferral accounts.

- The OEB approved a deferral account for distributors to record one-time administrative incremental IFRS transition costs, which were not already approved and included for recovery in distribution rates.

- In its Guidelines released June 16, 2009, the OEB created four new deferral accounts to allow distributors to begin recording expenditures for certain activities relating to the connection of renewable generation and the development of a smart grid. These deferral accounts were authorized to be used to record qualifying incremental capital investments or operating, maintenance and administrative expenses.

- In its Guidelines released December 19, 2014, the OEB advised Distributors to continue to rely on the Lost Revenue Adjustment Mechanism to track and dispose of lost revenue that results from approved Conservation and Demand Management ['CDM'] programs between 2015 and 2020, noting that the same process as described in the OEB Guidelines released April 26, 2012 regarding the 2011 to 2014 period should be followed. Hydro Ottawa Limited is to record the difference between the actual validated CDM activities and activities included in Hydro Ottawa Limited's load forecast multiplied by the appropriate variable distribution rate.

- The OEB directed distributors to record the input tax credit savings arising from the elimination of the provincial sales tax and implementation of the harmonized sales tax on July 1, 2010 in a separate account. The OEB concluded that fifty percent of the balances should be returned to the ratepayers for the period up to the rebasing date, which for Hydro Ottawa Limited was January 1, 2012.

Hydro Ottawa Holding Inc.

Notes to the Consolidated Financial Statements
Year ended December 31, 2016
[in thousands of Canadian dollars]

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3. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

(e) Regulation [continued]

(iii) Income taxes

Hydro Ottawa Limited is considered to be a Municipal Electric Utility ['MEU'] and is required to make payments in lieu of corporate income taxes ['PILs'] as contained in the *Electricity Act, 1998*, as all of its share capital is indirectly owned by the City of Ottawa and not more than 10% of its income is derived from activities carried on outside the municipal boundaries of the City of Ottawa [excluding generation income earned from a contract with a crown agency]. The *Electricity Act, 1998* provides that a MEU that is exempt from tax under the *Income Tax Act (Canada)* ['ITA'] and the *Taxation Act, Ontario* ['TAO'] is required to make, for each taxation year, a PILs payment to the Ontario Electricity Financial Corporation in an amount approximating the tax that it would be liable to pay under the ITA and the TAO if it were not exempt from tax.

Hydro Ottawa Limited follows the liability method for recording income taxes. Under the liability method, current income taxes payable are recorded based on taxable income. Deferred income taxes arising from temporary differences in the accounting and tax basis of assets and liabilities are provided based on substantively enacted tax rates that will be in effect when the differences are expected to reverse.

The *Accounting Procedures Handbook* issued by the OEB provides for the recovery of income taxes by Hydro Ottawa Limited through annual distribution rate adjustments as approved by the OEB. Hydro Ottawa Limited recognizes regulatory balances for the amounts of deferred income taxes expected to be refunded to or recovered from customers in future electricity rates.

(f) Revenue recognition

The Corporation recognizes revenue when it is likely that economic benefits will flow to the Corporation and where the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable, excluding any discounts, rebates and sales taxes. The Corporation has determined that it acts as a principal in all of its revenue arrangements.

(i) Power recovery

Power recovery revenue represents the pass-through of the cost of power to the consumer as purchased by the Corporation and is recognized when electricity is delivered to the customer, as measured by meter readings or usage estimates. Power recovery revenue is regulated by the OEB and includes charges to customers for the electricity commodity, the transmission of electricity and the administration of the wholesale electricity system.

(ii) Distribution sales

The Corporation charges customers for the delivery of electricity, based on rates established by the OEB. The rates are intended to allow the Corporation to recover its prudently incurred costs and earn a fair return on invested capital. Distribution sales are recognized when electricity is delivered to the customer, as measured by meter readings or usage estimates.

(iii) Generation

Generation revenue is recorded on the basis of regular meter readings.

Hydro Ottawa Holding Inc.

Notes to the Consolidated Financial Statements
Year ended December 31, 2016
[in thousands of Canadian dollars]

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3. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

(f) Revenue recognition [continued]

(iv) Other

Other revenue consists primarily of commercial contract revenues ancillary to electricity distribution. Other revenue also includes commercial services which comprise turnkey projects, the provision of street light installation and maintenance services, energy management and data analysis, non-destructive cable testing and pole attachment revenues. Finally, other revenue also includes property rentals, amortization of capital contributions and CDM revenue.

Commercial contract revenues and certain commercial services [turnkey and street light installations] are accounted for using the percentage-of-completion method, whereby revenue and the corresponding costs are recognized proportionately with the degree of completion of the services under contract. Losses on such contracts are fully recognized when they become evident. Other commercial service revenues and property rentals are recognized as services are rendered, or on a straight-line basis over the period of the contract if the services performed consist of an indeterminate number of acts over a specified period of time.

Capital contributions received from electricity customers to construct or acquire property, plant and equipment for the purpose of connecting a customer to Hydro Ottawa's distribution network are recognized as deferred revenue and amortized into other revenue at an equivalent rate to that used for the depreciation of the related property, plant and equipment.

CDM revenue stems from the delivery of provincial government programs that promote conservation and is recognized on a cost-recovery basis. Performance incentive payments under CDM programs are recognized when there is reasonable assurance that the program conditions have been satisfied and the incentive payments will be received.

(g) Interest income and financing costs

Interest income is recognized as it accrues under the effective interest method and comprises interest earned on cash and notes receivable from joint ventures.

Financing costs are calculated using the effective interest rate method and are recognized as an expense unless they are capitalized as part of the cost of a qualifying asset.

(h) Income taxes

The Corporation, Energy Ottawa and Telecom Ottawa Holding Inc. are MEUs that account for income taxes using the liability method.

PowerTrail and CWPI are taxable under the ITA and TAO as less than 90% of each company's capital is owned by the City of Ottawa through Energy Ottawa and the Corporation. 9927891 Canada Inc., EO Cable Testing Services Inc., CPS and 2425932 Ontario Inc. [including its incorporated Canadian subsidiaries] are all taxable under the ITA and TAO, while 2425932 Ontario Inc.'s foreign subsidiaries are subject to the income tax regime in the United States [the 'Internal Revenue Service'], as more than 10% of each company's income is derived from activities carried on outside the municipal boundaries of the City of Ottawa. Corporate income taxes are accounted for using the liability method as described above.

Moose Creek LP, CHLP, EO Generation Limited Partnership, CHLP North, Hull Energy L.P. and SolarTrail LP are not taxable entities for federal and provincial income tax purposes. Taxes on the net income (loss) are borne by the individual partners through the allocation of taxable income.

3. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

(i) Restricted cash

Cash and cash equivalents [highly-liquid temporary investments with a maturity date between three months and one year] that are restricted as to withdrawal or use under the terms of certain contractual agreements are classified as restricted cash.

(j) Bank indebtedness

Bank indebtedness includes short-term advances and/or bankers' acceptances drawn on the Corporation's credit facility with a maturity date of three months or less, and outstanding cheques.

(k) Financial instruments

All financial instruments are initially recorded at fair value. When financial instruments are not measured at fair value through profit and loss ['FVTPL'], then directly attributable transaction costs are included in the initial measurement. The fair value of a financial instrument is the amount of consideration that would be agreed upon in an arm's-length transaction between willing parties. The subsequent measurement of each financial instrument depends on the classification elected by the Corporation at the time of recognition.

The Corporation classifies and measures its financial instruments as follows:

- Cash, restricted cash, accounts receivable, notes receivable from related parties are classified as loans and receivables and are measured at amortized cost using the effective interest method, less any impairment if applicable.
- Bank indebtedness, accounts payable and accrued liabilities, customer deposits, debentures and bonds payable are classified as other financial liabilities and are measured at amortized cost using the effective interest rate method.

Financial instruments which are measured at fair value are classified using a three-level hierarchy. Each level reflects the inputs used to measure the fair values of financial assets and financial liabilities, and are as follows:

- Level 1: inputs are unadjusted quoted prices of identical instruments in active markets;
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3: inputs for the liabilities that are not based on observable market data [unobservable inputs].

All financial assets except for those classified as FVTPL are subject to review for impairment at least at each reporting date. Financial assets are impaired only when an event has occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset. Impairment losses, if any, are recognized in net income. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized.

(l) Property, plant and equipment

Property, plant and equipment consist principally of land, buildings and fixtures, electricity distribution and infrastructure, furniture and equipment, rolling stock, generating equipment, reservoirs, dams and waterways and assets under construction. Property, plant and equipment acquired in a business combination are initially recorded at their acquisition date fair values.

Property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses, if any. Self-constructed asset costs comprise all directly attributable expenditures to bring the asset into operation including labour, materials, employee benefits, transportation, contracted services and borrowing costs. Where parts of an item in property, plant and equipment are significant and have different estimated economic useful lives, they are accounted for

Hydro Ottawa Holding Inc.

Notes to the Consolidated Financial Statements
Year ended December 31, 2016
[in thousands of Canadian dollars]

3. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

(l) Property, plant and equipment [continued]

as separate items [major components] of property, plant and equipment. Certain assets may be acquired or constructed with financial assistance in the form of contributions from customers. Contributions from customers are treated as deferred revenue.

The cost of major inspections and maintenance is recognized in the carrying value of an asset provided that the Corporation will derive future economic benefits from the expenditure. The carrying amount of a replaced part is derecognized. The costs of day-to-day servicing, repairs, and maintenance, are expensed as incurred.

Depreciation is recorded on a straight-line basis over the estimated service life of each component of property, plant and equipment. Emergency capital spare parts that are expected to be used for more than one year are considered to be assets under construction and are depreciated only once they are put into service.

Gains and losses on disposal of retired, sold or otherwise derecognized property, plant and equipment are recognized in income and are calculated as the difference between net proceeds from disposal and the carrying amount of the asset.

The estimated useful lives, residual values and depreciation methods are reviewed at each year-end with the effect of any changes in estimate being accounted for on a prospective basis.

Estimated service lives for property, plant and equipment classes are as follows:

Land and buildings	
Land	Indefinite
Buildings and fixtures	20 to 100 years
Electricity distribution infrastructure	10 to 60 years
Generation and other	
Generating equipment	3 to 50 years
Reservoirs, dams and waterways	75 to 125 years
Furniture and equipment	5 to 10 years
Rolling stock	7 to 15 years

Assets under construction and land are not subject to depreciation. Borrowing costs are capitalized as a component of the cost of self-constructed property, plant and equipment assets that take a substantial period of time to get ready for their intended use. The capitalization rate is the Corporation's weighted average cost of borrowing.

(m) Intangible assets

Intangible assets include land and water rights, computer software, capital contributions, power purchase agreements, deferred contract costs and assets under development. Water rights represents the inherent value of the right to draw water from government-owned rivers and lakes for purposes of generating electricity.

Intangible assets with finite lives are measured at cost less accumulated amortization and accumulated impairment losses, if any. Intangible assets are amortized on a straight-line basis over the estimated service lives of the related assets while those with indefinite lives are not amortized. Intangible assets acquired in a business combination are initially recorded at their acquisition-date fair values.

Intangible assets are derecognized on disposal or when no further future economic benefits are expected from their use. Gains or losses on disposal of intangible assets are recognized in income and are calculated as the difference between net proceeds from disposal and the carrying amount of the asset.

The estimated useful lives and amortization methods are reviewed at each year-end with the effect of any changes in estimate being accounted for on a prospective basis.

3. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

(m) Intangible assets [continued]

Estimated service lives for intangible assets with finite lives are as follows:

Land rights	50 years
Water rights with a definite useful life	7 to 100 years
Computer software	5 to 10 years
Capital contributions and other agreements	
Capital contributions	45 years
Power purchase agreements	15 years
Deferred contract costs	15 years

Water rights relating to certain hydroelectric power stations are amortized on a straight-line basis over the related contract term, including one renewal period when applicable. Contract terms associated with the water rights for the Corporation's other hydroelectric stations do not carry a specific expiration date and thus are not amortized, but are tested for impairment annually or as soon as there is evidence of impairment.

Borrowing costs are capitalized as a component of cost of self-constructed intangible assets that take a substantial period of time to get ready for their intended use. The capitalization rate is the Corporation's weighted average cost of borrowing.

(n) Investment properties

Investment property is land and/or buildings held for purposes other than for use in the Corporation's operating activities. The Corporation holds investment properties either for potential expansion of the service delivery network or as excess administrative property. Investment properties are measured at cost plus transaction costs, and have estimated service lives ranging between 25 and 50 years. Any gain or loss arising from the sale of an investment property is immediately recognized in income. Rental income from investment property, net of the related operating expenses, are presented as part of other revenue.

(o) Impairment of non-financial assets

At the end of each reporting period, or earlier if required, the Corporation assesses whether there is an indication that a non-financial asset [or CGU] may be impaired. The Corporation's cash inflows are monitored separately by generating station, resulting in the Corporation having several CGUs. If any indication exists, the Corporation estimates the asset's recoverable amount, which is the higher of an asset or CGU's fair value less costs of disposal and its value in use. If the carrying value of a non-financial asset exceeds its recoverable amount, the difference is immediately recognized as an impairment loss in profit or loss.

Intangible assets with indefinite useful lives [i.e. certain water rights] are tested for impairment [within their respective CGUs] at least annually, and whenever there is an indication that the asset may be impaired. When determining the recoverable amount for these intangible assets, the Corporation determines:

- Its value in use by discounting estimated future cash flows to their present value using a discount rate that reflects changes in the time value of money and the risks specific to the asset or the CGU.
- Its fair value less costs of disposal by considering whether there is a current market price for the asset. Otherwise, the Corporation uses an income approach, which is based on the present value of future cash flows generated by an asset or a CGU. The discounted cash flow method consists of projecting cash flows and converting them into present values by applying discount rates. The discount rate estimated and used by management represents the weighted average cost of capital determined for a group of CGUs. The growth rate is determined based on past experience, economic trends as well as market and industry trends.

At the end of a reporting period, if there is any indication that an impairment loss recognized in a prior period no longer

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3. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

(o) Impairment of non-financial assets [continued]

exists or has decreased, the loss is reversed up to its recoverable amount. The carrying amount following the reversal must not be higher than the carrying amount that would have prevailed [net of amortization] had the original impairment not been recognized in prior periods.

Compensation for the impairment of non-financial assets, such as insurance recoveries, is included in determining profit or loss when it becomes receivable and is not offset against the cost of restoring, purchasing or constructing replacement assets.

(p) Employee future benefits

(i) Pension plans

The Corporation provides pension benefits for its employees through the Ontario Municipal Employees Retirement System ['OMERS'] Fund [the 'Fund']. OMERS is a multi-employer pension plan that provides pensions for employees of Ontario municipalities, local boards, public utilities and school boards. The Fund is a defined benefit pension plan, which is financed by equal contributions from participating employers and employees and by the investment earnings of the Fund.

Although the plan is a defined benefit plan, sufficient information is not available to the Corporation to account for it as such because it is not possible to attribute the fund assets and liabilities between the various employers who contribute to the Fund. As a result, the Corporation accounts for the plan as a defined contribution plan, and contributions payable as a result of employee service are expensed as incurred as part of operating costs. The Corporation shares in the actuarial risks of the other participating entities in the plan, and its future contributions may therefore be increased due to actuarial losses relating to the other participating entities. In addition, the Corporation's contributions could be increased if other entities withdraw from the plan.

CHLP is the sponsoring employer of the Pension Plan for Employees of Chaudiere Hydro L.P. and Participating Employers ['Chaudiere Hydro Pension Plan' or 'CHPP']. The CHPP is accounted for as follows:

- CHPP assets are held by an insurance corporation and are measured at fair value, which are determined as follows: bond, equity and other investment funds are valued using the unit values supplied by the fund manager, which reflects the fund's proportionate share of underlying net assets at fair values determined using closing quotations from Canadian investment dealers, and short-term investments are valued at cost, including accrued interest, which due to their short-term maturity approximates fair value.

- Defined benefit obligations of the CHPP are determined based on the expected future benefit payments discounting using market interest rates on high-quality debt instruments that match the timing and amount of expected benefit payments.

- The cost of pension earned by employees is actuarially determined using the projected benefit method prorated on services, and management's best estimate of salary escalation, retirement ages and life expectancy.

- The defined benefit expense is presented in employee benefits in net income on the consolidated statement of income and includes, as applicable, the estimated cost of employee benefits for the current year service, interest cost, interest income on CHPP's assets, plan amendments, curtailments, other administration costs of the pension plans and any gain or loss on settlement. Current service cost, interest income on CHPP's assets and interest costs are computed by applying the discount rate used to measure

3. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

(p) Employee future benefits [continued]

(i) Pension plans [continued]

the plan obligation at the beginning of the annual period.

– Remeasurements arising on CHPP's assets and defined benefit obligation are presented in OCI on the consolidated statement of comprehensive income and arise from actuarial gains and losses on defined benefit obligations, the difference between the actual return [net of costs of managing CHPP's assets] and interest income on plan assets, if applicable. CHPP's significant assumptions are assessed and revised, as appropriate.

– Past service costs are included in the cost of the CHPP for the year when they arise.

The fair value of the CHPP assets is offset against the defined benefit obligation. The net amount is recognized as a retirement benefit asset or retirement benefit liability.

(ii) Other post-employment benefits

Employee future benefits other than pensions provided by the Corporation include life insurance, a retirement grant and other benefits. These plans provide benefits to certain employees when they are no longer providing active service.

Employee future benefits expense is recognized in the period during which the employees render services.

Employee future benefits are recorded on an accrual basis. The defined benefit obligation and current service costs are calculated using the projected benefit method prorated on service and based on assumptions that reflect management's best estimates. The current service cost for a period is equal to the actuarial present value of benefits attributed to employees' services rendered in the period. Actuarial gains and losses resulting from experience different from that assumed or from changes in actuarial assumptions are recognized in OCI. However, for Hydro Ottawa Limited, these amounts are reclassified to a regulatory debit balance as permitted by the OEB.

(iii) Employee benefits

The Corporation provides short-term employee benefits such as salaries, employment insurance, short-term compensated absences and health and dental care. These benefits are recognized as the related service is rendered and is measured on an undiscounted basis. Short-term employee benefits are recognized as an expense unless they qualify for capitalization as part of the cost of an item of property, plant and equipment or intangible assets. A liability is recognized in respect of any unpaid short-term employee benefits for services rendered in the reporting period.

The Corporation recognizes a liability for the expected cost of accumulated non-vested sick leave benefits at the end of the reporting period. The Corporation elected to present its non-vested sick leave obligation as a non-current liability since it does not expect to settle all of its sick leave benefits within twelve months from the balance sheet date.

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3. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

(q) Customer deposits

Customer deposits are cash collections from non-residential customers to guarantee the payment of future energy bills and fulfillment of construction obligations. Deposits estimated to be refundable to such customers within the next fiscal year are classified as current liabilities and included in accounts payable and accrued liabilities.

(r) Capital contribution obligations

The Corporation is party to various Connection and Cost Recovery Agreements ['CCRAs'] with HONI. These agreements govern the construction by HONI of new or modified transformer stations for the purpose of serving the Corporation's customers, including anticipated electricity load growth.

All terms and conditions of CCRAs follow the *Transmission System Code* [the 'Code'] issued by the OEB. The amount of the initial capital contribution required is based on the prescribed economic evaluation procedure set out in the Code. This initial capital contribution is reduced by any commitment of connection revenue [the 'guaranteed revenue'] earned by HONI from the Corporation over the period of the respective CCRA. Guaranteed revenue is calculated based on forecasted load ['initial load'] multiplied by HONI's approved rate at the time of entering into these agreements.

Each of the Corporation's CCRAs has a term of 25 years. These agreements require periodic reviews whereby a comparison of actual to forecasted load is conducted, and a true-up calculation performed. When a true-up calculation shows the Corporation's actual load for the past period and updated load forecast for the future period are lower than the initial load, the Corporation is obligated to make up this shortfall. When the Corporation's actual load and updated load forecast is higher than the initial load, the Corporation is entitled to a rebate. True-up calculations are made in years 5 and 10; and in year 15 if the difference between the actual incremental load and initial load at the end of year 10 are greater than 20%.

(s) Provisions and contingencies

The Corporation recognizes provisions when there is a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

The evaluation of the likelihood of the contingent events requires judgment by management as to the probability of exposure to potential loss. Actual results could differ from these estimates.

A contingent asset is not recognized in the financial statements. However, a contingent asset is disclosed where an inflow of economic benefits is probable.

(t) Deferred revenue

In certain situations, financial assistance in the form of contributions is required from customers to finance additions to property, plant and equipment. This occurs when the estimated revenue resulting from the addition to property, plant and equipment is less than the cost of providing the service or where special equipment is needed to supply the customers' specific requirements. Since the contributions will provide customers with ongoing access to the supply of electricity, these contributions are classified as deferred revenue, and recognized as other revenue at an equivalent rate to that used for the depreciation of the related property, plant and equipment.

(u) Debt-issuance costs

The Corporation incurs debt-issuance costs that are external, direct and incremental in nature arising from its debenture and bond offerings. Debt-issuance costs associated with its debenture and bond offerings are netted against the proceeds of the debt and amortized using the effective yield method.

Hydro Ottawa Holding Inc.

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3. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

(v) Leases

Leases in which the Corporation assumes all of the risks and rewards of ownership are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to the asset. Payments under finance leases are apportioned between interest expense and a reduction of the outstanding liability.

All other leases are classified as operating leases and the leased assets are not recognized on the Corporation’s consolidated balance sheets. Payments made under operating leases are recognized in net income on a straight-line basis over the term of the lease.

Upon evaluation, all of the Corporation's leases are classified as operating leases.

(w) Inventory

Inventory consists of work-in-process and finished goods used in the installation and maintenance of street lights as part of the Corporation's contract and commercial services. Inventory is measured at the lower of weighted average variable costs and net realizable value. The cost of inventory is based on the first-in, first-out cost formula based on standard costs. Net realizable value is the estimated selling price in the ordinary course of business less any applicable selling expenses.

4. FUTURE CHANGES IN ACCOUNTING POLICIES

A number of new standards, amendments and interpretations are not yet effective for the year ended December 31, 2016 and have not been applied in preparing these consolidated financial statements. The Corporation continues to analyze these standards and has initially determined that the following could have an impact on its consolidated financial statements.

In May 2014, the IASB published a new standard, IFRS 15 *Revenue from Contracts with Customers* ['IFRS 15'], which replaces most of the detailed guidance on revenue recognition that currently exists under IFRS. IFRS 15 specifies how and when an entity will recognize revenue and additional disclosure requirements. In April 2016, the IASB issued amendments to IFRS 15 which clarify how to identify a performance obligation in a contract, determine whether a company is a principal or an agent, and determine whether the revenue from granting a license should be recognized at a point in time or over time. In addition to the clarifications, the amendments include two additional reliefs to reduce cost and complexity for a company when it applies the new standard. IFRS 15 is effective for annual periods beginning on or after January 1, 2018.

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments* ['IFRS 9'], which replaces IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 includes revised guidance on the classification and measurement of financial instruments and is effective for annual periods beginning on or after January 1, 2018.

In January 2016, the IASB issued a new standard, IFRS 16 *Leases* ['IFRS 16']. It replaces accounting requirements introduced more than 30 years ago that are no longer considered suitable and is a major revision of the way in which companies account for leases. The new standard becomes effective for reporting periods beginning on or after January 1, 2019. Early adoption is permitted if IFRS 15 is also adopted.

On January 29, 2016, the IASB published amendments to IAS 7 *Statement of Cash Flows* ['IAS 7']. The amendments are intended to clarify IAS 7 to improve information provided to users of financial statements about an entity's financing activities. They are effective for annual periods beginning on or after 1 January 2017, with earlier application being permitted.

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5. BUSINESS COMBINATIONS

(a) Acquisition of the Centrale Hull-2 generation facility from Hydro-Québec

On December 14, 2016, the Corporation, through Hull Energy L.P., entered into an Agreement of Purchase and Sale ['APS'] with Gatineau Power Company [a subsidiary of Hydro-Québec], to acquire its 27 megawatt Centrale Hull-2 hydroelectric generating station [the 'HQ assets'] and its 33.33% interest in CWPI for a cash purchase price of $50,000, inclusive of contingent consideration estimated at the date of acquisition to be $10,000. Also on December 14, 2016, the Corporation entered into two agreements incidental to the APS: [1] a 25-year fixed-price, indexed power purchase agreement with Hydro-Québec to sell them electricity from the HQ assets at a market base-rate and [2] a 100-year-less-a-day lease with Gatineau Power Company for the land and associated water rights pertaining to the Québec side of the Ottawa River at Chaudière Falls. The acquisition of HQ assets was determined to be a business combination for accounting purposes.

The following table summarizes the fair values of the assets acquired and liabilities assumed as part of the transaction with Gatineau Power Company.

	Acquisition date fair value $
Non-current assets	
Generation and other	
Reservoirs, dams and waterways	**17,944**
Generating equipment	**12,025**
Land and buildings	**10,031**
Water rights	**10,000**
Retirement benefit asset	**90**
Non-current liabilities	
Employee future benefits	**(36)**
Accounts payable and accrued liabilities	**(54)**
Total net assets acquired	**50,000**

The fair value of the property, plant and equipment acquired was based on the direct method-replacement cost approach. As such, the asset values were estimated as if they were to be reconstructed on an undeveloped site. These estimates were developed through discussions with third-party engineers, market research and comparisons with similar equipment and facility replacement cost data based on capacity. Moreover, since the assets have been in use over varying periods of time, allowances have been made for physical, functional, and economic factors affecting utility and value as they might apply. The fair value of the water rights was based on the present value of the net cash flow benefits derived from the water rights ownership. As a result, the fair value measurement for the acquired HQ assets are classified within Level 3 of the fair value hierarchy.

Amounts with respect to the retirement benefit asset, employee future benefits and accounts payable and accrued liabilities relate to the Corporation's acquired 33.33% interest in CWPI. The $10,000 earn out is included in accounts payable and accrued liabilities as at December 31, 2016 and was settled subsequent to year-end.

The Corporation incurred transaction costs [primarily legal and consulting] totaling $1,754 with respect to the acquisition. As management is not privy to the applicable financial information, it is impracticable to determine the amount of revenue or income (loss) the HQ assets would have produced had the acquisition occurred on January 1, 2016.

Hydro Ottawa Holding Inc.

Notes to the Consolidated Financial Statements
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5. BUSINESS COMBINATIONS [CONTINUED]

(b) Acquisition of generation facilities from Fortis Inc.

On March 23, 2015, the Corporation, through 2425932 Ontario Inc., entered into a Share and Unit Purchase Agreement ['SPA'] with Fortis Inc. to acquire 100% of four entities that collectively own and operate 10 run-of-the-river hydroelectric generation facilities in New York State [i.e. EONY] and Ontario ['EOGen'] for a cash purchase price of $77,038 [$62,500 USD] and $16,000 respectively. The Corporation completed its acquisition of EONY on June 22, 2015 and EOGen on July 17, 2015 with respective closing adjustments of $820 [$666 USD] and $1,261, bringing the final cash purchase prices to $77,858 [$63,166 USD] and $17,261. The four stations in New York State have a combined operating capacity of 22.6 megawatts, while the six stations in Ontario have a combined operating capacity of 8.3 megawatts.

The following table summarizes the fair values of the assets acquired and liabilities assumed as part of the transaction with Fortis Inc. in Canadian dollars. The Corporation undertook a market approach, using discounted cash flows to estimate the fair value of the water rights and power purchase agreements acquired. As a result, the fair value measurement for such assets is classified within Level 3 of the fair value hierarchy. Expected future cash flows were based on estimates of future production, commodity prices and applicable contractual rates.

	Acquisition date fair value $
Current assets	
Cash	**2,268**
Accounts receivable	**1,756**
Prepaid expenses	**228**
Current liabilities	
Accounts payable and accrued liabilities	**(490)**
Non-current assets	
Generation and other	
Generating equipment	**25,667**
Reservoirs, dams and waterways	**16,745**
Furniture and equipment	**107**
Rolling stock	**111**
Land and buildings	**18,373**
Power purchase agreement	**1,276**
Computer software	**445**
Water rights	**30,690**
Investment property	**150**
Deferred income tax assets	**2,079**
Non-current liabilities	
Deferred income tax liabilities	**(4,286)**
Total net assets acquired	**95,119**

Hydro Ottawa Holding Inc.

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5. BUSINESS COMBINATIONS [CONTINUED]

(b) Acquisition of generation facilities from Fortis Inc. [continued]

The breakdown of cash paid to Fortis Inc. for acquisition is as follows:

	2015 $
Total net assets acquired	**95,119**
Less: cash acquired	**(2,268)**
Less: closing adjustments in accounts payable and accrued liabilities	**(2,081)**
Less: acquired liabilities funded by Fortis Inc.	**(206)**
Total cash paid for net assets acquired	**90,564**

The amounts relating to accounts receivable, prepaid expenses and accounts payable and accrued liabilities have been removed from their respective operating line items in the consolidated statements of cash flows as they did not arise in the ordinary course of business.

The Corporation incurred transaction costs [primarily legal and consulting fees] relating to the acquisition of $2,733. Had the acquisition occurred on January 1, 2015, management estimates generation revenue and net income would have been $18,138 and $31,874 respectively for the 2015 fiscal year.

By settling the acquisition-related receivables and payables outstanding at December 31, 2015, the Corporation's investing activities include $1,131 of cash outflows in the current year.

6. ACCOUNTS RECEIVABLE

	2016 $	2015 $
Electricity receivables	**70,370**	59,198
Unbilled revenue	**103,253**	88,036
Trade and other receivables	**11,579**	21,071
Less: allowance for doubtful accounts [Note 19(c)]	**(1,782)**	(1,927)
	183,420	166,378
Amounts due from related parties [Note 26]	**9,250**	5,646
	192,670	172,024
Aging:		
Outstanding for 30 days or less	**80,893**	74,986
Outstanding for more than 30 days but not more than 120 days	**8,018**	8,242
Outstanding for more than 120 days	**2,288**	2,687
Unbilled revenue	**103,253**	88,036
Less: allowance for doubtful accounts	**(1,782)**	(1,927)
	192,670	172,024

Hydro Ottawa Holding Inc.

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7. REGULATORY BALANCES

Information about the Corporation's regulatory balances is as follows:

	Remaining recovery/ reversal [years]	2015 $	Balances arising in the year $	Recovery/ reversal $	Other movements(1) $	**2016 $**
Regulatory debit balances						
RARA	1	205	68	1	-	**274**
Settlement variances	1 - 5	5,502	(3,006)	-	-	**2,496**
OPEB deferral account	1 - 5	4,432	(4,285)	-	-	**147**
Regulatory asset for deferred income taxes	(2)	-	7,684	-	-	**7,684**
Other variances and deferred costs	1 - 5	4,291	(1,148)	-	-	**3,143**
		14,430	(687)	1	-	**13,744**
Regulatory credit balances						
RLRA	1	3,266	1,618	(4,475)	-	**409**
Settlement variances	1 - 5	29,919	6,218	-	-	**36,137**
Stranded meters	1	5,974	(5,974)	-	-	**-**
Regulatory liability for deferred income taxes	(2)	513	(513)	-	-	**-**
Other variances and deferred costs	1 - 5	1,153	(994)	-	-	**159**
		40,825	355	(4,475)	-	**36,705**

Hydro Ottawa Holding Inc.

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7. REGULATORY BALANCES [CONTINUED]

	Remaining recovery/ reversal [years]	2014 $	Balances arising in the year $	Recovery/ reversal $	Other movements[1] $	2015 $
Regulatory debit balances						
RARA	1	209	(4)	-	-	205
Settlement variances	1 - 5	12,223	(6,721)	-	-	5,502
OPEB deferral account	1 - 5	4,432	-	-	-	4,432
Other variances and deferred costs	1 - 5	3,759	563	(31)	-	4,291
		20,623	(6,162)	(31)	-	14,430
Regulatory credit balances						
RLRA	1	3,143	232	(109)	-	3,266
Settlement variances	1 - 5	14,414	15,505	-	-	29,919
Stranded meters	1	2,987	2,987	-	-	5,974
Regulatory liability for deferred income taxes	(2)	12,070	(11,557)	-	-	513
Other variances and deferred costs	1 - 5	1,597	(444)	-	-	1,153
		34,211	6,723	(109)	-	40,825

[1] Other movements represent reclassifications of balances.
[2] The balance is being reversed through timing differences in the recognition of deferred income tax assets.

In December 2016, the OEB approved the disposition of certain deferral and variance accounts as at December 31, 2015 amounting to a credit of $22,471 over a one-year period commencing January 1, 2017.

The following regulatory balances include accrued interest:

- The RARA/RLRA includes accrued interest costs of $27 [2015 – $46].
- Settlement variances include accrued interest costs of $268 [2015 – $97].
- Other variance and deferred costs include accrued interest earned of $15 [2015 – $12].

Hydro Ottawa Holding Inc.

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8. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings $	Distribution $	Generation and other $	Assets under construction $	Total $
Cost					
Balance as at December 31, 2014	93,735	597,370	71,046	64,375	826,526
Additions, net of transfers	1,657	118,715	4,985	13,229	138,586
Acquired via business combination [Note 5(b)]	18,373	-	42,630	-	61,003
Disposals	-	(1,321)	(17)	-	(1,338)
Exchange differences	2,031	-	4,104	1	6,136
Balance as at December 31, 2015	115,796	714,764	122,748	77,605	1,030,913
Additions, net of transfers	855	90,696	10,340	85,461	187,352
Acquired via business combination [Note 5(a)]	10,031	-	29,969	-	40,000
Disposals	(2)	(1,544)	(153)	-	(1,699)
Exchange differences	(553)	-	(1,145)	7	(1,691)
Balance as at December 31, 2016	**126,127**	**803,916**	**161,759**	**163,073**	**1,254,875**
Accumulated depreciation					
Balance as at December 31, 2014	(3,034)	(22,326)	(11,534)	-	(36,894)
Depreciation	(2,951)	(26,154)	(5,602)	-	(34,707)
Disposals	-	92	3	-	95
Exchange differences	(11)	-	(24)	-	(35)
Balance as at December 31, 2015	(5,996)	(48,388)	(17,157)	-	(71,541)
Depreciation	(3,406)	(27,340)	(6,647)	-	(37,393)
Disposals	1	178	46	-	225
Exchange differences	(14)	-	18	-	4
Balance as at December 31, 2016	**(9,415)**	**(75,550)**	**(23,740)**	**-**	**(108,705)**
Net book value					
As at December 31, 2015	109,800	666,376	105,591	77,605	959,372
As at December 31, 2016	**116,712**	**728,366**	**138,019**	**163,073**	**1,146,170**

During the year, the Corporation capitalized borrowing costs of $4,055 [2015 – $1,199] to property, plant and equipment. The average annual interest rate for 2016 was 3.7% [2015 – 4.1%]. During the year, the Corporation incurred a loss on disposal of property, plant and equipment of $833 [2015 – $538].

In February 2014, the Corporation's subsidiary CHLP negotiated a forty-year Hydroelectric Standard Offer Program – Municipal Stream Contract ['40-year HESOP Contract'] with the IESO – resulting in the Corporation's commitment of significantly expanding its generation facilities on the Ontario side of Chaudière Falls by 20 megawatts [the 'Chaudière Expansion']. Since 2015, the Corporation has been fully engaged in this multi-year expansion project. As a result, a significant amount of assets under construction comprise large civil structures, water-to-wire connections, engineering and project management services relating to the Chaudière Expansion, which is anticipated to be completed and commercially operational in 2017.

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9. INTANGIBLE ASSETS

	Land rights and water rights $	Computer software $	Capital contributions and other agreements $	Assets under development $	Total $
Cost					
Balance as at December 31, 2014	18,731	39,972	5,618	28,376	92,697
Additions (net of transfers)	20	9,883	14,133	(24,324)	(288)
Acquired via business combination [Note 5(b)]	30,690	445	1,276	-	32,411
Exchange differences	2,923	45	-	-	2,968
Balance as at December 31, 2015	52,364	50,345	21,027	4,052	127,788
Additions	473	2,118	3,811	5,857	12,259
Acquired via business combination [Note 5(a)]	10,000	-	-	-	10,000
Exchange differences	(798)	(12)	-	-	(810)
Disposals	-	-	(2,610)	-	(2,610)
Balance as at December 31, 2016	**62,039**	**52,451**	**22,228**	**9,909**	**146,627**
Accumulated amortization					
Balance as at December 31, 2014	(49)	(5,651)	(916)	-	(6,616)
Amortization	(49)	(7,131)	(633)	-	(7,813)
Balance as at December 31, 2015	(98)	(12,782)	(1,549)	-	(14,429)
Amortization	(3,314)	(7,871)	(955)	-	(12,140)
Exchange differences	(20)	3	-	-	(17)
Disposals	-	-	1,627	-	1,627
Balance as at December 31, 2016	**(3,432)**	**(20,650)**	**(877)**	**-**	**(24,959)**
Net book value					
As at December 31, 2015	52,266	37,563	19,478	4,052	113,359
As at December 31, 2016	**58,607**	**31,801**	**21,351**	**9,909**	**121,668**

During the year, the Corporation capitalized borrowing costs of $81 [2015 – $515] to intangible assets. The average annual interest rate for 2016 was 3.7% [2015 – 4.1%]. During the year, the Corporation incurred a loss on intangible assets of $983 [2015 – $nil].

A significant portion of the Corporation's water rights with indefinite lives [68% or $16,941] stems from a historical 1889 lease agreement with Public Works and Government Services Canada [the 'Chaudière water rights']. This contract provides rights to waters on the Ottawa River at Chaudière Falls for two of the Corporation's CGUs and effectively renews every 21 years into perpetuity. As a result of the deemed indefinite life, the Corporation does not amortize these water rights.

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9. INTANGIBLE ASSETS [CONTINUED]

The Corporation's annual impairment test of all of its water rights with indefinite lives resulted in no impairment for the 2016 fiscal year [2015 - $nil]. For the testing of its Chaudière water rights, the Corporation used a fair value less costs of disposal calculation ['FVLCD'] based on discounted future cash inflows to be earned under the Corporation's future contracts [ex. the 40-year HESOP Contract] and cash outflows based on management's industry experience and data from third party consultants. The key assumption in the FVLCD calculation was a weighted average cost of capital ['WACC'] of 4.6%. A 10 percent increase or decrease in the WACC, while holding all other assumptions constant, would not impact management's conclusion with respect to its water rights not being impaired at December 31, 2016 or 2015.

10. INVESTMENT PROPERTIES

	2016 **$**	2015 $
Net book value, beginning of year	**2,360**	2,216
Additions	**46**	106
Acquired via business combination	**-**	150
Depreciation	**(109)**	(112)
Net book value, end of year	**2,297**	2,360

The fair value of investment properties is $4,865, which is based on the latest Municipal Property Assessment Corporation valuation dated May 12, 2016.

11. INVESTMENTS IN JOINT ARRANGEMENTS

(a) Investments in joint ventures

	2016 **$**	2015 $
Moose Creek LP [50.05%]		
Investment in joint venture, beginning of year	**3,488**	3,370
Share of profit	**567**	118
Investment in joint venture, end of year	**4,055**	3,488
PowerTrail [60%]		
Investment in joint venture, beginning of year	**3,306**	2,914
Share of profit, net of tax	**451**	372
Other adjusting items related to profit	**21**	20
Additional contributions	**42**	-
Investment in joint venture, end of year	**3,820**	3,306
Total investments in joint ventures	**7,875**	6,794

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11. INVESTMENTS IN JOINT ARRANGEMENTS [CONTINUED]

(b) Summary balance sheets and statements of income of joint ventures

	2016	2015
	$	$
Moose Creek LP [50.05%]		
Current assets	**1,276**	1,249
Non-current assets	**12,882**	13,223
Total assets	**14,158**	14,472
Current liabilities	**1,585**	1,552
Non-current liabilities	**4,229**	5,710
Total liabilities	**5,814**	7,262
Revenue	**3,679**	2,895
Net income	**1,134**	235
PowerTrail [60%]		
Current assets	**915**	1,103
Non-current assets	**10,761**	9,877
Total assets	**11,676**	10,980
Current liabilities	**938**	1,194
Non-current liabilities	**3,949**	3,819
Total liabilities	**4,887**	5,013
Revenue	**3,568**	3,787
Net income	**752**	618

(c) Joint operations

The Corporation's investment in CWPI was considered to be a joint operation until December 14, 2016, at which point it became a subsidiary of the Corporation after the acquisition of the remaining 33.3% share from Hydro-Québec as disclosed in Note 5(a). The Corporation has recognized $10 in net income and a loss of $56 in OCI with respect to this joint operation through the 348-day period ended December 14, 2016 [December 31, 2015 – 66.7% recognition of contractual share of assets, liabilities and expenses in the accounts of the Corporation, including in $10 in net income, a loss of $29 in OCI].

(d) Credit facilities

PowerTrail has a credit facility of $200 [2015 – $200] to provide standby letters of credit to the IESO. The facility contains customary covenants and events of default, including a covenant to maintain a tangible net worth of $1,000. As at December 31, 2016, PowerTrail had drawn an amount of $133 [December 31, 2015 – $133] in standby letters of credit against this facility.

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12. NOTES RECEIVABLE FROM RELATED PARTIES

	2016	2015
	$	$
Moose Creek LP promissory note, 6.0%, due January 1, 2025	**2,710**	3,121
PowerTrail promissory notes, non-interest bearing	**1,179**	1,646
City of Ottawa note, 3.0%	**3,622**	-
	7,511	4,767
Less: current portion	**(2,049)**	(732)
	5,462	4,035

(a) Moose Creek LP

On December 31, 2014, the Corporation advanced a 10-year unsecured promissory note to Moose Creek LP in the amount of $3,307 with an interest rate of 6.0% as Moose Creek LP adjusted its capital structure. Blended repayments on the notes receivable are $442 per year, with the principal portion projected as follows: 2017 – $291, 2018 – $322, 2019 – $342, 2020 – $363, 2021 and thereafter – $1,092. For 2017, Moose Creek LP has committed to making an additional principal repayment of $300 in addition to the regular quarterly blended repayments noted above, bringing the total current portion with respect to this loan to $591.

(b) PowerTrail

Pursuant to the Shareholder Agreement dated November 3, 2005, any loans from the Corporation [via Energy Ottawa] to PowerTrail are made on a pro rata basis, based upon its share of contributions of capital in the Corporation [60%]. To fund the construction of its gas generation plant at the Trail Road landfill site, between 2005 and 2007, the Corporation provided unsecured, non-interest bearing grid promissory notes totaling $4,860. Repayments on the grid promissory notes are made when possible as agreed to by the shareholders, however they are not due on demand. The initial fair value of each advance was calculated using discount rates ranging between 7.6% and 8.0%.

Future cash principal repayments on the notes receivable are estimated to be as follows: 2017 – $nil, 2018 – $nil, 2019 – $600, 2020 – $600 and 2021 - $300 while the total future imputed interest offsetting the principal balances outstanding at December 31, 2016 is $321.

(c) City of Ottawa

In February 2016, the Corporation entered into two contracts with the City of Ottawa [the 'City']. Over a span of an estimated six years, the Corporation is engaged to convert 58,000 legacy street lights to LED [S/L conversion contract] and to provide maintenance services to all legacy and converted LED street lights [S/L maintenance contract].

While payment terms on its S/L maintenance contract are under the Corporation's usual credit terms, the Corporation and the City have negotiated a 3% interest bearing note, calculated on a quarterly basis with open repayment terms, for the S/L conversion contract. Under such terms, the City is to pay the Corporation on a quarterly basis an amount calculated based on the City's electricity, maintenance and capital expenditure savings resulting from the LED street light conversions. Of the total $3,622 outstanding at December 31, 2016, $1,831 represents accrued work performed to be billed in early 2017. The Corporation estimates that $1,458 will be repaid in 2017.

The Corporation carries inventory of $1,577 relating to City of Ottawa street light conversion and maintenance endeavors at December 31, 2016.

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13. CREDIT FACILITY

During the year, the Corporation renewed its credit facility in the amount of $340,750 and US$200 [2015 – $340,750 and US$200]. The facility is structured into five types of credit availability and continues to consist of a $75,000 [2015 – $75,000] revolving operating line and a $100,000 [2015 – $100,000] revolving line to fund capital expenditures and growth opportunities, both of which mature on August 1, 2019. The facility also has a $15,000 [2015 – $15,000] line to fund letters of credit and other guarantees, a $150,000 [2015 – $150,000] 364-day revolving operating term line which may be used to assist with refinancing debt and support day to day operations, and a $750 and US$200 [2015 – $750 and US$200] commercial card facility – all of which mature on August 1, 2017. The revolving operating lines can be used by way of direct advances, bankers' acceptances and/or by way of letters of credit and other guarantees. This credit facility contains customary covenants and events of default including a covenant to maintain the consolidated tangible net worth in excess of $175,000 at all times. It also requires the debt to capitalization ratio to be at or below 75% on a consolidated basis.

As at December 31, 2016, the Corporation has drawn $1,100 in direct advances against the revolving operating line of credit [2015 – $nil] and $76,000 in bankers' acceptances against the $150,000 revolving operating term line [2015 – $nil]. The Corporation has also drawn $24,451 [2015 – $11,698] against its facilities in standby letters of credit.

As at December 31, 2016, CHLP has a standby letter of credit to the Receiver General of Canada on behalf of Fisheries and Oceans Canada in the amount of $538 [December 31, 2015 – $538], expiring on October 23, 2017 in connection with the Chaudière Expansion. CHLP also has two standby letters of credit to the IESO in the amount of $587 and $294 [December 31, 2015 – $587 and $294] expiring on February 23, 2018 and October 20, 2017 respectively in connection with the 40-year HESOP contract. Finally, CHLP has a standby letter of credit to BNY Trust Company of Canada in the amount of $12,900 [December 31, 2015 – $nil], expiring on July 7, 2017 in connection with the Trust Indenture dated September 7, 2016 as described in Note 16(b).

As at December 31, 2016, CWPI has an operating revolving line of credit totalling $500 for general business purposes. The line of credit bears annual interest at the prime rate and is secured by acceptable letters of comfort signed by each of the four shareholders. As at December 31, 2016 CWPI had drawn $76 against this operating line of credit [December 31, 2015 – $nil].

14. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2016 **$**	2015 $
Purchased power payable	**92,874**	72,685
Trade accounts payable and accrued liabilities	**71,398**	61,506
Customer deposits	**14,452**	13,843
Customer credit balances	**7,391**	8,277
Acquisition-related payables	**10,000**	2,400
Due to related parties [Note 26]	**136**	228
	196,251	158,939

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15. EMPLOYEE FUTURE BENEFITS

(a) Pension plans

The Corporation contributes to two defined benefit plans covering substantially all of its employees.

The Corporation's participating employer contributions under OMERS for the year ended December 31, 2016 amounted to $6,218 [2015 – $6,163].

The Corporation provides retirement benefits to certain employees through the Chaudiere Hydro Pension Plan. As at December 31, 2016, CWPI and Chaudiere Hydro North L.P. are the only two entities with employees who are part of the Chaudiere Hydro Pension Plan.

(i) Defined benefit obligation

	2016 **$**	2015 $
Balance, beginning of year	**4,502**	3,933
Current service cost	**159**	122
Interest cost	**183**	157
Benefits paid	**(91)**	(9)
Employee contributions	**58**	90
Actuarial loss	**182**	209
Acquired via business combination [Note 5(a)]	**760**	-
Balance, end of year	**5,753**	4,502

(ii) Plan assets

	2016 **$**	2015 $
Fair value, beginning of year	**4,889**	4,630
Interest credit	**179**	188
Employer contributions	**147**	170
Benefits paid	**(91)**	(9)
Non-investment expenses	**(10)**	(33)
Employee contributions	**60**	90
Actuarial loss	**(110)**	(147)
Acquired via business combination [Note 5(a)]	**850**	-
Fair value, end of year	**5,914**	4,889

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15. EMPLOYEE FUTURE BENEFITS [CONTINUED]

(a) Pension plans [continued]

(iii) Funded status

	2016	2015
	$	$
Retirement benefit asset, beginning of year	**387**	697
Change in retirement benefit asset	**(316)**	(310)
Acquired via business combination [Note 5(a)]	**90**	-
Retirement benefit asset, end of year	**161**	387

The assets of the Chaudiere Hydro Pension Plan are held and managed by an independent custodian and accounted for separately in the Corporation's pension funds. The asset allocation structure is subject to diversification requirements and constraints which reduce risk by limiting exposure to individual equity investments, credit rating categories and foreign currency exposures. Based on the fair value of assets held as at December 31, 2016, the Chaudiere Hydro Pension Plan's assets were comprised of 89.3% [2015 – 89.5%] fixed income Canadian bonds, 7.1% [2015 – 6.8%] Canadian and international equities and 3.6% [2015 – 3.7%] in alternative investments. The Chaudiere Hydro Pension Plan's investments are primarily held and managed in pooled funds, and thus do not have a quoted market price in an active market.

Employee future benefits under the Chaudiere Hydro Pension Plan are calculated using an annual compensation rate of 2.0% [2015 – 2.0%], an inflation rate of 2.0% [2015 – 2.0%] and a discount rate of 3.9% [2015 – 4.0%]. The valuations also include several other economic and demographic assumptions including mortality rates, which are based on the Canadian Pensioners' Mortality report published by the Canadian Institute of Actuaries in February 2014.

An actuarial extrapolation was performed as at December 31, 2016. As a result of this exercise, the Corporation decreased the retirement benefit by $316 [December 31, 2015 – decreased by $310]. The last actuarial valuation was performed at December 31, 2014.

No valuation allowance has been recorded by the Corporation as at December 31, 2016 and December 31, 2015 with respect to the retirement benefit asset.

Significant actuarial assumptions for defined benefit obligation measurement purposes are discount rate and salary scale. The following sensitivities are based on reasonably possible changes of the assumptions, in isolation of one another, occurring at the end of the reporting period. A 1.0% decrease in discount rate would increase the defined benefit obligation by $1,140 or 22.8% [2015 – $970 or 21.5%], while a 1.0% increase in salary scale would increase the defined benefit obligation by $162 or 3.2% [2015 – $126 or 2.8%].

(b) Other post-employment benefits

The Corporation provides life, health and dental benefits to certain employees. Employee future benefits are calculated using an annual compensation rate increase of 2.0% [2015 – 3.1%] and a discount rate of 3.9% [2015 – 3.6%]. Cost trends for health are estimated to increase at a declining rate from 7.5% to 5.0% and dental benefits are estimated to increase by 5.0% per annum. The valuations also include several other economic and demographic assumptions including mortality rates, which are based on the Canadian Pensioners' Mortality report published by the Canadian Institute of Actuaries in February 2014.

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15. EMPLOYEE FUTURE BENEFITS [CONTINUED]

(b) Other post-employment benefits [continued]

Information about the Corporation's other post-employment benefits is as follows:

	2016 **$**	2015 $
Defined benefit obligation, beginning of year	**11,332**	11,046
Current service costs	**380**	247
Past service costs	**1,778**	-
Interest on defined benefit obligation	**521**	437
Benefits paid	**(607)**	(407)
Actuarial (gain) loss	**(105)**	9
Acquired via business combination [Note 5(a)]	**36**	-
Defined benefit obligation, end of year	**13,335**	11,332

An actuarial valuation was performed as at December 31, 2016. As a result of this exercise, the Corporation increased the defined benefit obligation by $2,003 [December 31, 2015 – increased by $285 based on an actuarial extrapolation].

Significant changes in actuarial assumptions related to discount rates, future health and dental costs, mortality rates and retirement age may affect the valuation of the defined benefit obligation.

16. LONG-TERM DEBT

	2016 **$**	2015 $
Senior unsecured debentures		
Series 2006-1, 4.97%, due December 19, 2036	**50,000**	50,000
Series 2013-1, 3.99%, due May 14, 2043	**150,000**	150,000
Series 2015-1, 2.61%, due February 3, 2025	**200,000**	200,000
Series 2015-2, 3.64%, due February 2, 2045	**175,000**	175,000
Senior secured amortizing bond		
Series 2016-1, 4.08%, due March 31, 2057	**203,802**	-
	778,802	575,000
Less: unamortized debt-issuance costs	**(5,842)**	(3,481)
	772,960	571,519

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16. LONG-TERM DEBT [CONTINUED]

(a) Senior unsecured debentures

On February 2, 2015, the Corporation successfully completed a dual-tranche bond offering of senior unsecured debentures consisting of Series 2015-1, $200,000 at 2.61% due February 3, 2025 and Series 2015-2, $175,000 at 3.64% due February 2, 2045. The Corporation used $200,000 of the $375,000 total offering to repay Series 2005-1, which became due on February 9, 2015. Each debenture contains customary covenants and events of default, including a covenant to ensure that the aggregate principal amount of the consolidated funded obligations does not exceed 75% of the total consolidated capitalization. Interest payments on the senior unsecured debentures are payable semi-annually in arrears in equal installments, and will be $20,067 per year over the next five years.

(b) Senior amortizing bonds

On September 7, 2016, the Corporation through its subsidiary CHLP, completed the offering of senior secured amortizing bonds [the 'bonds', Series 2016-1] of $203,802 to fund the Chaudière Expansion. The bonds carry an interest rate of 4.08% and are due on March 31, 2057 [the 'maturity date']. At December 31, 2016, the Corporation has used $79,717 of the $203,802 total offering to directly finance construction costs [$76,827] and bond-issuance costs [$2,890] including sales taxes where applicable. Of the $124,085 remaining to be released to the Corporation, $79,975 is dependent upon additional monthly submissions of qualifying costs with respect to the Chaudière Expansion and is classified as current on the balance sheet [expected completion 2017]. The release of $44,110 in funds currently held in a distributions account as required by the Trust Indenture are expected to be available to the Corporation in 2018 and is therefore classified as non-current. Debt-issuance costs incurred during the year consist of legal, broker and consulting fees incurred to obtain the bonds.

The bonds are secured by a first-charge interest on the assets pertaining to the Chaudière Expansion. In accordance with the Trust Indenture, the Corporation must maintain, in a reserve account, an amount equal to the next six months of interest and principal upon substantial completion of the project [achieves functional completion in accordance with the construction contract, commercial operation confirmed in accordance with the HESOP agreement, and obtain the substantial completion confirmation certificate]. Moreover, the Corporation must maintain, in a major maintenance account, a 3-year look-forward reserve that covers 100%, 67% and 33% of the projected major maintenance expenses in the coming three years respectively.

Equal semi-annual payments of interest-only on the bonds will be due and payable on March 31 and September 30 in each year, commencing on March 31, 2017 until and including March 31, 2022. Thereafter, semi-annual blended payments of principal and interest will be due and payable on March 31 and September 30 in each year commencing on September 30, 2022 until and including the maturity date. In addition to the repayments above, a balloon payment of $30,570 [15% of the principal] will be due and payable on the maturity date.

Total interest payments on the bonds are expected to be $8,839 in 2017 and $8,315 per year from 2018 through 2021.

17. CAPITAL DISCLOSURES

The Corporation’s main objectives when managing capital are to:

- Ensure continued access to funding to maintain and improve the operations and infrastructure of the Corporation;
- Ensure compliance with covenants related to the credit facilities and its long-term debt; and
- Align Hydro Ottawa Limited's capital structure with the debt to equity structure recommended by the OEB.

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17. CAPITAL DISCLOSURES [CONTINUED]

The Corporation's capital consists of the following:

	2016	2015
	$	$
Bank indebtedness	**68,751**	-
Long-term debt	**772,960**	571,519
Total debt	**841,711**	571,519
Shareholder's equity	**426,775**	413,397
Total capital	**1,268,486**	984,916
Debt capitalization ratio	**66.34 %**	58.03 %

The Corporation is in compliance with all financial covenants and limitations associated with its credit facilities and its long-term debt.

Hydro Ottawa Limited is deemed by the OEB to have a capital structure that is funded by 56% long-term debt, 4% short-term debt and 40% equity. The OEB uses this deemed structure only as a basis for setting distribution rates. As such, the Corporation's actual capital structure may differ from the OEB deemed structure.

The Corporation met its capital management objectives, which have not changed during the year.

18. SHARE CAPITAL

(a) Authorized

Unlimited number of voting first preferred shares, redeemable at one dollar per share
Unlimited number of non-voting second preferred shares, redeemable at ten dollars per share
Unlimited number of non-voting third preferred shares, redeemable at one hundred dollars per share
Unlimited number of voting fourth preferred shares [ten votes per share], redeemable at one hundred dollars per share
Unlimited number of voting Class A common shares
Unlimited number of non-voting Class B common shares
Unlimited number of non-voting Class C common shares, redeemable at the price at which such shares are issued

The above shares are without nominal or par value.

Holders of second preferred shares, fourth preferred shares and common shares are entitled to receive dividends as and when declared by the Board of Directors at their discretion.

(b) Issued

	2016	2015
	$	$
214,901,003 Class A common shares	**228,453**	228,453

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18. SHARE CAPITAL [CONTINUED]

(b) Issued [continued]

Any invitation to the public to subscribe for shares of the Corporation is prohibited by shareholder resolution.

Shareholder's resolution directs the Corporation to target dividends at the greater of 60% of its subsidiary, Hydro Ottawa Limited's net income or $20,000 [2015 - greater of 60% of the Corporation's annual consolidated net income or $14,000], provided that the Corporation is in compliance with the *Business Corporations Act (Ontario)* and relevant OEB Guidelines, is not in breach of any covenants on its senior unsecured debentures or credit facility obligations, and does not negatively impact its credit rating as a result of the dividend payment.

On April 21, 2016, the Board of Directors declared a $19,400 dividend to the City of Ottawa, which was paid on April 29, 2016 [2015 – on April 23, the Board of Directors declared a $18,200 dividend to the City of Ottawa, which was paid on April 30, 2015].

(c) Non-controlling interest

Non-controlling interest represents a 10.1% share in CPS Current Power Services (2016) Ltd. held by a third party.

19. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

(a) Fair value disclosures

The carrying values of the Corporation's financial instruments, except for the senior unsecured debentures and the long-term notes receivable from joint ventures, approximate fair value because of the short maturity and nature of the instruments.

The Corporation has estimated the fair value of the long-term portion of notes receivable from joint ventures as at December 31, 2016 as amounting to $3,878 [December 31, 2015 – $4,891]. The fair value has been determined by discounting all estimated future repayments of principal and imputed interest required to fully repay the loan at the estimated interest rate of 5.7% [December 31, 2015 – 5.5%] that would be available to PowerTrail and Moose Creek LP on December 31, 2016.

The Corporation has estimated the fair value of the senior unsecured debentures as at December 31, 2016 as amounting to $585,083 [December 31, 2015 – $600,398]. The fair value has been determined based on discounting all future repayments of principal and interest between February 3, 2025 and March 31, 2057 at the estimated interest rate of 3.7% [December 31, 2015 – 3.5%] that would be available to the Corporation on December 31, 2016.

The Corporation has estimated the fair value of its senior secured amortizing bonds as at December 31, 2016 as amounting to $203,802. The fair value has been determined by discounting all estimated future repayments of principal and interest required to fully repay the loan at the estimated interest rate of 4.0% that would be available to the Corporation at December 31, 2016.

(b) Market risk

The Corporation is exposed to market risk, which is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices are comprised of three types of risks: interest rate risk, foreign exchange risk and commodity price risk.

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19. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT [CONTINUED]

(b) Market risk [continued]

(i) Interest rate risk

The Corporation is exposed to interest rate risk on its borrowings. The Corporation mitigates exposure to interest rate risk by issuing long-term fixed interest rate debt. Under the Corporation's credit facility, any advances on its credit lines expose it to fluctuations in short-term interest rates related to prime rate loans and bankers' acceptances. Given the fact that the borrowing requirements on the credit lines are typically for a short duration [i.e., to bridge gaps between the cash outflows related to Hydro Ottawa Limited's monthly power bill and the inflows related to settlements with customers, or the cash outflows related to significant capital acquisitions and the inflows related to the issuance of additional long-term fixed rate debt], there is limited exposure to interest rate risk.

(ii) Foreign exchange risk

The Corporation's earnings from, and net investment in, its foreign operating subsidiary, EONY, are exposed to fluctuations in the U.S. dollar to Canadian dollar exchange rate. Also, the Corporation purchases a small proportion of goods and services that are denominated in foreign currencies, predominately the U.S. dollar. The Corporation monitors its exposure to foreign currency fluctuations on a regular basis, and has not used derivative instruments to hedge against these exposures to date. On an annual basis, it is estimated that a 5% increase or decrease in the U.S. dollar relative to the Canadian dollar exchange rate of U.S. $1 = CDN $0.75 as at December 31, 2016 would increase or decrease the equity of the Corporation by approximately $3,034.

(iii) Commodity price risk

The Corporation, through its U.S. subsidiary EONY, is exposed to commodity price risk associated with green energy produced and sold in the U.S. wholesale market. The Corporation has not used derivative instruments to hedge against this exposure to date. As all green energy produced and sold in Canada is at rates specified by their respective power purchase agreements, the remainder of the Corporation's generation revenue is not exposed to significant commodity price risk. A 10% increase or decrease in the price of electricity in the U.S. through December 31, 2016 would have increased or decreased net income by $181.

(c) Credit risk

Credit risk is the risk that a counterpart will default on its obligations, causing a financial loss to the Corporation. Concentration of credit risk associated with accounts receivable is limited due to the large number of customers the Corporation services. Hydro Ottawa Limited has approximately 328,000 customers, the majority of which are residential. As a result, the Corporation did not earn a significant amount of revenue and does not have a significant receivable from any individual customer.

Hydro Ottawa Limited performs ongoing credit evaluations of its customers and requires collateral to support non-residential customer accounts receivable on specific accounts to mitigate significant losses in accordance with OEB legislation. As at December 31, 2016, the Corporation held security deposits related to power recovery and distribution sales in the amount of $14,600 [December 31, 2015 – $13,724] with respect to these customers.

Energy Ottawa and its subsidiaries limit credit risk by dealing with customers that are considered to be of high credit quality. These customers include government agencies, utilities, municipalities, universities, school boards, hospitals, and customers with investment grade credit ratings.

The Corporation monitors and limits its exposure to credit risk on a continuous basis.

The carrying amount of accounts receivable is reduced by an allowance for doubtful accounts based on the credit risk applicable to particular customers, historical, and other information. The Corporation records an allowance for doubtful accounts when the recoverability of an amount becomes doubtful. When the receivable amount is deemed to be uncollectible, it is written off and the allowance for doubtful accounts is adjusted accordingly. Subsequent recoveries of receivables previously provisioned or written off result in a reduction of operating costs in the consolidated statements of

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19. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT [CONTINUED]

(c) Credit risk [continued]

income. As at December 31, 2016, the allowance for doubtful accounts was $1,782 [December 31, 2015 – $1,927].

For details of accounts receivable and the aging of the accounts, refer to Note 6.

As at December 31, 2016, there were no significant concentrations of credit risk with respect to any class of financial assets or counterpart and approximately 12% [December 31, 2015 – 12%] of the Corporation's accounts receivable [excluding unbilled revenue] were aged more than 30 days. The Corporation's maximum exposure to credit risk is equal to the carrying value of accounts receivable less customer deposits held.

(d) Liquidity risk

Liquidity risk is the risk that the Corporation will not meet its financial obligations as they come due. The Corporation regularly monitors and manages its liquidity risk to ensure access to sufficient funds to meet operational and capital investment requirements. The Corporation achieves this objective by ensuring that sufficient facilities, as described in Note 13, are maintained to meet obligations as they come due while minimizing standby fees and interest.

Liquidity risks associated with financial commitments are as follows:

	2016		
	Due within one year $	**Due between one and five years $**	**Due after five years $**
Accounts payable and accrued liabilities	**187,892**	-	-
Senior unsecured debentures			
Series 2006-1, 4.968%, due December 19, 2036	-	-	**50,000**
Series 2013-1, 3.991%, due May 14, 2043	-	-	**150,000**
Series 2015-1, 2.614% due February 3, 2025	-	-	**200,000**
Series 2015-2, 3.639%, due on February 2, 2045	-	-	**175,000**
Senior secured amortizing bond			
Series 2016-1, 4.080%, due March 31, 2057	-	-	**203,802**
Interest to be paid on long-term debt	**28,906**	**111,076**	**530,772**
	216,798	**111,076**	**1,309,574**

Accounts payable and accrued liabilities in the above table exclude $8,359 of accrued interest which is included in interest payments on long-term debt.

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20. OPERATING COSTS

	2016	2015
	$	$
Salaries and benefits	**84,545**	78,479
Operating and maintenance	**11,196**	8,415
Outside services	**32,356**	35,354
General and administrative	**32,033**	33,747
Less: capitalized salaries and benefits	**(32,058)**	(29,857)
	128,072	126,138

21. FINANCING COSTS

	2016	2015
	$	$
Interest on debentures	**22,537**	20,193
Short-term interest and fees	**997**	564
Less: capitalized borrowing costs	**(4,136)**	(1,715)
	19,398	19,042

22. INCOME TAXES

Income tax expense recognized in net income comprises the following:

	2016	2015
	$	$
Current tax expense		
Current income tax expense	**4,457**	1,640
Deferred tax expense		
Origination and reversal of temporary differences	**4,584**	13,832
Income tax expense recognized in net income	**9,041**	15,472

Income tax (recovery) expense recognized in OCI comprises the following:

	2016	2015
	$	$
Income tax effect on exchange differences on translation of foreign subsidiary	**(552)**	2,480

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[in thousands of Canadian dollars]

22. INCOME TAXES [CONTINUED]

The provision for income taxes differs from the amount that would have been recorded using the combined Canadian federal and Ontario statutory income tax rates. A reconciliation between the statutory and effective tax rates is provided as follows:

	2016	2015
	$	$
Federal and Ontario statutory income tax rate	**26.50 %**	26.50 %
Income attributable to equity shareholder before income taxes	**43,877**	47,842
Income taxes at statutory rate	**11,627**	12,678
Increase (decrease) in income taxes resulting from:		
Permanent differences	**49**	(10)
Impact on foreign exchange translation on subsidiary	**(180)**	589
Acquisition-related costs capitalized for tax purposes	**-**	898
Foreign tax rate differential	**(762)**	(515)
Unrecognized tax benefit	**(1,255)**	1,899
Tax impact on joint venture	**(275)**	(135)
Adjustment	**265**	-
Other	**(428)**	68
	9,041	15,472
Effective income tax rate	**20.61 %**	32.34 %

The Corporation, as a rate-regulated enterprise, is required to recognize deferred income tax assets and liabilities and related regulatory deferral account credit and debit balances for the amount of deferred income taxes expected to be refunded to, or recovered from, customers in future electricity rates.

Significant components of the Corporation's net deferred income tax asset are as follows:

	2016	2015
	$	$
Property, plant and equipment and intangible assets	**1,106**	(4,435)
Employee future benefits	**-**	3,919
Non-capital loss carryforwards	**4,492**	-
Other temporary differences	**47**	2,766
	5,645	2,250

Hydro Ottawa Holding Inc.

Notes to the Consolidated Financial Statements
Year ended December 31, 2016
[in thousands of Canadian dollars]

22. INCOME TAXES [CONTINUED]

Significant components of the Corporation's net deferred income tax liability are as follows:

	2016 **$**	2015 $
Property, plant and equipment and intangible assets	**(24,244)**	(10,266)
Tax recognized in OCI related to foreign subsidiary translation	**(1,821)**	(2,480)
Exchange differences and other	**(448)**	(949)
Non-capital loss carryforwards	**268**	-
Employee future benefits	**4,648**	-
Other	**661**	-
	(20,936)	(13,695)

Movements in the net deferred tax asset balances during the year were as follows:

	2016 **$**	2015 $
Deferred tax asset, beginning of year	**2,250**	12,118
Acquired via business combination [Note 5(b)]	**-**	2,079
Recognized in net income	**3,395**	(12,171)
Foreign exchange differences	**-**	224
Deferred tax asset, end of year	**5,645**	2,250

Movements in the net deferred tax liability balances during the year were as follows:

	2016 **$**	2015 $
Deferred tax liability, beginning of year	**(13,695)**	(5,359)
Acquired via business combination [Note 5(b)]	**-**	(4,286)
Recognized in net income	**(7,793)**	(1,570)
Recognized in OCI	**552**	(2,480)
Deferred tax liability, end of year	**(20,936)**	(13,695)

The Corporation's regulatory deferral account credit balance for the amounts of deferred income taxes expected to be collected/ refunded to customers in future electricity rates is $7,694 [2015 – $513].

As at December 31, 2016, the Corporation had capital losses of $750 [December 31, 2015 – $700] which have not been recognized in the consolidated financial statements.

As at December 31, 2016, Hydro Ottawa Limited and PowerTrail had corporate minimum tax credit carryforwards of $470 and $97

Hydro Ottawa Holding Inc.

Notes to the Consolidated Financial Statements
Year ended December 31, 2016
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22. INCOME TAXES [CONTINUED]

respectively [December 31, 2015 – $1,454 and $161 respectively], which expire between 2032 and 2035.

As at December 31, 2016, PowerTrail had non-capital tax loss carryforwards of $nil [December 31, 2015 – $89] which expire in 2030.

Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax assets and unused tax losses can be utilized.

A deferred tax liability for all taxable temporary differences associated with investments in subsidiaries and investments in joint ventures has not been recognized as the Corporation is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

23. CHANGES IN NON-CASH WORKING CAPITAL AND OTHER OPERATING BALANCES

	2016	2015
	$	$
Accounts receivable	**(20,430)**	(17,924)
Prepaid expenses	**(1,498)**	(1,700)
Other	**(4)**	(15)
Change in note receivable from parent	**(3,622)**	-
Accounts payable and accrued liabilities	**35,726**	(14,691)
Inventory	**(1,577)**	-
Net change in accruals related to property, plant and equipment	**(11,416)**	(10,025)
Net change in accruals related to intangible assets	**297**	15,685
Net change in accruals related to business combinations	**(8,869)**	(1,131)
	(11,393)	(29,801)

24. CONTINGENT LIABILITIES

Purchasers of electricity in Ontario including Hydro Ottawa Limited, through the IESO, are required to provide security to mitigate the risk of their default based on their expected activity in the market. The IESO could draw on these guarantees if the Corporation fails to make a payment required by a default notice issued by the IESO. A prudential support obligation is calculated based upon a default protection amount and the distributor's trading limit less a reduction for the distributor's credit rating. As at December 31, 2016, the Corporation had drawn standby letters of credit in the amount of $10,000 [December 31, 2015 – $10,000] against its credit facility to cover its prudential support obligation.

The Corporation participates with other electrical utilities in Ontario in an agreement to exchange reciprocal contracts of indemnity through the Municipal Electrical Association Reciprocal Insurance Exchange. The Corporation is liable for additional assessments to the extent premiums collected and reserves established are not sufficient to cover the cost of claims and costs incurred. If any additional assessments were required in the future, their cost would be charged to income in the year during which they occur.

In December 2012, the Corporation was charged with five offenses under Ontario's *Occupational Health and Safety Act* in respect of an incident occurring on March 22, 2012, which resulted in the fatality of an employee of a third-party sub-contractor. In July 2015, the Corporation was found guilty on three of the five offenses. On March 29, 2016, the Justice of the Peace imposed a fine

Hydro Ottawa Holding Inc.

Notes to the Consolidated Financial Statements
Year ended December 31, 2016
[in thousands of Canadian dollars]

24. CONTINGENT LIABILITIES [CONTINUED]

of $225 plus a 25% Victim Fine Surcharge totalling $281 as required by the *Provincial Offences Act*. The Corporation is appealing this decision, however no court date has been set. The Corporation has recorded a provision for the full amount of the imposed fine in these consolidated financial statements.

Various lawsuits have been filed against the Corporation for incidents that arose in the ordinary course of business. In the opinion of management, the outcomes of the lawsuits, now pending, are neither determinable nor material. Should any loss result from the resolution of these claims, such losses would be claimed through the Corporation's insurance carrier, with any unrecoverable amounts charged to income in the year of resolution.

25. COMMITMENTS

Hydro Ottawa Limited has $158,398 in total open commitments for 2017 to 2023. This includes commitments relating to a customer information system services agreement, construction projects, spare parts and standby equipment and overhead and underground services.

As at December 31, 2016, Energy Ottawa has committed $37,198 in funds with respect to the Chaudière Expansion.

Energy Ottawa maintains leases with various entities for the rights to certain lands, waterways, buildings and other generating assets at its generating stations in Ontario, Québec and New York. These leases are in place through various dates, ranging between August 19, 2019 and December 13, 2117. Certain leases have annual payments which have a fixed and contingent portion, the latter of which is based on either annual gross revenues or power generation levels. During the 2016 fiscal year, the Corporation expensed lease payments of $292 [2015 – $251], which included $112 [2015 – $119] of contingent lease payments. The Corporation's future minimum lease payments will be: 2017 – $176, 2018 to 2021 – $740 and $5,595 thereafter.

26. RELATED PARTY TRANSACTIONS

Transactions with related parties occur in the normal course of business, and are transacted at the amount of consideration determined and agreed to by the related parties. Trade amounts due from and to related parties are non-interest bearing, result from normal operations and are due within one year.

(a) Transactions with shareholder

During the year, the Corporation earned revenue from the sale of electricity to the City of Ottawa and its subsidiaries, which is billed at prices and terms approved by the OEB. In addition, the Corporation earned commercial contract and service revenues totaling $1,322 [2015 – $878] via Hydro Ottawa Limited and $8,882 [2015 – $3,657] via Energy Ottawa, from the City of Ottawa and its subsidiaries. During the year, the Corporation also received $4,484 [2015 – $1,635] in contributions relating to the upgrade and/or expansion of Hydro Ottawa Limited's existing electricity distribution infrastructure.

The Corporation incurred $2,263 [2015 – $2,165] in property tax expenses and $481 [2015 – $484] in fuel, permits and other services during the year to the City of Ottawa, which is included in operating costs.

As at December 31, 2016, the Corporation's accounts receivable include $9,203 [December 31, 2015 – $5,595] due in respect of the transactions above while the Corporation's accounts payable and accrued liabilities include $136 [December 31, 2015 – $131] due to the City of Ottawa and its subsidiaries. The Corporation's note receivable from the City of Ottawa is disclosed in Note 12 of these consolidated financial statements.

Hydro Ottawa Holding Inc.

Notes to the Consolidated Financial Statements
Year ended December 31, 2016
[in thousands of Canadian dollars]

26. RELATED PARTY TRANSACTIONS [CONTINUED]

(b) Transactions with joint arrangements

(i) Moose Creek LP

During the year, the Corporation earned interest income in the amount of $182 [2015 – $195] on its note receivable from Moose Creek LP, as well as $21 [2015 – $20] in other revenue for the provision of administrative services. As at December 31, 2016, the Corporation's accounts receivable include $45 [December 31, 2015 – $49] due in respect of the transactions described.

The Corporation's note receivable from Moose Creek LP is disclosed in Note 12 of these consolidated financial statements.

(ii) PowerTrail

During the year, the Corporation earned imputed interest income in the amount of $104 [2015 – $213] on its note receivable from PowerTrail, as well as $24 [2015 – $23] in other revenue for the provision of administrative services. As at December 31, 2016, the Corporation's accounts receivable include $2 [December 31, 2015 – $2] due in respect of the transactions described.

The Corporation's note receivable from PowerTrail is disclosed in Note 12 of these consolidated financial statements.

(iii) CWPI

Prior to the consolidation of CWPI as of December 14, 2016, the Corporation incurred $971 [2015 – $1,054] of operating expenses with CWPI in relation to the management and operation of the Chaudière Dam at Chaudière Falls, and earned $78 [2015 – $75] in other revenue for the provision of administrative services. The Corporation also capitalized $329 [2015 – $292] of generating assets. At December 31, 2016, all intercompany balances with CWPI have been eliminated. At December 31, 2015, the Corporation's accounts payable and accrued liabilities included $97 due in respect of the transactions described.

(c) Compensation of key management personnel

	2016 **$**	2015 $
Salaries, director fees and other short-term benefits	**1,349**	1,430
Employee future benefits	**12**	12
Other long-term benefits	**159**	171
	1,520	1,613

27. COMPARATIVE FIGURES

In certain instances, the 2015 information presented for comparative purposes has been reclassified to conform to the consolidated financial statement presentation adopted for the current year.


100 YEARS OF
SERVICE

Statement of Executive Compensation

The Governance and Management Resources Committee of the Board, is responsible for developing and recommending the approval of the compensation framework for the Corporation and each of its subsidiaries.

In developing the compensation framework, the Governance and Management Resources Committee is guided by two principles: the need to provide a total compensation package that will attract and retain qualified and experienced executives, and linking compensation to performance.

Executive compensation is reviewed by the Governance and Management Resources Committee and approved by the Board of Directors. In making its recommendations to the Board, the Committee examines the responsibilities and performance of individual executives, and considers the recommendations of the President and Chief Executive Officer.

In an effort to attract and retain qualified and experienced executives, the Corporation aims to offer a total compensation package that is competitive with other organizations of a similar size and scope. Executive compensation is reviewed on an annual basis and compared to market data, with the assistance of independent consultants, on an ad hoc basis to ensure competitiveness. In line with best practices for the sector, as identified by the Ontario Minister of Energy's Agency Review Panel in 2007, Hydro Ottawa applies a 50/50 weighting of market data from public and private comparators. The industry component of the market comparator group has a strong sector affiliation [e.g., Transportation and Utilities sector], and is assessed by revenue levels to ensure comparability.

Total cash compensation for Executives consists of two components*: base salary and an at risk performance incentive.

Total cash compensation is benchmarked to companies of comparable size and scope in both the Ontario and national markets, with the target for total cash compensation set at the 50th percentile, or midpoint, of the market.

The at risk performance incentive component is paid on an annual basis, and is expressed as a percentage of base salary. It is designed to retain and motivate executives, to reward them for their performance during the preceding year, and to ensure alignment with shareholder objectives. Payments are based on the achievement of corporate and division objectives, both financial and non-financial, which are established each year by the Board of Directors. Non-financial targets are designed to achieve continuous improvement in relation to a number of strategic objectives including, but not limited to, customer service, operational and organizational efficiency and effectiveness, and service reliability.

Executives participate in a benefits program, which includes extended health care, dental care, basic and optional life insurance, and short-term and long-term disability insurance. This same program is available to all management group employees of the Corporation.

Executives also participate in the OMERS pension plan. This plan is a multi-employer, contributory, defined benefit pension plan established by the Province for employees of municipalities, local boards and school boards in Ontario. Pension benefits are determined by a formula based on the highest consecutive five-year average of contributory earnings and years of service. Pension benefits are indexed to increases in the Consumer Price Index subject to an annual maximum of 6 percent. Both participating employers and participating employees are required to make equal contributions to the plan based on the participating employees' contributory earnings. Earnings for pension purposes are capped based on recent plan changes.

* The total cash compensation for the President and Chief Executive Officer consists of a base salary only.

COMPENSATION OF OFFICERS AND BOARD MEMBERS

Officers

NAME AND PRINCIPAL POSITION[1]	YEAR	BASE SALARY ($)[2]	AT RISK PERFORMANCE INCENTIVE ($)[3]	OTHER COMPENSATION ($)[4]
Bryce Conrad	2016	375,711	N/A	22,398
President and Chief Executive Officer	2015	384,163	N/A	15,178
	2014	363,468	N/A	13,458
Geoff Simpson	2016	180,783	67,711	8,479
Chief Financial Officer	2015	184,850	57,254	8,471
	2014	174,968	42,884[5]	8,526
Lance Jefferies	2016	159,830	34,798[6]	8,401
Chief Electricity Distribution Officer				
Gregory Clarke	2016	183,525	66,484	8,798
Chief Electricity Generation Officer	2015	187,654	57,055	8,482
	2014	177,622	53,586	8,556

1 Officers whose earnings are reported are those who occupied the position at December 31, 2016.

2 The pay cycle for 2015 resulted in 27 pay periods versus the standard 26 in other years. Amounts shown in this column have been rounded to the nearest dollar.

3 Amounts shown in this column reflect the at risk performance incentive for the executive in respect of the achievement of the performance objectives for the previous financial year, paid in the reporting year. These amounts have been rounded to the nearest dollar.

4 Amounts in this column include Board approved discretionary payments such as payments of earned and unused vacation credits, car allowance, computer allowance and employer's share of basic life insurance premiums. These amounts have been rounded to the nearest dollar.

5 Given that Mr. Simpson assumed the position on August 6, 2013, the at risk performance incentive for 2013, paid in 2014, is based on both his previous position with the Corporation and the position of Chief Financial Officer.

6 Given that Mr. Jefferies assumed the position on January 1, 2016, the at risk performance incentive for 2015, paid in 2016, is based on his previous position with the Corporation.

Board Members

The remuneration of the members of the Boards of Directors of Hydro Ottawa Holding Inc. (HOHI) and Hydro Ottawa Limited (HOL) is as determined by the City of Ottawa and the HOHI Board respectively. In addition to reimbursement for reasonable out-of-pocket expenses incurred while performing their duties, directors receive an annual stipend and meeting fees for service:

- The Board Chair receives an annual stipend of $40,000;
- All other Board members receive an annual stipend of $7,000;
- The Board Chair receives $600 for each Board or committee meeting chaired or attended;
- Committee Chairs receive $800 for each meeting of the committee chaired; and
- All other Board members receive $600 for each Board or committee meeting attended.

Only one annual stipend is paid where an individual is a director of both the HOHI and HOL Boards of Directors. Members of the Council of the City of Ottawa, as well as the President and Chief Executive Officer and the one member of management on the HOL Board, receive no remuneration in their capacity as directors of the boards.

Corporate Governance

Hydro Ottawa is committed to establishing and maintaining leading governance practices for a company of its size and mandate. Because governance standards and best practices are always evolving, the company seeks to continuously improve its governance practices.

Hydro Ottawa Holding Inc. is a private, for-profit company, incorporated under the *Business Corporations Act* [Ontario]. At the same time, the company is wholly owned by the City of Ottawa and fulfills a public mandate, and is therefore mindful of its responsibility to be accountable both to its shareholder and the public. The company's governance practices are guided not simply by legal obligations, but by best business practices and standards established by independent agencies.

While Hydro Ottawa is not a reporting issuer under the Securities Act and is therefore not subject to governance standards that apply to publicly-traded companies, the company is guided by these standards and seeks to meet or exceed them. In addition, Hydro Ottawa regularly compares its governance practices to those of private and public sector organizations, and to standards set by agencies such as the Canadian Securities Administrators and the Ontario Securities Commission.

GOVERNANCE STRUCTURE

Accountability for the effective oversight of the Corporation and its wholly-owned subsidiaries (Hydro Ottawa Limited and Energy Ottawa Inc.) rests with an eleven-member Board of Directors, which provides direction to the Corporation on behalf of the shareholder, the City of Ottawa. The Board provides leadership within a framework of effective controls that enables risks to be assessed and managed, and is responsible for supervising the management of the business and affairs of the Corporation and its wholly-owned subsidiaries. In carrying out its oversight function, the Board of Directors is guided by a Shareholder Declaration issued by Ottawa City Council and revised from time to time. The Corporation's Code of Business Conduct, its Director Conflict of Interest and Conduct Guidelines and a Related Party Transaction Disclosure Policy and Process also govern the actions of the Board.

In 2006, a separate Board of Directors was established to oversee the operations of Hydro Ottawa Limited, in accordance with the Affiliate Relationships Code for Electricity Distributors and Transmitters issued by the Ontario Energy Board. The powers and functions of that Board are set out in a Shareholder Declaration issued by the Hydro Ottawa Holding Inc. Board of Directors. On a day-to-day basis, the Corporation is led by an Executive Management Team, comprising the Corporation's President and Chief Executive Officer, the Chief Financial Officer and the senior executives of the subsidiaries and critical functional areas. This team oversees the alignment of business practices and strategies with the goals of the Corporation, and drives performance by managing risks and opportunities. The Executive Management Team is accountable to the Corporation's Board of Directors through the President and Chief Executive Officer.

KEY GOVERNANCE PROCESSES AND CONTROLS

Hydro Ottawa has established a number of leading governance processes and controls to assist the Board and executive management in carrying out their oversight functions.

Risk Management: An extensive, corporate-wide risk management system has been established to track indicative and predictive measures of risk. Risk assessments are included with regular reporting to the Board on all areas of the Corporation's operations.

Internal Audit: Hydro Ottawa conducts a rigorous internal audit program to verify controls and maximize business efficiency and effectiveness. A number of business processes and functions are audited annually based on an audit plan approved by the Board. The use of experienced auditors both internal and external to the Corporation ensures rigour and objectivity.

Business Continuity Plans: Plans are in place to ensure the continuance of critical operations in the event of a major emergency such as a pandemic, and to return the Corporation to normal operations as quickly as possible after such an event. They include detailed strategies for the re-assignment of resources to critical processes, and redundant supply arrangements with critical external suppliers.

APPOINTMENTS TO THE BOARD OF DIRECTORS

The governance structure for the Corporation [Hydro Ottawa Holding Inc.] and its wholly-owned subsidiaries [Hydro Ottawa Limited and Energy Ottawa Inc.] includes two boards of directors – the Hydro Ottawa Holding Inc. Board and the Hydro Ottawa Limited Board.

In accordance with the terms of the Shareholder Declaration, the City of Ottawa appoints all Directors to the Boards except the President and Chief Executive Officer, and the one member of management on the Hydro Ottawa Limited Board. In doing so, the City considers candidates recommended by the Nominating Committee of the Board of Hydro Ottawa Holding Inc., but is not obliged to select these candidates. The Nominating Committee is assisted by outside consultants in its search for candidates for appointment to the Boards.

As set out in the Shareholder Declaration, all candidates for appointment to the Boards must meet certain requirements, including demonstrated integrity and high ethical standards, relevant career experience and expertise, and an understanding of the role of Hydro Ottawa both as a service to local ratepayers and an asset of taxpayers.

In addition, the nomination and selection process is designed to maintain a Board that includes the following overarching competencies among one or more directors: strong business background including competitive business experience and strategic planning; a strong financial background including financial accreditation and public or private market financing experience; industry sector experience in the areas of business of the subsidiary companies; board experience; and merger and acquisition experience.

COMMITTEES

The following committees were created to help the Boards of Directors carry out their duties. The committees meet regularly and provide feedback on their discussions to their respective Boards.

Hydro Ottawa Holding Inc.

Audit: The Audit Committee reviews financial statements, accounting practices and policies, auditing processes and the results of internal and external audits and related matters. It also oversees financial risk management and assesses internal controls.

Governance and Management Resources: The Governance and Management Resources Committee reviews the Corporation's governance structures and practices to ensure that the Board of Directors can fulfill its mandate. It reviews management resources and compensation practices to ensure systems are in place to attract, retain and motivate qualified management employees. It also reviews and assesses the performance of the President and Chief Executive Officer, oversees the Board Assessment process, and monitors compliance with codes of conduct.

Investment Review: The Investment Review Committee, created by the Board of Directors effective April 2010, is responsible for assisting management and the Board of Directors in the review and pursuit of business development, acquisition and investment opportunities. In carrying out these functions, the Committee focuses on the consistency of opportunities with strategic plans and investment guidelines, the maximization of shareholder value and the management of risk.

Nominating: The Nominating Committee, with the assistance of outside consultants, identifies and evaluates potential candidates for appointment as Directors. The Nominating Committee makes recommendations to the shareholder [represented by Ottawa City Council] for the appointment of directors.

Strategic Initiatives Oversight: The Strategic Initiatives Oversight Committee, created by the Board of Directors effective November 2013, is responsible for assisting the Board of Directors in guiding management and providing support and focus for large-scale capital project efforts as identified by the Board from time to time.

BOARD AND COMMITTEE MEETING ATTENDANCE

The following tables illustrate the attendance of members at meetings of the Boards of Directors and their committees.

HYDRO OTTAWA HOLDING INC.

DIRECTOR	BOARD MEETINGS	COMMITTEE MEETINGS
Jim Durrell, C.M. [Chair]	6/6	19/19
Bryce Conrad [President and CEO]	6/6	N/A
Dale Craig	6/6	9/9
Jan Harder	5/6	4/5
Andrea Johnson	5/6	8/8
Kalai Kalaichelvan	5/6	9/9
J. Douglas McLarty	6/6	10/10
Philip Murray	6/6	8/9
Lori O'Neill	6/6	9/9
Zaina Sovani	5/6	8/9
Marianne Wilkinson	5/6	5/6

HYDRO OTTAWA LIMITED

DIRECTOR	BOARD MEETINGS	COMMITTEE MEETINGS
Jim Durrell, C.M. [Chair]	4/4	N/A
Bryce Conrad [President and CEO]	4/4	N/A
Lance Jefferies	4/4	N/A

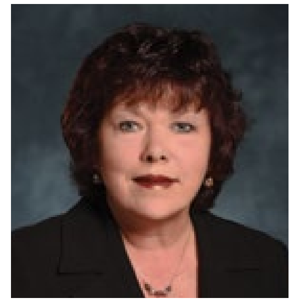
Members of the Boards of Directors

HYDRO OTTAWA HOLDING INC.


Jim Durrell, C.M. [Chair]


Bryce Conrad


Dale Craig


Councillor Jan Harder


Andrea Johnson


Kalai Kalaichelvan


J. Douglas McLarty


Philip Murray


Lori O'Neill


Zaina Sovani


Councillor Marianne Wilkinson

HYDRO OTTAWA LIMITED


Jim Durrell, C.M. [Chair]


Bryce Conrad


Lance Jefferies

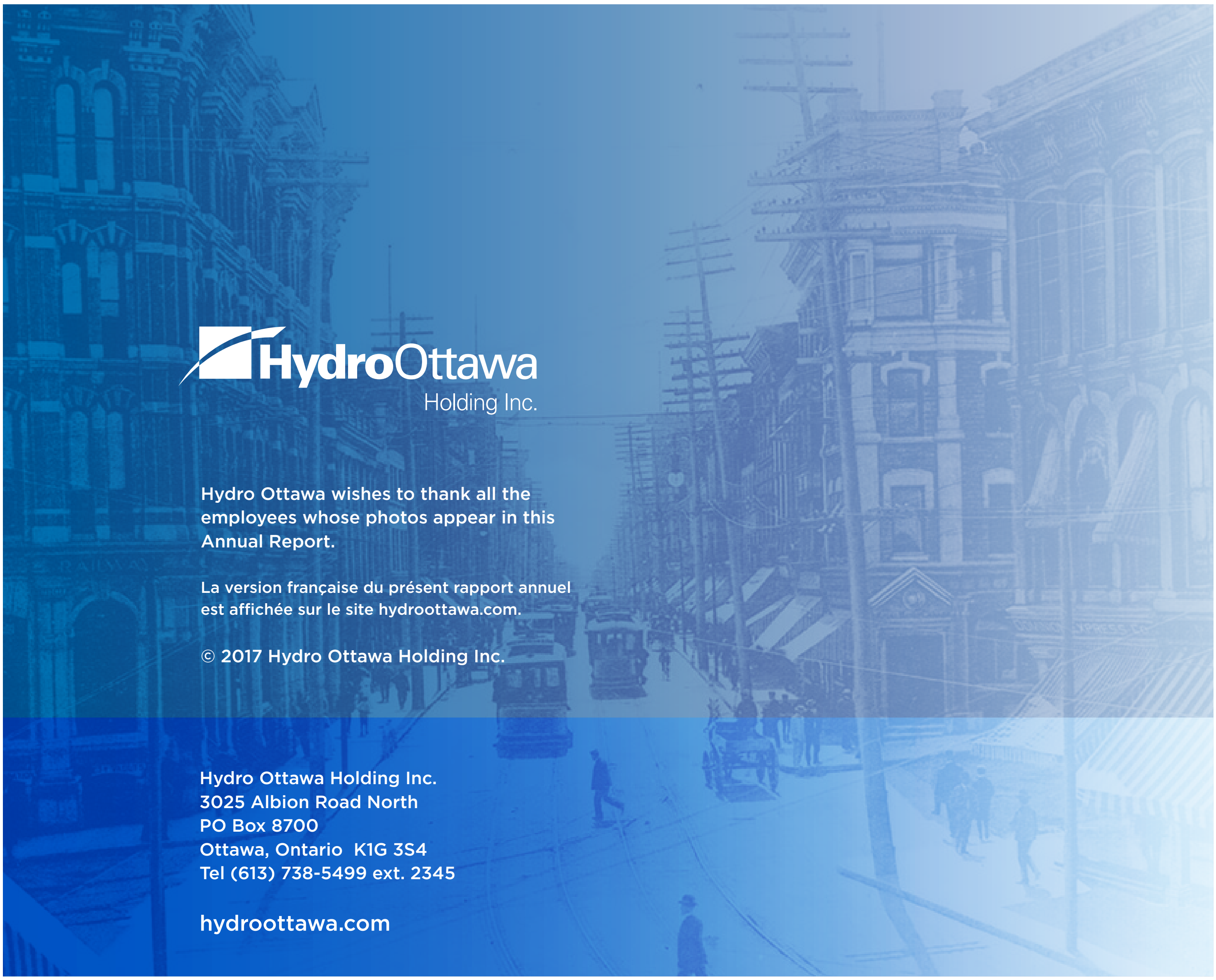
OEA
2016 COMPANY OF THE YEAR

EMPLOYER EXCELLENCE AWARD
2016
hire | embauche immigrants ottawa

ENERGY STAR® 2016 AWARDS Winners

Employeur remarquable du Canada 2016
PARTENARIAT EN ÉDUCATION

Canada's Outstanding Employer 2016
THE LEARNING PARTNERSHIP



Hydro Ottawa wishes to thank all the employees whose photos appear in this Annual Report.

La version française du présent rapport annuel est affichée sur le site hydroottawa.com.

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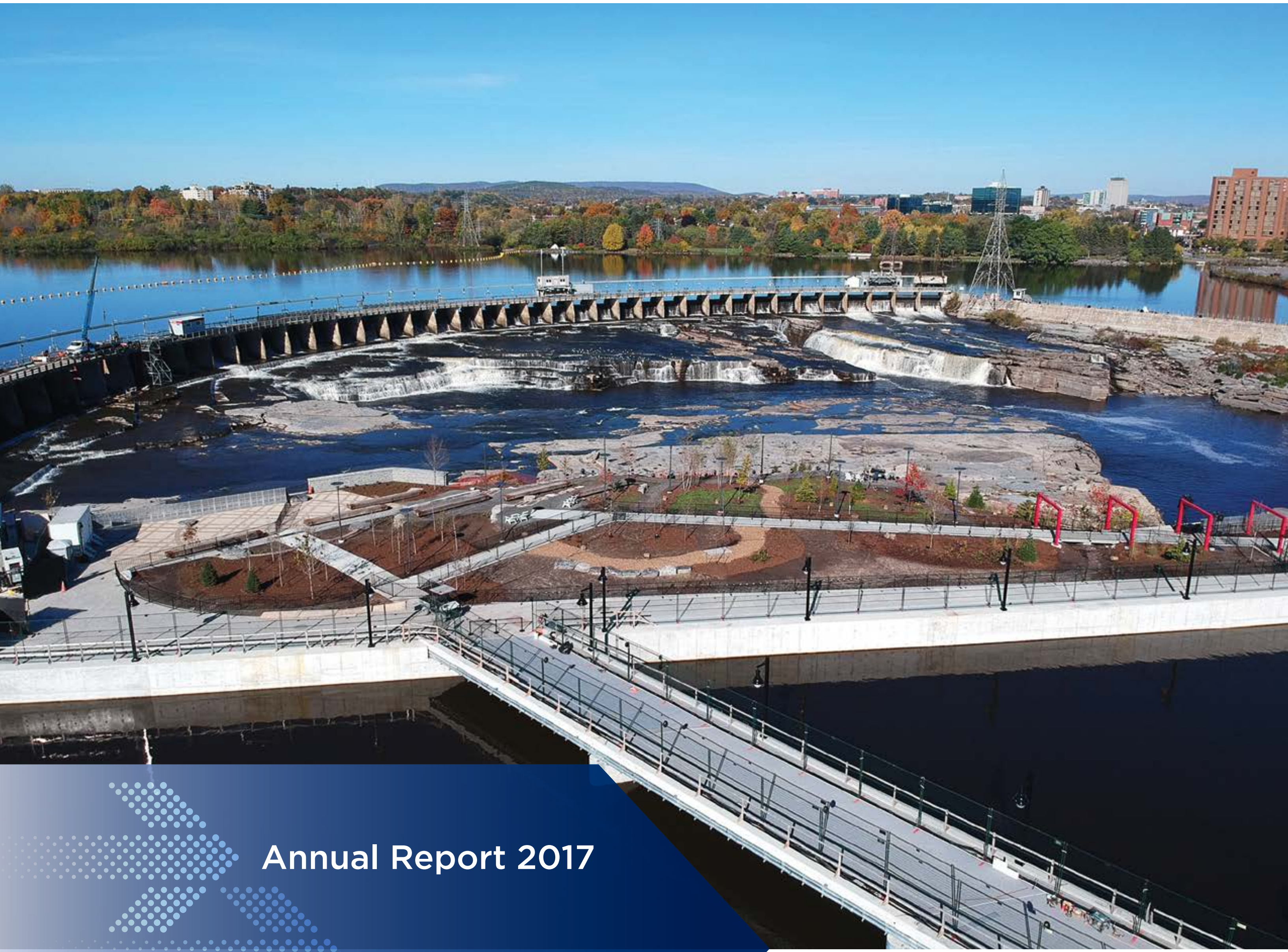
Hydro Ottawa Holding Inc.



Annual Report 2017

Our Mission

To create long-term value for our shareholder, benefitting our customers and the communities we serve

Our Organizational Values

Teamwork, Integrity, Excellence and Service

Our Vision

Hydro Ottawa – a leading partner in a smart energy future

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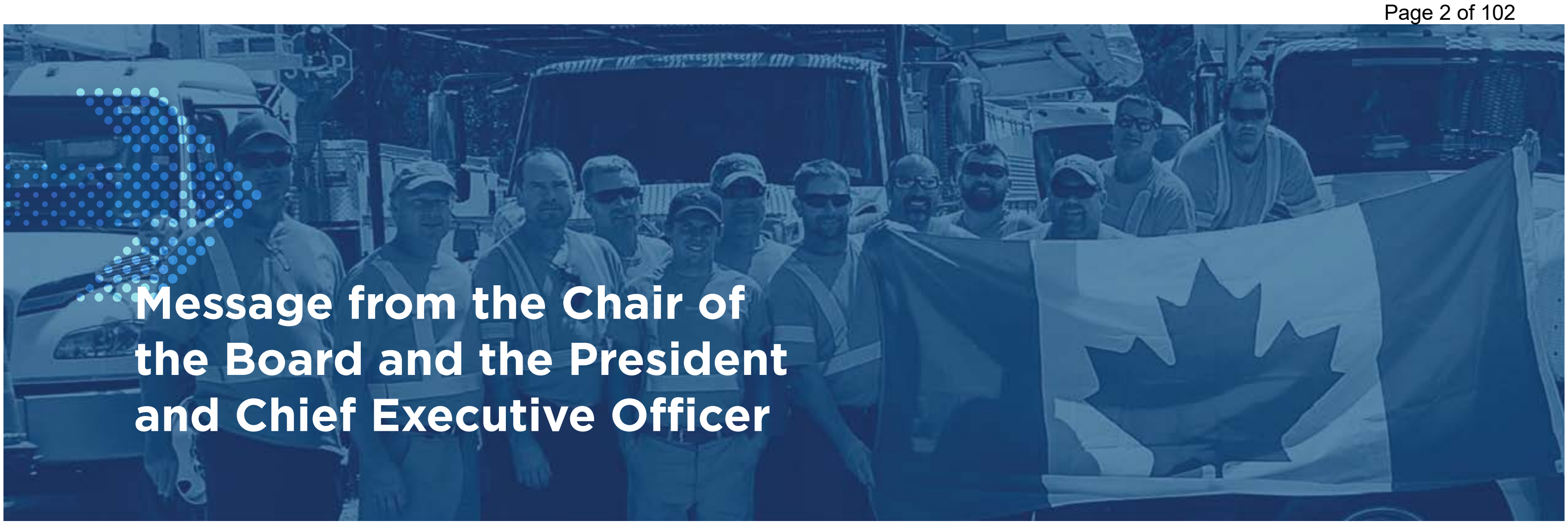


Message from the Chair of the Board and the President and Chief Executive Officer

Jim Durrell, C.M., ICD.D
Chair, Board of Directors

Bryce Conrad
President and Chief Executive Officer

On behalf of the Board of Directors of Hydro Ottawa Holding Inc., our management and employees, we're pleased to provide this 2017 Annual Report – our second report on progress towards the vision and commitments laid out in our 2016–2020 Strategic Direction. We set and achieved highly ambitious goals during the year, and faced some significant challenges due to severe weather events. We're proud that Hydro Ottawa's approximately 700 employees once again rose to the occasion.

The completion of the Chaudière Expansion project, the largest capital project in Hydro Ottawa's history, was an important milestone. While transformative for this historic part of our community, ending more than a century when the beauty of the falls was hidden from view, it has increased our green power generation capacity to 128 megawatts – by far the most of any municipal utility in Ontario. When at full production, the new facility will generate enough clean, renewable energy to power 20,000 homes, and will reduce greenhouse gas emissions by 115,000 metric tons of carbon dioxide per year. In total, we will produce enough renewable energy to power 107,000 homes – equivalent to more than a third of Hydro Ottawa's residential customers.

While rushing waters contribute to our revenues, they can also create serious operational challenges, as we were reminded in 2017. The spring thaw brought massive flooding that affected a number of Ottawa residents and damaged some of our hydro-electric facilities at Chaudière Falls and elsewhere. While the impact on electricity service to our customers was thankfully minimal, the effects on our generating stations were substantial. However, through quick action and around-the-clock efforts, our employees mounted a remarkably successful effort to protect our assets and operations, bringing most stations back online within a week. Two stations required extensive repairs and only returned to normal operation in October and November.

Notwithstanding unforeseen events such as the flooding, financial results remained strong. Both consolidated net income and the dividend paid to our shareholder, the City of Ottawa, increased from what were already record levels in 2016, hitting $36 million and $21.9 million respectively in 2017. Our consolidated return on equity remained at 8.4 percent. As projects such as the streetlight conversion demonstrate, our contribution to the City is also multifaceted. Not only a source of important dividend revenues, Hydro Ottawa is also a trusted business partner when energy efficiency expertise is needed.

We measure all of our activities and outcomes against the customer value they provide, and we know that reliability of power is a foundational customer expectation. Although we saw significant storm and other weather events in 2017, we focused on quick power restoration and kept customer impacts to a minimum. As a result, Hydro Ottawa's service reliability remained among the best in Ontario, with 0.8 average customer outages per year. While outages rose slightly in 2017 due to severe weather, the five-year trend is extremely positive, with the frequency of outages down by 41 percent and the duration of outages down by 27 percent compared to 2013. We continue to invest in the reliability of our system in order to see this positive trend continue.

Throughout our restoration efforts, and all other facets of our operations, we maintained a sharp focus on both public and employee safety – our number one priority.

We also continued to be mindful of our commitment to enhance service while containing costs. To this end, through contract negotiations we were able to strengthen our customer engagement and service offerings without adding costs. This included expanded service hours, enhanced self-service options, and the launch of a new mobile app that increases customer convenience and control. It allows customers to view and manage their energy consumption and receive real-time outage information on the go.

As part of our commitment to act at all times as a responsible and engaged corporate citizen, in 2017 we continued to support a number of community events, including those held in celebration of the 150th anniversary of Confederation. This included the Mìwàte Illumination of the Chaudière Falls, one of the Ottawa area's most spectacular natural features. Our employee driven charitable campaign also raised over $370,000 with funds directed to support both the Breast Health Centre at The Ottawa Hospital and United Way's Mental Health Programs in Ottawa.

We also once again stepped up for neighbours who were impacted by even more severe weather conditions than our own, this time helping with power restoration in Georgia in the wake of two hurricanes.

We are proud of the company's achievements in 2017, a year in which we responded well to immediate operational challenges, and strengthened Hydro Ottawa's long-term revenue and financial position. This is a testament to the hard work and dedication of our employees – the cornerstone of our success. We ended the year on track to achieve the outcomes set out in our five-year Strategic Direction, and confident in the value we are providing to our customers, shareholder and community.

Jim Durrell, C.M., ICD.D
Chair, Board of Directors

Bryce Conrad
President and Chief Executive Officer

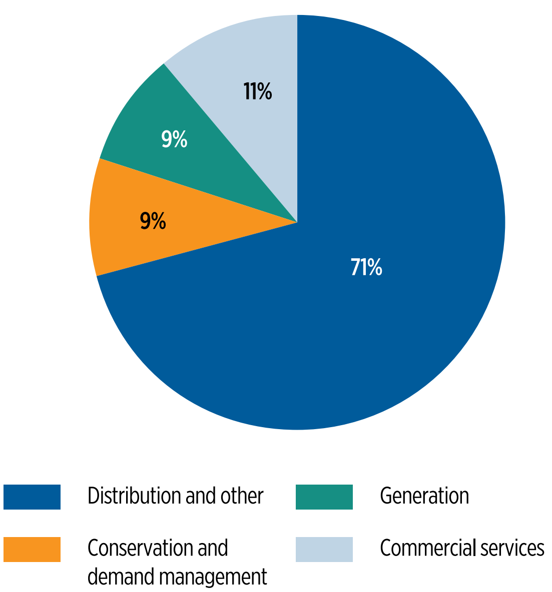
Financial Highlights

[in thousands of Canadian dollars]

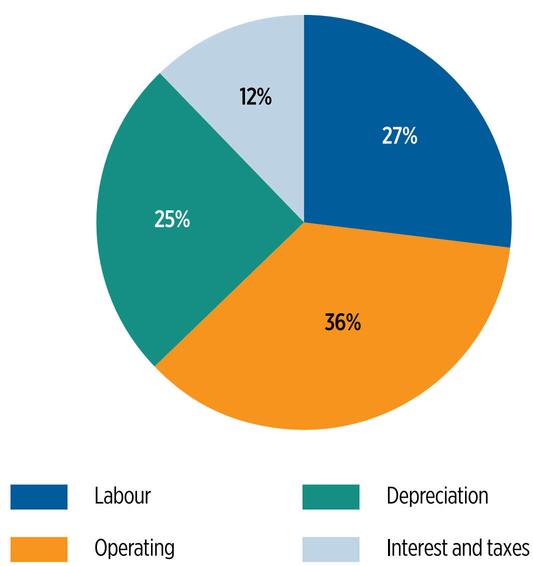
	2017	2016
Operations		
Total revenue [1]	**$ 1,140,187**	$ 1,189,360
Distribution revenue [1]	**$ 170,982**	$ 166,715
Generation revenue	**$ 22,898**	$ 17,489
Commercial services revenue	**$ 26,960**	$ 18,294
Conservation and demand management income	**$ 23,976**	$ 19,643
EBITDA [1]	**$ 118,271**	$ 104,400
Net income	**$ 35,975**	$ 34,836
Dividends	**$ (21,900)**	$ (20,600)
Balance Sheet		
Total assets and regulatory balances	**$ 1,719,697**	$ 1,630,578
Capital assets	**$ 1,391,356**	$ 1,267,838
Debentures	**$ 773,168**	$ 772,960
Shareholder's equity	**$ 438,141**	$ 426,775
Cash Flows		
Operating	**$ 91,962**	$ 96,317
Investing	**$ (148,074)**	$ (349,777)
Financing	**$ (20,600)**	$ 181,686

1 Pre-IFRS 14 amounts and EBITDA are non-GAAP financial measures

Revenue by Type [1,2]



Expenses by Type [1,2]



1 Pre-IFRS 14

2 Excludes Power Recovery and Purchased Power

Progress Against Plan

Hydro Ottawa's 2017 Annual Report is the second to report against the Company's *2016–2020 Strategic Direction* that outlines our business strategy and financial projections for this five year period. This strategy retains the core elements of the previous strategic plan [2012–2016 Strategic Direction], while responding to an altered strategic context and reflecting important changes to the Company itself – including the scale of its renewable generation business. It also outlines a new vision for Hydro Ottawa – to be *a leading partner in a smart energy future*.

The essence of Hydro Ottawa's strategy is to put the customer at the centre of everything that we do. We believe that a sharp focus on the value we provide to our customers will generate positive results in all areas of performance – our financial strength and business growth, our operational efficiency and effectiveness, and our contributions to the community.

Hydro Ottawa's success in the past has been achieved by focusing on four critical areas of performance – our Four Key Areas of Focus: Customer Value, Financial Strength, Organizational Effectiveness, and Corporate Citizenship. These four Key Areas of Focus and supporting strategic objectives continue to guide our activities through the current plan and form the basis of our annual reporting in the pages that follow.

As before, the area of Customer Value takes on central importance as the most important driver of our business strategy.

FOUR KEY AREAS OF FOCUS

Customer Value

STRATEGIC OBJECTIVE

- We will deliver value across the entire customer experience
- By providing reliable, responsive and innovative services at competitive rates

Financial Strength

STRATEGIC OBJECTIVE

- We will create sustainable growth in our business and our earnings
- By improving productivity and pursuing business growth opportunities that leverage our strengths – our core capabilities, our assets and our people

Organizational Effectiveness

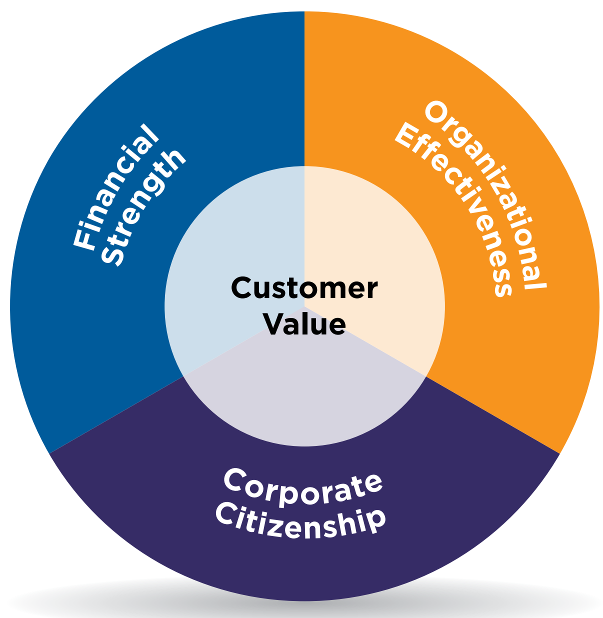
STRATEGIC OBJECTIVE

- We will achieve performance excellence
- By cultivating a culture of innovation and continuous improvement

Corporate Citizenship

STRATEGIC OBJECTIVE

- We will contribute to the well-being of the community
- By acting at all times as a responsible and engaged corporate citizen



Customer Value

Strategic Objective: We will deliver value across the entire customer experience… by providing reliable, responsive and innovative services at competitive rates.

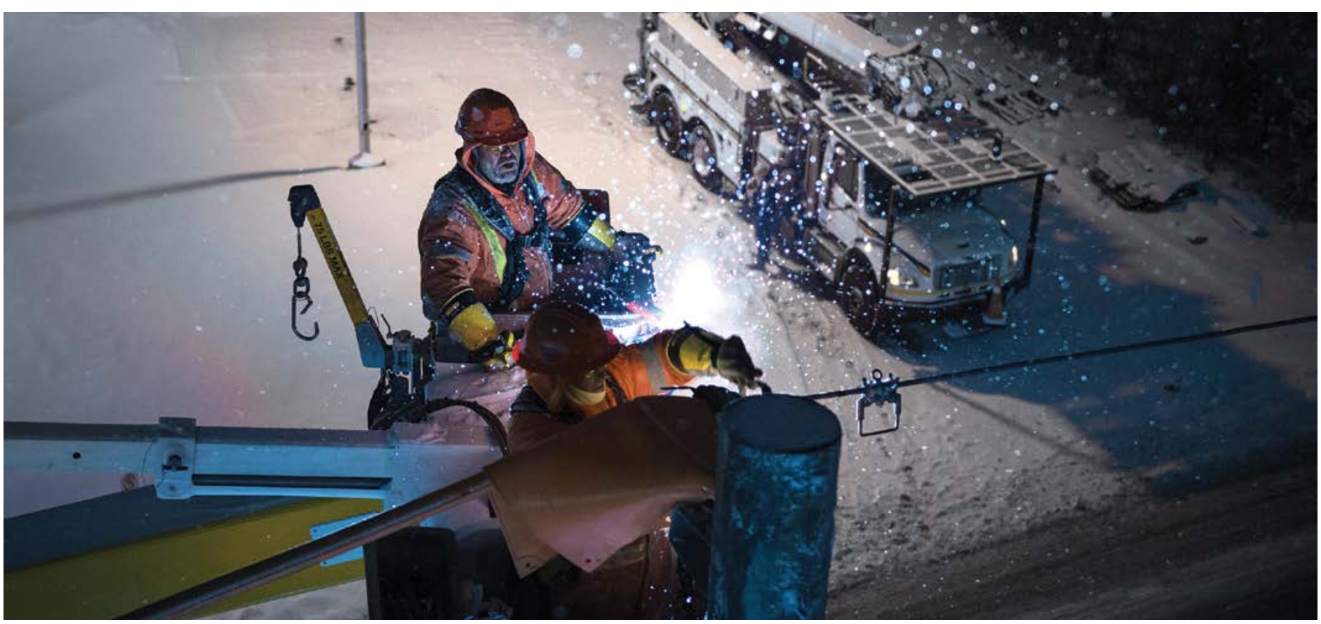
90% customer satisfaction rate

Launched Hydro Ottawa mobile app

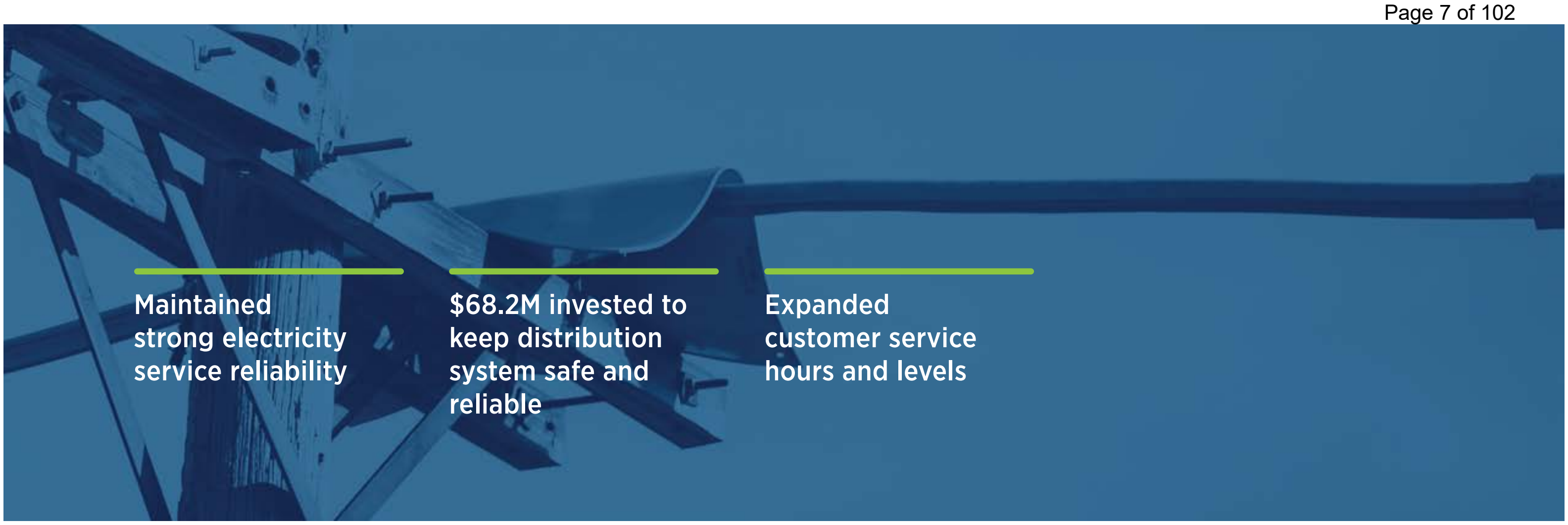
The essence of Hydro Ottawa's business strategy is to put the customer at the centre of everything we do. In 2017, we provided highly reliable electricity service, made significant investments to maintain that standard of service, and enhanced our interaction and communication with customers, while also keeping distribution rates as affordable as possible. In fact, Hydro Ottawa Limited kept operating costs[1] on par with 2016, through operational savings and productivity improvements, despite inflationary and labour increases.

While we continued to extend the range of services we offer customers, most fundamentally they want electricity to be there when they need it. In 2017, our reliability performance dipped slightly from the previous year, due in part to high winds and multiple major weather events. Outage frequency rose slightly (by 0.1 outages per year for an average customer), as did average outage duration (by 11 minutes). Still, Hydro Ottawa's service reliability remained among the best in Ontario, with 0.8 average customer outages per year. We have improved our performance in this area significantly over the past 5 years, with the frequency of outages down by 41 percent and the duration of outages down by 27 percent compared to 2013. We continue to invest in the reliability of our system in order to see this positive trend continue.

Like most utilities in Ontario, Hydro Ottawa needs to replace aging distribution system equipment at an accelerated pace. To further improve reliability, we continued to replace infrastructure consistent with our OEB-approved five-year plan.



1 Operating costs exclude conservation and demand management



Maintained strong electricity service reliability

$68.2M invested to keep distribution system safe and reliable

Expanded customer service hours and levels

We invested $68.2 million in 2017, targeting older infrastructure, localized reliability issues, and station capacity limitations. A further $30.9 million was invested to expand the system to meet growing customer needs.

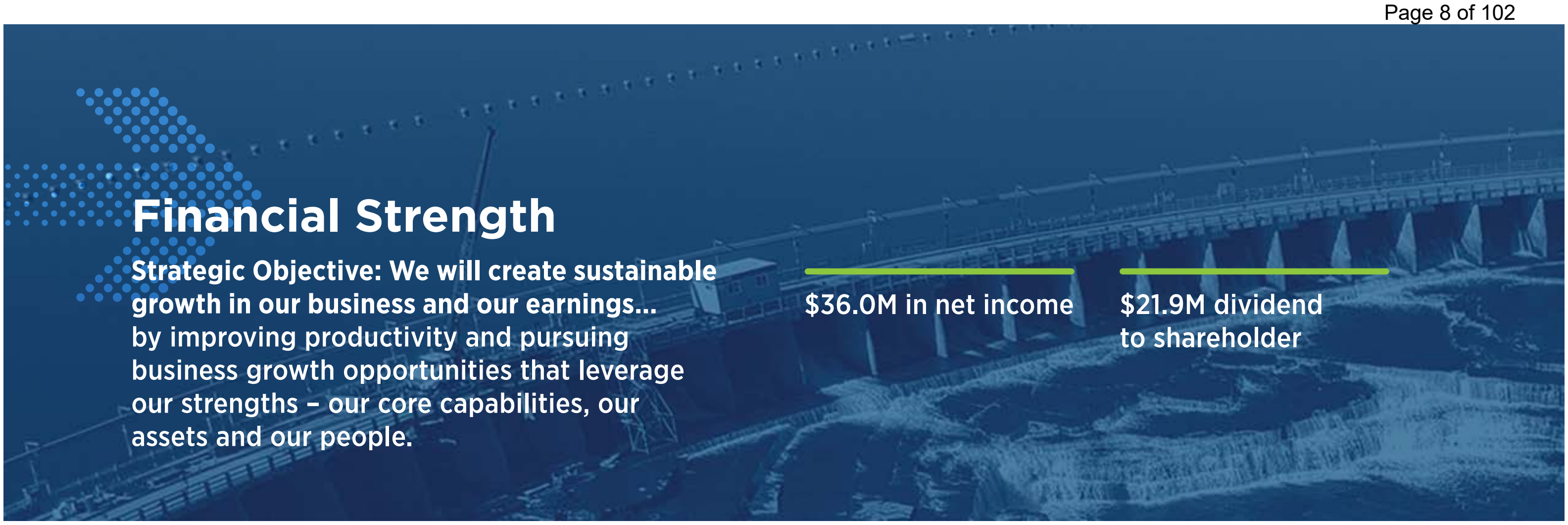
Our customer satisfaction rate was 90 percent in 2017, up from 81 percent in 2016 and five percentage points higher than the average for local electrical utilities in Ontario. In addition to our own initiatives to improve customer service, we believe the province-wide electricity cost reductions implemented through the Ontario Fair Hydro Plan (OFHP) were likely a significant driver of the increased satisfaction rate.

We continued to reach notable customer-service milestones in 2017. This included launching an industry-leading mobile app that allows customers to view and manage their energy consumption, access their billing details, and receive real-time outage information and alerts.

We also increased service levels and extended contact centre hours in 2017, and now offer live support in 120 different languages. Our self-serve phone features were enhanced with voice recognition technology, and our web/mobile self-serve options can now be linked to social media accounts for speed and simplicity of access. These service improvements were all provided at a reduced cost through a contract with a new service provider. Communication and interaction through social media also remained a priority, and we used more video and drone footage to provide frontline and behind-the-scenes insights and information. Social media has become a primary contact point for many customers, especially during storms and outages when real-time information is vital.

We maintained the highest e-billing participation rate of any utility in Ontario, increasing customer convenience while decreasing costs. Now at 40 percent, e-billing participation saves $1.4 million annually. Our 2017 "go paperless" e-billing incentive campaign generated an $88,465 donation to the CHEO Foundation, enabling the purchase of a new portable echocardiography machine for the smallest patients in the neonatal intensive care unit.

We also continued to help customers manage their energy consumption and costs through conservation and demand management (CDM) programs. At the mid-point of our current six-year CDM plan (2015–2020) we are tracking well towards an overall goal of saving 395 gigawatt hours of electricity. Among our major initiatives are six institutional Combined Heat and Power projects, with one at the Royal Ottawa Hospital now fully operational.



Financial Strength

Strategic Objective: We will create sustainable growth in our business and our earnings... by improving productivity and pursuing business growth opportunities that leverage our strengths – our core capabilities, our assets and our people.

$36.0M in net income

$21.9M dividend to shareholder

In 2017, Hydro Ottawa continued to achieve excellent financial results, while successfully completing the Chaudière Falls expansion – the company's largest-ever capital project – overcoming severe weather and unplanned events, and continuing to develop new business lines.

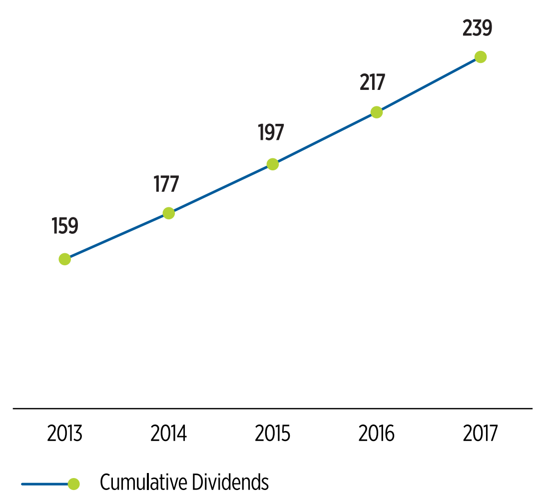
Our consolidated net income rose by $1.2 million to $36 million. This record amount achieved the projection in our 2016–2020 Strategic Direction, despite the financial impact of unforeseeable events such as severe spring flooding. The Chaudière Falls expansion was completed on time and on budget and, once at full production it will generate enough clean, renewable energy to power 20,000 homes.

With a consolidated return on equity of 8.4 percent – consistent with 2016 – Hydro Ottawa continued to create value for its sole shareholder, the City of Ottawa. Our 2017 performance generated a dividend payment of $21.9 million, surpassing the floor of $20 million, and bringing cumulative dividends paid to $239 million since 2005.

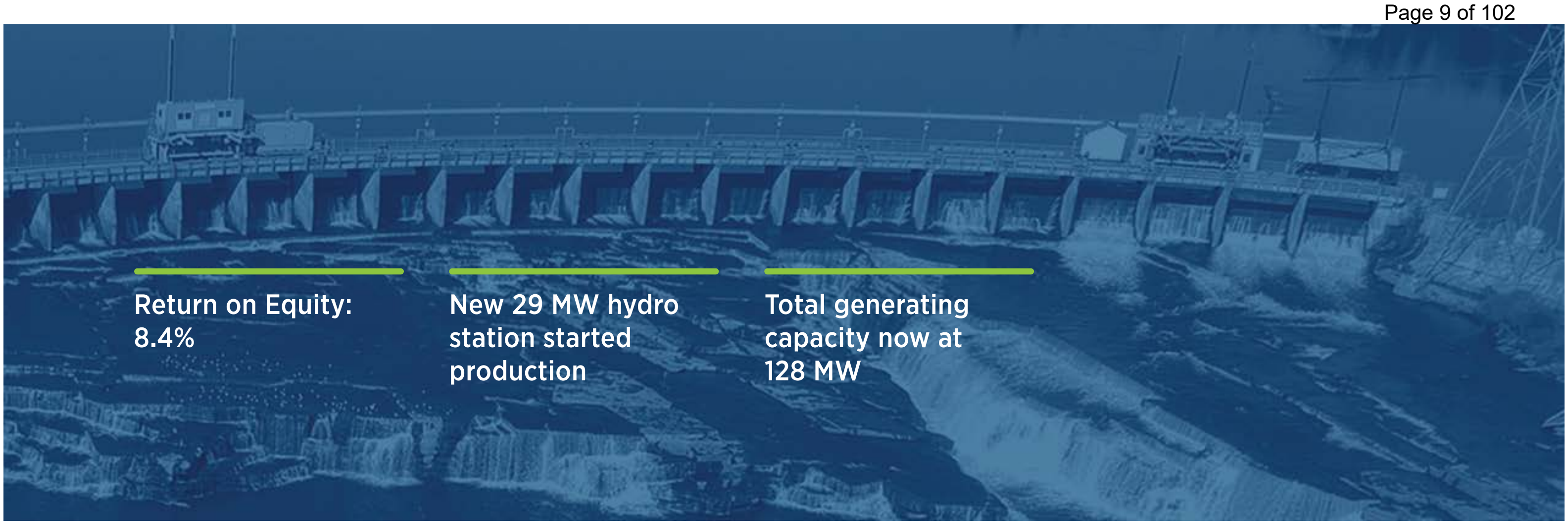
While our regulated local distribution company continued to be the largest contributor to our net income, revenue growth under the current regulatory model is expected to be modest. This, coupled with investments needed to successfully manage the challenges of aging infrastructure and grid modernization, requires a focus on cost containment and productivity. In 2017, we were able to keep our operating cost[1] on par with 2016, despite inflationary and labour pressures.

Net Income [$ millions]

Cumulative Dividends [$ millions]



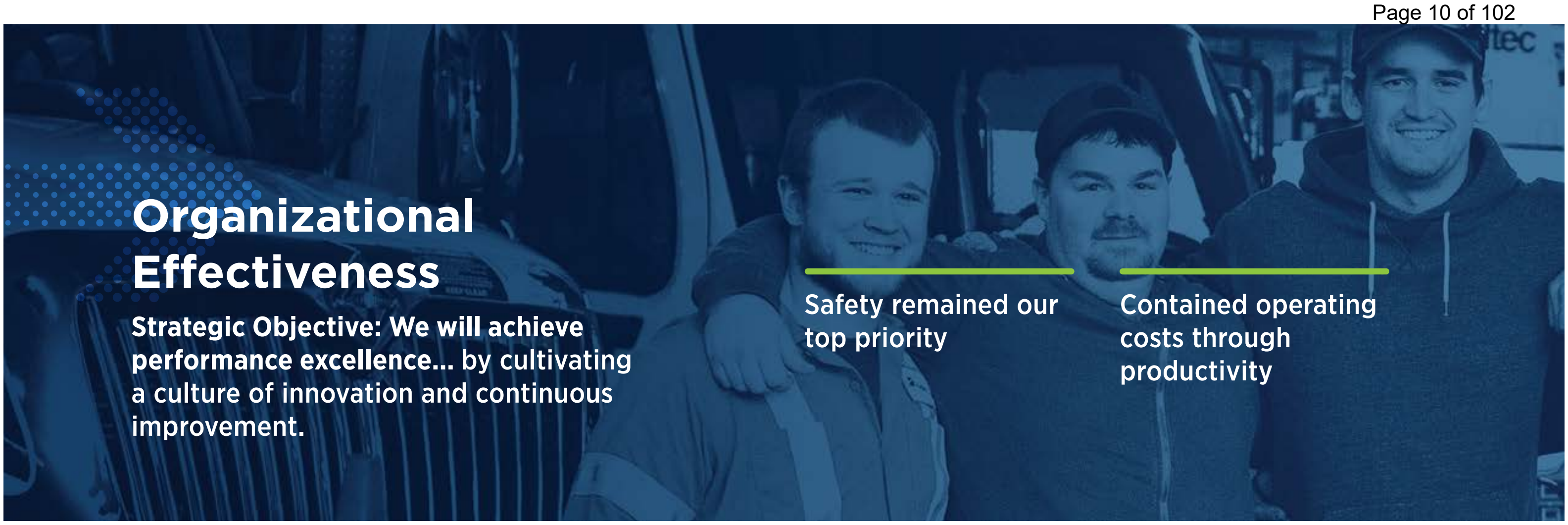
1 Operating costs exclude conservation and demand management



The completion of the Chaudière Falls expansion project boosted our renewable generation capacity to 128 megawatts, an increase of more than 500 percent since 2012. This represents enough renewable energy power – 107,000 homes – equivalent to more than a third of Hydro Ottawa's residential customers, and by far the most of any municipal utility in Ontario. The expansion was in commercial operation as of August 18, and the official public opening of the spectacular falls and surrounding historic site followed on October 16.

A once-in-a-century spring flood event impacted 11 of our generating stations along the Ottawa and Rideau Rivers in 2017. Most stations were restored within the first week, minimising the financial impact, but two stations required extensive repairs and only returned to normal operation in October and November.

In keeping with our 2016–2020 Strategic Direction, we continued to expand and develop Energy and Utility Services – the third driver of our financial strength alongside our distribution and generation operations. The largest current project is the City of Ottawa streetlight conversion, with a total of 21,527 streetlights converted to LED as of the end of 2017. With the project more than one-third completed, Ottawa has begun to see earlier and higher energy savings than originally projected. We also continued to develop and market other new services, and are encouraged by the strong interest in our cable testing offering, which launched in 2016.



Organizational Effectiveness

Strategic Objective: We will achieve performance excellence... by cultivating a culture of innovation and continuous improvement.

Safety remained our top priority

Contained operating costs through productivity

Achieving the objectives set out in our 2016–2020 Strategic Direction requires an effective and constantly learning organization, with the right skills and organizational capacity to deliver on existing and new business lines. For this reason, we sustained our focus on three main outcomes in 2017: a safe and healthy work environment; an engaged, aligned and prepared workforce; and efficient and effective operations that enhance the customer experience.

Maintaining a safe and healthy work environment remained our top priority, with a heightened focus in 2017 on our contractor Occupational Health, Safety and Environment (OHSE) management program, including detailed reviews of field-level performance. Internally, we increased our already extensive training on safe work practices, averaging 28 hours per employee, and more than 55 hours among employees in higher-risk trades roles. Our OHSE management system continued to be certified to the internationally recognized OHSAS 18001 and ISO 14001 standards, and the head of our safety group was recognized by the Canadian Society of Safety Engineering as Safety Professional of the Year – Eastern Ontario and Canada.

We continued to implement our proactive and multifaceted Talent Management Strategy to ensure a well-prepared and sustainable workforce over the next five to ten years. Similar to many companies in our sector, Hydro Ottawa faces challenging demographics, with 35 percent of employees eligible to retire in the next ten years including 38 percent of trades and technical employees. In 2017, attracting and retaining staff remained a major priority for the organization as a whole. There was growth in our powerline technician partnership with Algonquin College and in our hiring of apprentices, who now represent more than 19 percent of our trades workforce. Our summer and co-op students, and retiree and older-worker engagement programs, continued to be vital; and we launched a refreshed diversity and inclusion plan, with both employee- and community-facing components.

Containing operating costs through performance and productivity improvement also remained a broad and constant effort throughout the company, and continued to deliver operating savings in 2017. We further increased the productivity of the labour we deploy, as well as the efficiency of key assets such as generating facilities and technology infrastructure; and we succeeded in minimizing increases in operating, maintenance and administration spending.

Technology continued to play a key role in our efforts to enhance performance and productivity, as well as customer service. In 2017, we invested almost $17 million in next-generation technology systems to support customer service, operational efficiency, grid modernization, and cybersecurity. Hydro Ottawa became one of the first utilities to migrate major software systems to the cloud, thereby improving our capacity for innovation and new-technology implementation.

As providers of electricity to the nation's capital, our critical infrastructure is increasingly at risk from cybersecurity threats. In response, we are investing in our cybersecurity program with a greater emphasis on proactive controls. Hydro Ottawa was also a key contributor to the new Ontario Energy Board cybersecurity framework for all utilities and our interconnected grid.

The construction phase of our Facilities Renewal Program also got underway in 2017. This is a key modernization and operational efficiency initiative that will see the company relocate from obsolete, end-of-life facilities in 2019 (specifically, our south and east operations centres and administrative office). When fully implemented, the plan is expected to improve productivity, enhance service through more strategically located and better-equipped facilities, and help reduce environmental impacts.

Corporate Citizenship

Strategic Objective: We will contribute to the well-being of the community… by acting at all times as a responsible and engaged corporate citizen.

Employee charitable fundraising of >$370K

Educated >24,000 students on electricity safety

Hydro Ottawa has a proud heritage as a responsible company – one that is well-governed, open and engaged with our stakeholders, environmentally responsible, and an active contributor to community well-being.

We remained visible and accessible to our stakeholders in 2017, participating in more than 465 community events – a 32 percent increase over 2016. This participation centered on: energy-related educational programs in schools; Conservation Team involvement in a wide spectrum of community, corporate and retail events; and a range of other presentations and open houses. We also continued to grow our online community presence – with a 92 percent increase in overall engagement from 2016 – in part through our video social media strategy and our new Hydro Ottawa App.

We continued to enhance our communications with community associations and business improvement areas, maintaining newsletters tailored to these specific audiences. We hosted a second annual Community Forum to provide information on our CDM programs, tree trimming efforts, and low-income assistance programs; and hosted 14 community meetings to provide information and answer questions on upcoming infrastructure projects for 2018.

Environmental leadership continued to be a high priority for Hydro Ottawa. In 2017, we diverted more than 90 percent of non-hazardous wastes (liquid and solid) away from landfill, while further cutting our use of paper and physical servers. We revitalized our Environmental Sustainability Strategy, and set a goal to achieve the Canadian Electricity Association's Sustainable Electricity Company™ designation by 2020. We also played a leading role in the City of Ottawa's Energy Evolution initiative.

We continued to make diverse and carefully chosen community investments. Our annual employee charitable campaign raised over $370,000. Led by our employees' resolve to "give where they live", funds were provided to the Breast Health Centre at the Ottawa Hospital and to United Way Ottawa's mental health programs. Our employees also contributed to the community with their time, with many doing so at the Special Needs Day at the Capital Fair – an annual highlight for many Hydro Ottawa employees. We continued our long-standing corporate support for Christie Lake Kids, which provides recreation and skills and leadership training for economically disadvantaged youth, and we partnered with Ottawa 2017 in support of several elements of the Canada's 150 celebrations, including Red Bull Crashed Ice, Inspiration Village, Kontinuum, La Machine, and the Mìwàte – Illumination of Chaudière Falls.

While we put our community donations to work here at home, we also answered the call-to-help from four other utilities during the year including one from a distant neighbour – sending 26 employees to assist with power restoration in Georgia after Hurricanes Irma and Harvey hit the United States. Hydro Ottawa has a long history of participating in such efforts on both sides of the border through membership in the North Atlantic Mutual Assistance Group (NAMAG) – a partnership enabling utilities to deliver and access not-for-profit assistance.

We were honored again in 2017 to have our efforts recognized with third-party awards and rankings in the areas of best employer, human resources and safety innovation, customer programs, and corporate social responsibility.

Management's Discussion and Analysis

INTRODUCTION

The Management's Discussion and Analysis ['MD&A'] reviews Hydro Ottawa Holding Inc.'s operational performance and financial results, and should be read in conjunction with the audited consolidated financial statements and accompanying notes for the year ended December 31, 2017. On January 1, 2015, Hydro Ottawa Holding Inc. adopted International Financial Reporting Standards ['IFRS'] including early adoption of IFRS 14 Regulatory Deferral Accounts ['IFRS 14']. The accompanying consolidated financial statements are prepared in accordance with IFRS, as issued by the International Accounting Standards Board ['IASB'], and are expressed in thousands of Canadian dollars.

The MD&A contains forward-looking statements, including, but not limited to, statements as to future operating results and plans. These statements reflect management's expectations as of the date of approval of the consolidated financial statements. The impacts of risks and uncertainties may cause actual results, performance or achievements to differ materially from those projected here.

CORE BUSINESS AND STRATEGY

Company Profile

Hydro Ottawa Holding Inc. ['Hydro Ottawa', 'the Company' or 'the Corporation'] is 100 percent owned by the City of Ottawa. It is a private company, registered under the *Ontario Business Corporations Act*, and overseen by an independent Board of Directors consisting of 10 members appointed by City Council and the President and Chief Executive Officer. The core businesses of the Corporation are electricity distribution, renewable energy generation, and energy and utility services. Hydro Ottawa owns and operates two primary subsidiary companies.

Hydro Ottawa Limited, the first of these two subsidiaries, is a regulated electricity local distribution company ['LDC'] operating in the City of Ottawa and the Village of Casselman. As the third-largest municipally owned electrical utility in Ontario, Hydro Ottawa Limited maintains one of the safest, most reliable and cost-effective electricity distribution systems in the province, serving approximately 332,000 residential and commercial customers across 1,116 square kilometres. As a condition of its distribution licence, the Company is required to meet conservation and demand management ['CDM'] targets established by the Ontario Energy Board ['OEB']. The Company's customer base grows by an average of one percent per year.

Energy Ottawa Inc. ['Energy Ottawa'], the second of these two subsidiaries, is the largest Ontario-based municipally owned producer of green power, and provides commercial energy and infrastructure management services to large energy-consuming organizations. These include turnkey energy efficiency solutions (e.g., lighting and building retrofits), non-destructive cable testing and smart data monitoring systems. Energy Ottawa also owns and operates six run-of-the-river hydroelectric generation plants at Chaudière Falls near Ottawa's core, along with the historic Ottawa River Ring Dam, and 10 other run-of-the-river facilities in Ontario and New York. It also holds majority

interests in two gas-to-energy joint ventures, which produce clean, renewable energy from landfill gas at the Trail Road and Laflèche landfill sites in Ottawa and in Moose Creek, Ontario; and has 14 solar installations across the City of Ottawa. In total, Energy Ottawa has 128 megawatts of installed green generation capacity – enough to power 107,000 homes.

For a list of the significant operating subsidiaries and joint ventures included in Hydro Ottawa's consolidated financial results, refer to Note 1 [Description of Business and Corporate Information] in the consolidated financial statements included in this report.

Our Strategic Direction

In 2016, Hydro Ottawa issued a new strategic plan [2016–2020 Strategic Direction], outlining the Company's business strategy and financial projections for the next five years. This strategy retains the core elements of the previous strategic plan [2012–2016 Strategic Direction], while responding to an altered strategic context and reflecting important changes to the Company itself – including the scale of its renewable generation business. It also outlines a new Vision for Hydro Ottawa – to be *a leading partner in a smart energy future*.

Strategy

The essence of Hydro Ottawa's strategy is to put the customer at the centre of everything we do. Reorienting our business around the customer was the primary goal of our 2012–2016 Strategic Direction, and customer centrality continues to drive our business strategy. We believe that a sharp focus on the value we provide to our customers will generate positive results in all areas of performance – our financial strength and business growth, our operational efficiency and effectiveness, and our contributions to the well-being of our community.

A core premise of our 2016–2020 Strategic Direction is that the electricity service model is in the midst of significant transformation – taking on a more decentralized, customer-centric, technologically advanced and environmentally sustainable form. The transition to a more customer-driven and customer-centric model of electricity will present opportunities for energy providers that are able to innovate, and challenges for those that fail to adapt. Our strategy for responding to this emerging landscape involves eight core elements:

- Taking customer experience to the next level;
- Continuing to achieve strategic growth, including continued growth in our renewable energy business, evaluating opportunities to grow our electricity distribution business, and expanding the range of services we provide;
- Ensuring access to capital for growth;
- Making sure we have the right skill sets and organizational capacity to deliver on existing and new business lines;
- Continuing to enhance operational performance, including productivity and safety;
- Delivering on critical projects such as the Chaudière expansion project;
- Continuing to build public confidence and trust; and
- Being ready to embrace change and disruption in our industry.

Our aim is to be the trusted energy advisor for our customers – large and small – and our community. As the energy needs and options of our customers and our community evolve, and as signature projects and developments proceed, Hydro Ottawa will play a leading role in helping our City to transition to a smart energy future.

We will also continue to grow shareholder value, maintaining a focus on strategic business growth within our core areas of strength. Our growth agenda involves four basic components:

- **Electricity Distribution:** continuing to evaluate opportunities to increase our distribution service territory;
- **Renewable Generation:** increasing the supply of clean energy for customers and earnings for our shareholder by making smart investments in renewable generation;
- **Energy Services:** providing innovative solutions to help consumers, businesses and communities meet their energy objectives, through energy management, conservation, efficient street lighting, energy generation, energy storage, district energy, and demand response opportunities, among others; and
- **Utility Services:** leveraging our assets and expertise to help other utilities to enhance the value they provide, creating new revenue streams and economies of scale.

Taken as a whole, we believe this strategy for the Company's future presents a balanced program for solid performance, adaptation to a changing business environment, and sustainable and profitable business growth.

Mission, Vision & Guiding Principles

OUR MISSION – *To create long-term value for our shareholder, benefitting our customers and the communities we serve*

Hydro Ottawa is both a community asset and an investment for our shareholder, the City of Ottawa. As a community asset, our purpose is to provide efficient and reliable services and a first-class customer experience to our customers, and to continue to be a strong strategic partner with the City, helping to deliver on its economic development and environmental agendas. As an investment, our purpose is to provide stable, reliable and growing returns, and to increase shareholder value both in the short- and long-term.

OUR VISION – Hydro Ottawa – *a leading partner in a smart energy future*

OUR GUIDING PRINCIPLES

Hydro Ottawa is committed to creating long-term value in a manner that will withstand the test of public scrutiny and inspire confidence and trust. To that end, we strive to achieve excellent operating and financial results while abiding by professional standards of conduct. We are guided not only by legal obligations, but also by best governance and business practices, and standards established by independent agencies. These expectations provide the foundation for our commitment to all of our stakeholders, and are reflected in our organizational values, our Code of Business Conduct, and our operating policies and procedures.

OUR ORGANIZATIONAL VALUES

At Hydro Ottawa we are committed to an organizational environment that fosters and demonstrates ethical business conduct at all levels and reflects our shared values of teamwork, integrity, excellence and service. Every employee must lead by example in this endeavour.

OUR COMMITMENTS TO OUR STAKEHOLDERS

Hydro Ottawa takes into account the interests of all our stakeholders including employees, customers, suppliers, our shareholder, and the communities and environment in which we operate.

Employees

The quality of our workforce is our strength and we will strive to hire and retain the best-qualified people available and maximize their opportunities for success. We are committed to maintaining a safe, secure and healthy work environment enriched by diversity and characterized by open communication, trust, and fair treatment.

Customers

Our continued success depends on the quality of our customer interactions, and we are committed to delivering value across the entire customer experience. We are honest and fair in our relationships with our customers, and provide reliable, responsive and innovative products and services in compliance with legislated rights and standards for access, safety, health and environmental protection.

Suppliers and Contractors

We are honest and fair in our relationships with our suppliers and contractors and purchase equipment, supplies and services on the basis of merit, with a preference for local procurement. We pay suppliers and contractors in accordance with agreed terms, encourage them to adopt responsible business practices, and require them to adhere to our health, safety and environment standards when working for Hydro Ottawa.

Community and the Environment

We are committed to being a responsible corporate citizen and will contribute to making the communities in which we operate better places to live and do business. We are sensitive to the community's needs, and dedicated to protecting and preserving the environment where we operate.

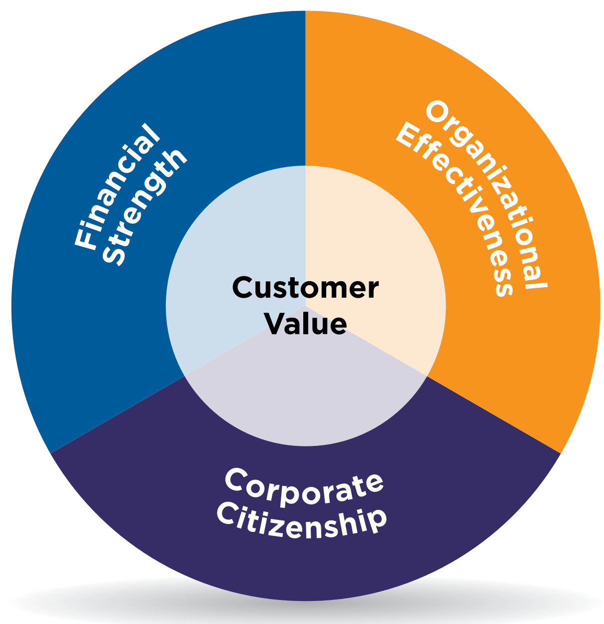
Shareholder and Other Suppliers of Finance

We are financially accountable to our shareholder and to the institutions that underwrite our operations, and communicate to them all matters material to our organization. We protect our shareholder's investment, and manage risks effectively. We communicate to our shareholder all matters that are material to an understanding of our corporate governance.

Four Key Areas of Focus

Hydro Ottawa's success in the past has been achieved by focusing on four critical areas of performance – our four Key Areas of Focus. In each of these areas, we have set one overarching objective:

- **CUSTOMER VALUE:** We will deliver value across the entire customer experience by providing reliable, responsive and innovative services at competitive rates;
- **FINANCIAL STRENGTH:** We will create sustainable growth in our business and our earnings by improving productivity and pursuing business growth opportunities that leverage our strengths – our core capabilities, our assets and our people;
- **ORGANIZATIONAL EFFECTIVENESS:** We will achieve performance excellence by cultivating a culture of innovation and continuous improvement; and
- **CORPORATE CITIZENSHIP:** We will contribute to the well-being of the community by acting at all times as a responsible and engaged corporate citizen.



These four areas of focus and strategic objectives will continue to guide our activities through the current plan. As before, the area of Customer Value takes on central importance as the most important driver of our business strategy.

Electricity Industry Overview

Within the broader electricity sector, different entities are responsible for generating electricity, transmitting it, and delivering it to customers' homes and businesses; as well as for directing grid and market operations, and overseeing and regulating the system as a whole. These entities are different in the three markets where Hydro Ottawa operates: Ontario, Québec and New York.

Electricity Generation

Electricity is created at generating stations – hydroelectric, nuclear, fossil-fueled, wind, biomass and biogas, and solar – as well as at small-scale "distributed energy" installations [mainly renewables] at or near end-use locations. Facilities such as nuclear and large hydroelectric stations operate continuously, while wind and solar operate intermittently, and others such as natural gas stations can start up or slow down as required to follow demand fluctuations. Hydro Ottawa, through its subsidiary, Energy Ottawa, has a fleet of hydroelectric, landfill gas-to-energy and solar generating stations, and is the largest Ontario-based municipally owned producer of green power.

Electricity Transmission

Electricity is transmitted from generating stations to large industrial customers and local distribution companies through a high-voltage network of transformer stations, transmission towers and wires. In Ontario, the transmission network is primarily operated by Hydro One, while in Québec it is operated by Hydro-Québec TransÉnergie. In New York State, the transmission system is operated by a number of private and public entities such as National Grid and the New York Power Authority, which are collectively referred to as New York Transmission Owners.

Electricity Distribution

After transmission, electricity in Ontario is distributed at lower voltages to homes, businesses, hospitals, schools, factories, and farms by LDCs such as Hydro Ottawa Limited. LDCs deal directly with electricity customers, maintain their communities' systems of electricity wires, and create and implement electricity conservation programs for customers. LDCs are the primary electricity-billing agent collecting all electricity charges.

Hydro Ottawa Limited is a municipally owned LDC that operates in the City of Ottawa and the Village of Casselman.

While it is always an LDC that delivers electricity through its distribution lines to a home or business, electricity customers have the choice of buying their electricity from their local LDC or an electricity retailer. Most Ontario customers choose to buy from their LDC. Hydro Ottawa is not engaged in electricity distribution in markets outside Ontario.

System Operators

The *Independent Electricity System Operator* ['IESO'] connects all participants in Ontario's power system – generators that produce electricity, transmitters that send it across the province, retailers that buy and sell it, industries that use it in large quantities, and LDCs that deliver it to homes and businesses. The IESO forecasts electricity demand throughout the province in continuously updated five-minute intervals and collects offers from generators to provide the required amount. Customers buying directly from the provincial market can therefore see prices fluctuate based on current supply and demand, and can respond accordingly. The IESO monitors the system, identifies what is required to maintain reliability in the future, and publishes its findings in regular reports. It also coordinates emergency preparedness for the province's electricity system.

The *New York Independent System Operator* ['NYISO'] is at the heart of New York's electricity system, monitoring the grid and power infrastructure, administering and monitoring the wholesale electricity markets, and planning for the state's energy future. The NYISO was created to provide fair and open access to the electrical grid. New York is divided into 11 electricity zones and, within each, the NYISO is responsible for scheduling generation and load, contracting for the services necessary to maintain grid reliability, and scheduling imports and exports. The NYISO is also responsible for publishing current demand or load in real time. Hydro Ottawa's New York State assets are located in the NYISO Zone E – Mohawk Valley.

Hydro-Québec operates the entire electricity system in Québec through various divisions; the division that performs the system operator role is Hydro-Québec TransÉnergie.

Regulatory Framework

In Ontario, the Ministry of Energy ['the Ministry'] sets the overall policy for the energy sector, guided by relevant laws and regulations. The Ministry oversees the IESO and the Ontario Energy Board [OEB], which regulate the energy sector as set out primarily in three statutes – the *Ontario Energy Board Act, 1998* ['*OEB Act*']; the *Electricity Act, 1998*; and the *Energy Consumer Protection Act, 2010*. The *OEB Act* establishes the authority of the OEB to approve and fix all rates for the transmission and distribution of electricity in Ontario, and to set standards of service, conduct and reporting that must be adhered to as a condition of being licensed.

In the United States, electrical utilities and independent power producers are regulated at both the federal and state levels. Under the *Federal Power Act*, the Federal Energy Regulatory Commission ['FERC'], an independent agency within the U.S. Department of Energy, regulates the transmission and wholesale sale of electricity in interstate commerce. Unless otherwise exempt, any entity that owns or operates facilities used for the wholesale transmission or sale of electricity in interstate commerce is a public utility subject to FERC's jurisdiction. NYISO is also under the oversight of the FERC.

In Québec, the electricity sector is regulated by La Régie de l'énergie ['the Régie'], an independent agency. The *Act Respecting the Régie de l'énergie* grants the Régie exclusive authority to determine or modify the rates and conditions under which electricity is transmitted and distributed by Hydro-Québec.

Rates

Hydro Ottawa Limited recovers its costs from customers through electricity distribution rates. These include the costs to:

- design, build, and maintain overhead and underground distribution lines, poles, stations and local transformers;
- operate local distribution systems, including smart meters; and
- provide customer service and emergency response.

Costs and rates vary from one distributor to another, depending on factors such as the age and condition of assets, geographic terrain and distances served, population density and growth, and the proportion of residential to commercial and industrial consumers.

Hydro Ottawa Limited's distribution charge represents just over 20 percent of a customer's total electricity bill. Hydro Ottawa Limited collects the whole amount, but keeps only this portion. The remainder is passed on, without mark-up, to regulators, the provincial government, and the other companies responsible for generating and transmitting electricity.

Hydro Ottawa Limited's distribution rates are set by the OEB, based on rate-change applications. For more information on the rate-setting framework and Hydro Ottawa Limited's rates, see Note 3(e) [Significant Accounting Policies - Regulation] to the consolidated financial statements included in this report.

Energy Ottawa's hydroelectric generation rates are set through facility-specific contracts. For hydroelectric facilities delivering power to Ontario and Québec, Energy Ottawa operates under agreements with the IESO and Hydro-Québec respectively, whereby a "base contractual rate" is determined at the outset of each agreement. In Ontario, an indexing factor is applied on an annual basis until the completion of the contract term; while in Québec the rate is locked in for the first two years after which it fluctuates based on applicable market rates. For hydroelectric stations located in upstate New York, Energy Ottawa's power purchase agreements – all of which are with the Niagara Mohawk Power Corporation, a subsidiary of National Grid plc – are currently market-based. As a result, the rates that determine generation revenues from these stations fluctuate.

CAPABILITY TO DELIVER RESULTS

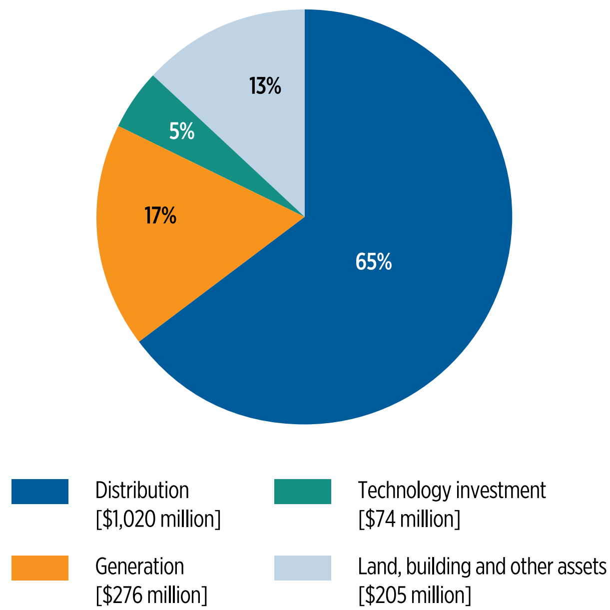
Hydro Ottawa's capability to achieve the objectives set out in its strategic direction is a function of its tangible and intangible assets, expertise, systems, and capital resources across the following areas.

Assets

Hydro Ottawa's gross asset base is $1.58 billion, with significant ongoing investments in distribution and generation infrastructure and technology systems. Like all utilities, Hydro Ottawa is affected by the reality of aging infrastructure, and continues to manage this through increased infrastructure investments and a detailed Distribution System Plan to target spending where it will have the most benefit. In 2017, the Corporation invested $68 million to maintain its distribution system and a further $31 million to expand the system to meet customer needs [see 'Investing Activities' for more details]. These investments are having the desired impact, with electricity service reliability remaining strong system-wide despite the occurrence of major-weather-event days in 2017. Hydro Ottawa has also recognized the need to replace core work and operational centres that are at the end of their useful life. In 2017, work progressed on its facilities renewal project, including construction and preparations for the move in 2019. Hydro Ottawa also continues to grow its renewable generation infrastructure with $51 million invested in 2017.

- ***Electricity Distribution Assets*** – For more than 100 years, Hydro Ottawa and its predecessor companies have delivered a reliable supply of electricity to homes and businesses.
  - › Service Area – 1,116 square kilometres
  - › Circuitry – 5,711 kilometres
  - › Substations – 88
  - › Transformers – 45,701
  - › Poles – 49,484
- ***Renewable Generation Assets*** – Largest Ontario-based municipally owned producer of green power with 128 megawatts of installed generation capacity, enough to power 107,000 homes.
  - › Run-of-the-River Hydroelectric Generating Stations – 16
  - › Landfill Gas-to-Energy Plants – 2
  - › Solar Installations – 14

Gross Tangible and Intangible Assets



Workforce

A highly skilled, properly trained and knowledgeable workforce – and a safe and healthy work environment – are essential to Hydro Ottawa's continued success. The company's strategic objectives will only be achieved through the efforts of an effective and constantly learning organization, with the right skill sets to deliver on existing and new business lines.

Hydro Ottawa employed approximately 730 people at the end of 2017 across the enterprise, with Hydro Ottawa Limited accounting for 88 percent of this workforce.

Like many other utilities, Hydro Ottawa continues to face challenging workforce demographics that require a concerted response. The Company has put in place a comprehensive and integrated talent management strategy. It is anticipating and meeting talent needs through planning, talent attraction and acquisition, effective deployment of resources, and performance management and development. More specifically this includes:

- ***Training:*** Our in-house apprenticeship and engineering internship programs continued to grow in 2017 with seven new apprentices hired [bringing the total to 34, or 19 percent of our trades workforce]. Eleven apprentices reached journeyperson status in 2017.

- ***Succession:*** Succession planning and management programs ensure that there are qualified employees in the talent pipeline for key positions.
- ***Knowledge Management & Transfer:*** A proactive approach for key positions includes an older worker and retiree engagement strategy to help seamlessly transition work from our veteran workforce to the next generation.
- ***Diversity & Inclusion:*** A plan fosters an inclusive culture that leverages diversity and enhances employee engagement and innovation.
- ***Partnerships:*** These include, most notably, collaborations with Algonquin College to deliver the College's Powerline Technician programs in the eastern Ontario region, and with Carleton University's Sustainable and Renewable Energy Engineering Department for the establishment of a smart grid laboratory. The latter fosters innovative research on electrical power systems and promotes the training of engineers in the smart grid environment.

Employee compensation programs continued to support a high-performance culture, and include market-driven and performance-based components to attract and retain key employees.

As our business changes, so too does the profile of our workforce. It is increasingly diverse in age, skills, background, belief, ethnicity, sexual orientation, and in many other ways. We aim to create a thriving and respectful workplace for all.

A fundamental component of Hydro Ottawa's commitment to operating efficiently and effectively is the very high priority we place on protecting the health and safety of our employees and our community. Hydro Ottawa has established an integrated health, safety and environment management system that has maintained certification to Occupational Health and Safety Assessment Series 18001, and to International Organization for Standardization 14001, since November 2007.

Systems and Processes

Hydro Ottawa has made significant investments in technology systems to enhance the Company's effectiveness. These include customer information and billing systems, advanced metering, and information and operational technologies such as geographic information systems, system control, outage management, and mobile workforce management systems. We take the security of our critical infrastructure against cyber threats seriously, and collaborate proactively with government, regulators and private sector partners across North America to manage this risk. And our technology decisions continue to be based on three basic criteria: enhancing service to our customers; creating efficiencies that will increase our competitiveness; and improving functionality to be more agile and resilient in the face of industry disruption.

Hydro Ottawa is also focused on maximizing the efficiency and effectiveness of our operations by optimizing productivity at every opportunity.

Examples of initiatives undertaken in 2017 include:

- implemented live GPS tracking of vehicles to optimize dispatching of crews;
- installed 7,000 [for a total of 9,500] remote disconnect meters eliminating the need to dispatch vehicles and helping to reduce our carbon footprint;
- rolled out new customer telephone system providing self-serve features for account information, billing inquiries, and outage management – all leveraging voice recognition technology;
- launched industry leading mobile application that enables our customers to manage their energy consumption, monitor usage, view bills and conservation tips, and track outages;
- enhanced website functionality improving customer sign-in, site navigation and registration process for Pre-authorized Payment and Equal Monthly Payment Plans;
- implemented a new Enterprise Resource Planning [ERP] system with streamlined and automated Human Resources, Finance and Supply Chain processes company-wide; and
- migrated major systems to the Cloud on a large scale, thereby modernizing how we implement future technology.

Capital Resources

Liquidity and Capital Resources

The Corporation's primary sources of liquidity and capital resources are operating activities, banking facilities, and proceeds from bond issuances as and when required. Liquidity and capital resource requirements are primarily for: maintenance of the Hydro Ottawa Limited electricity distribution system; investments in generation assets; and cost of power, interest expense, and prudential requirements.

On July 20, 2017, the Corporation renewed its credit facility for $340 million. The Corporation may use up to $190 million of the facility for general operating requirements and annual capital expenditures. To ensure appropriate liquidity, an additional $150 million, two-year revolving term credit line was also placed to provide short-term bridge financing for large capital projects and acquisitions.

Capital expenditure requirements in excess of the credit facility, if any, will be funded through future bond issuances. The utility sector continues to be a very attractive investment in the capital markets with strong demand across all bond tenures. This provides the Corporation access to significant market capacity to support its ongoing investment requirements. The Corporation's existing corporate bond profile is very strong with a weighted average maturity of 19 years at an average weighted cost of 3.49 percent. The $204 million, 40-year non-recourse project bond issued in 2016 for the expansion at Chaudière Falls remains in place at a rate of 4.08 percent. For additional details regarding the Corporation's sources of liquidity and capital resources, see Notes 13, 16 and 17 to the consolidated financial statements.

Credit Ratings

On July 27, 2017, Dominion Bond Rating Service Inc. ['DBRS'] reaffirmed Hydro Ottawa's rating at 'A' with a stable trend during the year. While Hydro Ottawa's portfolio of generation assets have long-term power purchase agreements with creditworthy counterparties, DBRS noted that Hydro Ottawa's business risk profile may be negatively affected if earnings from the non-regulated segment exceed 20 percent. On November 1, 2017, Standard & Poor's ['S&P'] confirmed its rating at 'BBB+' with a stable outlook. S&P noted that Hydro Ottawa continues to have an excellent business risk profile due to: its operation under a transparent, consistent, and predictable regulatory framework for electricity distribution; its large and diverse customer base; and the quality of its government-backed power purchase agreements for the majority of the generation assets, which provide steady, predictable and stable cash flows.

RESULTS – PROGRESS AGAINST PLAN

To ensure Hydro Ottawa makes steady progress towards achieving the corporate strategy set out in our 2016–2020 Strategic Direction, the Company has set enterprise-wise strategic objectives in each of its four key areas of focus, and established Board-approved performance goals. The table below summarizes performance in relation to its goals for 2017.

KEY AREAS OF FOCUS	ENTERPRISE STRATEGIC OBJECTIVES	2017 PERFORMANCE GOALS	2017 PERFORMANCE HIGHLIGHTS
CUSTOMER VALUE	We will deliver value across the entire customer experience *by providing reliable, responsive and innovative services at competitive rates*	Assist customers in managing their energy consumption and electricity costs Deliver on customer expectations for service quality and responsiveness Maintain overall distribution system reliability	• Continued to achieve strong reliability results despite several major-weather-event days, and invested $68.2M to keep our distribution system safe and reliable • Extended the hours and increased the service levels of our customer service contact centre – including Saturday hours, translation support for 120 languages, voice recognition technology ["My Voice is My Password"] • Ranked 2nd in terms of lowest operating costs per customer amongst large distributors in Ontario • Achieved 90% customer satisfaction rate • Achieved highest e-billing participation rate among Ontario LDCs [40% of customers], saving $1.4M per year • Launched industry-leading Mobile App providing customer billing, energy consumption, conservation tips, and outage information • Continued to use social media and drone footage to relay real-time information during storms and outages
FINANCIAL STRENGTH	We will create sustainable growth in our business and our earnings *by improving productivity and pursuing business growth opportunities that leverage our strengths – our core capabilities, our assets and our people*	Grow revenues from new sources Enhance / protect revenues from existing business lines	• Achieved consolidated net income of $36M, as per 2016–2020 Strategic Direction commitment • Completed Chaudière Falls expansion project on schedule and budget › Largest project in the company's history › Brings total generation capacity to 128 MWs [500% growth since 2012] – enough to power 107,000 homes › Solidifies status as largest Ontario-based municipally owned producer of green power • Maintained generating revenue stability with over 80% of our 128 MW capacity contracted through long-term power purchase agreement rates • Continued to diversify our revenue streams › 21,527 City of Ottawa street lights converted to LED – over 60% savings in kWh › Completed LED retrofit projects at the Robert O. Pickard Environmental Centre, Ottawa Airport, Village of Casselman and Ottawa Community Housing

KEY AREAS OF FOCUS	ENTERPRISE STRATEGIC OBJECTIVES	2017 PERFORMANCE GOALS	2017 PERFORMANCE HIGHLIGHTS
ORGANIZATIONAL EFFECTIVENESS	We will achieve performance excellence *by cultivating a culture of innovation and continuous improvement*	Continue to enhance operational performance and productivity Maintain leading health and safety record Enhance organizational and employee capability	• Maintained safety as our top priority, providing an average of 28 hours of safe work practices training for all employees • Continued our heavy focus on productivity • Invested $16.6M in next-generation technology systems to support customer service, operational efficiency, grid modernization, and cybersecurity • Maintained certifications for our Occupational Health, Safety and Environment Management System to internationally recognized standards • Advanced facilities renewal project construction and initiated preparations for the move in 2019 • Continued our workforce renewal through apprentice and journeyperson hiring [without increasing position complement], and through implementation of comprehensive talent management programs
CORPORATE CITIZENSHIP	We will contribute to the well-being of the community *by acting at all times as a responsible and engaged corporate citizen*	Enhance our brand image in the community and the industry Continue to improve our environmental performance and reduce our impact on the environment	• Provided support through our Community Investment Program, employee volunteer efforts, and local delivery of provincial financial assistance programs • Raised over $370K as part of our 2017 Employee Charitable Fundraising campaign • Increased our engagement with the community › Attended more than 465 community events › Educated over 24,000 students about electricity safety, conservation and renewable energy › Hosted our annual Community Forum and 14 Open Houses for planned work › Increased online engagement by 92% [Twitter followers rose by 21%, Facebook by 51% and LinkedIn by 40%] • Answered the call for aid by assisting with power restoration in Georgia after Hurricanes Irma and Harvey devastated many communities • Diverted more than 90% of our non-hazardous solid and liquid waste away from landfill • Received 10 awards for performance excellence, including recognition as one of Canada's Top Employer's [4th year] and as one of the National Capital Region's Top Employers [9th year]

FINANCIAL RESULTS

The selected consolidated financial results of the Corporation presented below should be viewed in conjunction with the audited consolidated financial statements and accompanying notes for the year ended December 31, 2017.

Consolidated Statement of Income [Summary]

With the adoption of IFRS in 2015 – including the early adoption of IFRS 14 – several of the Corporation's line items in its audited consolidated statement of income are subject to high volatility. Specifically, IFRS 14 requires a one-line separate presentation of the net movement within the Corporation's regulatory deferral accounts related to income [i.e. the debit and credit balances, net of taxes] within its consolidated statement of income. This net movement of regulatory balances primarily arises when there is a timing difference between the cost of power purchased and the cost of power recovered. This difference is recorded as a settlement variance, representing future amounts to be recovered from or refunded to customers through future billing rates approved by the OEB. Consequently, the Corporation's power recovery and purchased power line items can be significantly impacted by these timing differences. For the purposes of the analysis and interpretation of financial variances presented below, management has identified and excluded impacts resulting from the adoption of IFRS 14, and used pre-IFRS 14 results as the basis for its discussion unless otherwise noted. Management believes this more accurately represents the true financial performance of the Corporation, given its rate-regulated environment as prescribed by the OEB.

[in thousands of Canadian dollars]

	2017	IFRS 14 Impact	2017 (Pre-IFRS 14)(1)	2016	IFRS 14 Impact	2016 (Pre-IFRS 14)(1)	Change (Pre-IFRS 14)(1)
Revenue and other income							
Power recovery	**896,528**	**(10,849)**	**885,679**	974,207	(14,021)	960,186	(74,507)
Distribution sales	**171,400**	**(418)**	**170,982**	165,729	986	166,715	4,267
Generation	**22,898**	**–**	**22,898**	17,489	–	17,489	5,409
Commercial services	**26,960**	**–**	**26,960**	18,294	–	18,294	8,666
Conservation and demand management	**23,976**	**–**	**23,976**	19,643	–	19,643	4,333
Net gain from insurance proceeds	**2,939**	**–**	**2,939**	–	–	–	2,939
Other	**6,753**	**–**	**6,753**	7,033	–	7,033	(280)
	1,151,454	**(11,267)**	**1,140,187**	1,202,395	(13,035)	1,189,360	(49,173)
Expenses							
Purchased power	**908,649**	**(25,131)**	**883,518**	966,072	(7,883)	958,189	(74,671)
Operating costs	**139,797**	**(307)**	**139,490**	128,072	(242)	127,830	11,660
	1,048,446	**(25,438)**	**1,023,008**	1,094,144	(8,125)	1,086,019	(63,011)
Income before the undernoted items	**103,008**	**14,171**	**117,179**	108,251	(4,910)	103,341	13,838
Depreciation and amortization	**54,800**	**–**	**54,800**	49,642	–	49,642	5,158
Financing costs, interest income and taxes	**36,838**	**(9,342)**	**27,496**	28,172	(8,250)	19,922	7,574
Share of profit from joint ventures	**(1,092)**	**–**	**(1,092)**	(1,059)	–	(1,059)	(33)
	90,546	**(9,342)**	**81,204**	76,755	(8,250)	68,505	12,699
Net income	**12,462**	**23,513**	**35,975**	31,496	3,340	34,836	1,139
Net movements in regulatory balances, net of tax	**23,513**	**(23,513)**	**–**	3,340	(3,340)	–	–
Net income after net movements in regulatory balances	**35,975**	**–**	**35,975**	34,836	–	34,836	1,139

(1) Non-GAAP financial measure

Net Income

Net income increased by approximately $1.1 million or three percent in 2017. This increase was primarily due to a $4.3 million increase in distribution sales, a $14.1 million increase in generation and commercial services revenue, and a $2.9 million net gain from insurance proceeds. These positive variances were partially offset by increases in operating costs excluding conservation and demand management costs of $7.4 million and in depreciation and amortization of $5.2 million, and by a $7.6 million increase in financing costs [net of interest income] and taxes.

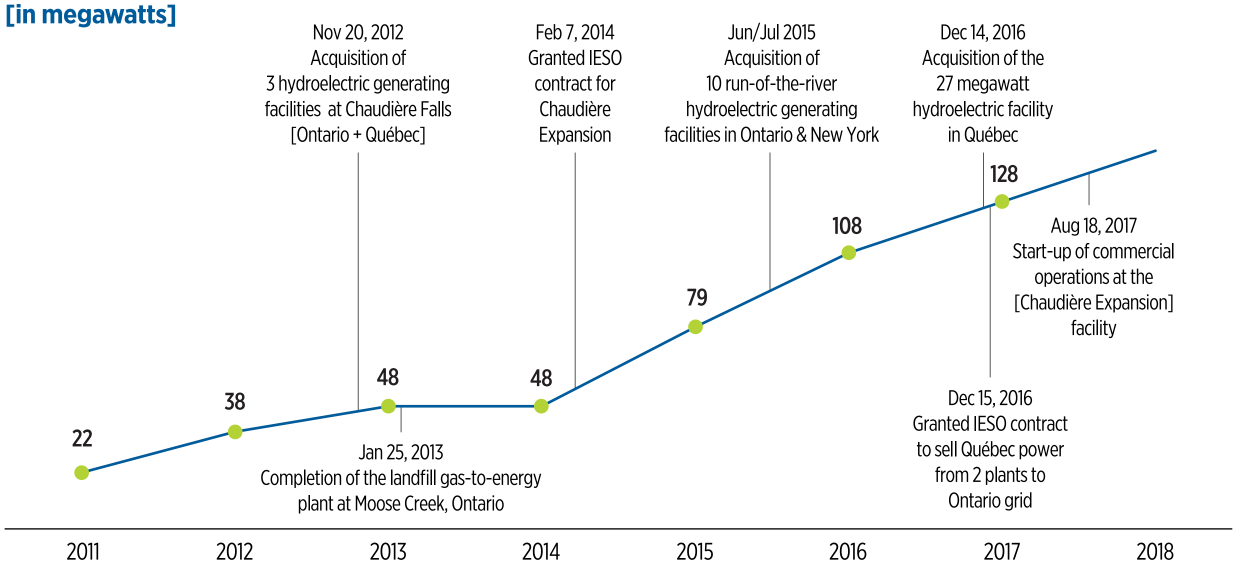
Revenue and Other Income

Revenue and other income are earned from electricity distribution, renewable energy generation, energy management and utility services, as well as from CDM programs and sundry activities. In 2017, Hydro Ottawa's total revenue amounted to approximately $1.1 billion, a slight decrease from 2016.

The largest component of Hydro Ottawa's total revenue is the cost of power recovered from customers through provincially established rates. The cost of power is a flow-through amount, which poses limited risk to Hydro Ottawa's financial performance. However, variances arise between the cost of power purchased and the cost of power recovered, due to timing differences in invoicing from the IESO for the former, and receipt of payment from customers for the latter. This difference is recorded as a settlement variance. Hydro Ottawa Limited's power recovery revenue decreased by $74.5 million, mainly due to lower electricity consumption and lower flow-through electricity costs as a result of the Ontario Fair Hydro Plan. The Ontario Fair Hydro Plan, introduced by the Government of Ontario on March 2, 2017, provides eligible customers with financial assistance through various changes to commodity pricing, and through elimination or reduction of certain provincial charges on the electricity bill. As a result, the total electricity bill for eligible customers is reduced by an average of 25 percent and consequently so is Hydro Ottawa's power recovery revenue offset by a similar decrease in power purchased as described below.

Distribution sales are recorded based on OEB-approved distribution rates, set at a level intended to recover the costs incurred by Hydro Ottawa Limited in delivering electricity to customers, and they include revenue related to the collection of OEB-approved rate riders. 2017 marks the second year of rates approved under Hydro Ottawa Limited's 2016–2020 custom incentive rate-application. Distribution sales revenue increased $4.3 million or three percent from 2016 largely due to this application and the associated recovery of large investments in capital infrastructure. The Ontario Fair Hydro Plan does not have any effect on Hydro Ottawa's distribution sales.

Generation Capacity Growth [in megawatts]



Energy Ottawa's generation revenues continued to grow. The subsidiary significantly increased its generation capacity in the past few years as detailed in the chart above. The most notable addition in 2017 was the start-up of commercial operations at the expanded Chaudière facility on August 18, 2017, which was the largest project in the Corporation's history.

Leading up to the official start-up, we experienced a once-in-one-hundred-year flood event on the Ottawa River system in May 2017 forcing the shutdown of our generation facilities at Chaudière Falls, Rideau Falls and Kingston Mills. The majority of the generation at Chaudière Falls was fully restored within the first week. Following the flood, some facilities or portions thereof required more significant repairs and were out of service for a longer period. All stations were back to their normal operating state as of November 2017. In addition, on August 19, 2017, one of the units experienced a mechanical failure due to a manufacturer defect and sustained significant damage. This unit is expected to be back in service in 2018. The Corporation is seeking compensation for lost revenues from its contractor and its insurers. Despite these setbacks, the Corporation was able to increase generation revenues by $5.4 million, due to revenue from the 27-megawatt hydroelectric generating station on the Québec side of Chaudière Falls acquired in late 2016 and the revenue from the expansion at Chaudière Falls in the second half of the year.

Commercial services revenue increased by $8.7 million largely due to the streetlight maintenance and conversion projects. The largest of these is in the City of Ottawa, where a cumulative total of 21,527 LED streetlights have been installed since the project began in 2016. New endeavors such as cable testing and power quality testing continue to gain momentum. CDM was $4.3 million higher than in 2016 due to an increase in the number of customer projects completed during 2017. Funding for these projects is provided by the IESO, which compensates Hydro Ottawa for all eligible CDM expenditures incurred during the year.

In 2017, the Corporation recognized a net gain of $2.9 million from insurance proceeds [net of insurance deductibles]. This includes $1.6 million in lost revenue compensation resulting from the mechanical failure of a unit at the expanded Chaudière facility and $1.3 million in business interruption and property damages arising from the shutdown of the facilities at Chaudière Falls, Rideau Falls and Kingston Mills due to a once-in-one-hundred-year flood event.

Expenses

Purchased Power and Operating Costs

Purchased power represents the cost of electricity delivered to customers within Hydro Ottawa Limited's distribution service territory. These costs consist of the commodity, wholesale market service charges, transmission charges and the global adjustment. The cost of purchased power decreased by $74.7 million in 2017, mainly due to lower electricity consumption and lower flow-through electricity costs resulting from the Ontario Fair Hydro Plan.

Operating costs in 2017 of $139.5 million were up by $11.7 million due in part to an increase in CDM and business development [such as non-destructive cable testing] expenditures, along with operating expenses associated with generation assets acquired from Hydro Québec in December of 2016, and technology costs. Bad debt expenses also increased as a result of the Decision and Order banning licensed electricity distributors from disconnecting homes for non-payment during the winter. This order was issued by the OEB on February 22, 2017 [and lifted on April 30, 2017] and again on November 15, 2017 [lifting in April 2018].

Depreciation and Amortization

Depreciation and amortization on Hydro Ottawa's property, plant and equipment, and intangible assets increased in 2017 by $5.2 million primarily due to the ongoing investment in the Corporation's electricity distribution infrastructure and the expansion of its generation assets.

Share of Profit from Joint Ventures

Share of profit from joint ventures represents the Corporation's share of net income from the continuing operations of Moose Creek Energy LP [50.05 percent] and of PowerTrail Inc. [60.00 percent]. For more information regarding the Corporation's joint ventures, see Note 11 to the consolidated financial statements.

Financing Costs [net of Interest Income] and Taxes

Financing costs [net of interest income] increased by $2.9 million due to borrowings to finance general operating requirements and annual capital expenditures, and the recognition of interest costs related to the Chaudière Falls expansion project, which had been capitalized during the construction phase.

The Corporation's effective tax rate increased from 20.61 percent in 2016, to 29.15 percent in 2017, as a result of permanent and temporary differences between the accounting treatment and tax basis of assets and liabilities that arose during the year. The $5.8 million increase in income tax expense is largely the result of an increase in pre-tax income and taxable income, and a change in the U.S. corporate tax rate. For more information regarding income taxes, see Note 22 to the consolidated financial statements.

Net Movement in Regulatory Balances [Net of Tax]

In accordance with IFRS 14, the Corporation has separately presented the net movement in regulatory balances in the consolidated statement of income. The changes in the regulatory debit and credit balances for the year on the consolidated balance sheet [$11.7 million and $12.2 million respectively], equal the net movement in regulatory balances, net of tax, on the consolidated statement of income [increase of $23.5 million, along with $0.4 million in comprehensive income]. The net movement in regulatory balances was primarily due to an increase in regulatory debit balances due to deferred taxes and operating costs to be recovered through future rates [$9.7 million and $0.3 million, respectively], and to a decrease in settlement variance credit balances of $14.3 million arising from timing differences between purchased power and cost recovery. These were offset by the recovery of regulatory debit balances through distribution sales rate riders of $0.4 million. As Hydro Ottawa Limited passes on the benefit of deferred income taxes through annual distribution rate adjustments approved by the OEB, it records a regulatory deferral account credit [or debit] balance for the amounts of deferred taxes expected to be refunded to [or recovered from] customers in future rates.

Consolidated Balance Sheet [Summary]

[in thousands of Canadian dollars]

	2017	2016	Change
Current assets	**271,368**	283,446	(12,078)
Non-current assets	**1,422,863**	1,333,388	89,475
Total assets	**1,694,231**	1,616,834	77,397
Regulatory account balances	**25,466**	13,744	11,722
Total assets and regulatory account balances	**1,719,697**	1,630,578	89,119
Current liabilities	**315,825**	267,524	48,301
Non-current liabilities	**941,222**	899,574	41,648
Total liabilities	**1,257,047**	1,167,098	89,949
Shareholder's equity	**438,141**	426,775	11,366
Total liabilities and shareholder's equity	**1,695,188**	1,593,873	101,315
Regulatory account balances	**24,509**	36,705	(12,196)
Total liabilities, shareholder's equity and regulatory account balances	**1,719,697**	1,630,578	89,119

Assets

Total assets increased by approximately $77 million in 2017. This increase is largely attributable to property, plant and equipment, and to intangible assets – which have collectively increased by $123 million – and to a $6 million increase in other long-term assets. The increase in property, plant and equipment and in intangible assets is a result of the Chaudière Falls expansion, the facilities renewal project, and continuing investments in electrical distribution and generation infrastructure. In addition, on December 13, 2017, the Corporation acquired the primary distribution assets at the Public Services and Procurement Canada campuses located at Tunney's Pasture, Confederation Heights and the Central Experimental Farm with a fair value of $1.4 million. The increase in assets was partially offset by a $58 million decrease in restricted cash arising out of the project financing arrangement for the Chaudière Falls expansion project. In 2016, $124 million of the $204 million project financing was placed in restricted accounts from which withdrawals may only be made with trustee authorization. At December 31, 2017, $66 million in restricted cash remained, while $44 million was held in a distributions reserve account which is expected to be available in 2018 upon final completion as per the terms of the trust indenture.

Liabilities

Total liabilities increased by $90 million in 2017. The Corporation's current liabilities increased $48 million largely because of an increase in bank indebtedness of $77 million offset by a decrease in accounts payable and accrued liabilities of $26 million. The Corporation also saw a $17 million increase in deferred revenue due to capital contributions received in 2017, net of amortization, and an increase of $13 million and $9 million in customer deposits and deferred income taxes, respectively. The increase in customer deposits stems from the asset transfer with Public Services and Procurement Canada of $14.6 million as described above for the funding of future expenditures related to the assets.

Regulatory Account Balances

IFRS 14 defines a regulatory account balance as the balance of any expense or [income] account that would not be recognized as an asset or liability in accordance with other IFRS standards, but that qualifies for deferral because it is included, or is expected to be included, by the regulator in establishing the rate[s] that can be charged to customers. As at December 31, 2017, Hydro Ottawa Limited has recognized $25.5 million in regulatory account debit balances [assets] and 24.5 million in regulatory account credit balances [liabilities].

The $11.7 million increase in regulatory account debit balances is largely due to a $9.1 million increase in the regulatory asset for deferred income taxes and a $1.1 million increase in the Lost Revenue Adjustment Mechanism, which tracks and disposes of lost revenues that result from approved CDM programs.

The $12.2 million decrease in regulatory account credit balances is largely due to a $15.4 million decrease in the settlement of electricity and global adjustment pass-through-cost credit balances. Offsetting this decrease is a $1.4 million increase in the Earnings Sharing Mechanism variance account, which captures 50 percent of any regulated earnings above Hydro Ottawa's approved return on equity for years 2016 to 2020, and an increase of $0.7 million in other variances and deferred costs.

Consolidated Statement of Cash Flows [Summary]

[in thousands of Canadian dollars]

	2017	2016	Change
Cash (bank indebtedness), beginning of year	**(67,769)**	4,002	**(71,771)**
Cash provided by Operating Activities	**91,962**	96,317	**(4,355)**
Cash used in Investing Activities	**(148,074)**	(349,777)	**201,703**
Cash (used in) provided by Financing Activities	**(20,600)**	181,696	**(202,296)**
Foreign exchange impact on cash held in US dollars	**(9)**	(7)	**(2)**
Cash (bank indebtedness), end of year	**(144,490)**	(67,769)	**(76,721)**

Cash (bank indebtedness) consists of:			
Cash	**933**	982	**(49)**
Bank indebtedness	**(145,423)**	(68,751)	**(76,672)**
	(144,490)	(67,769)	**(76,721)**

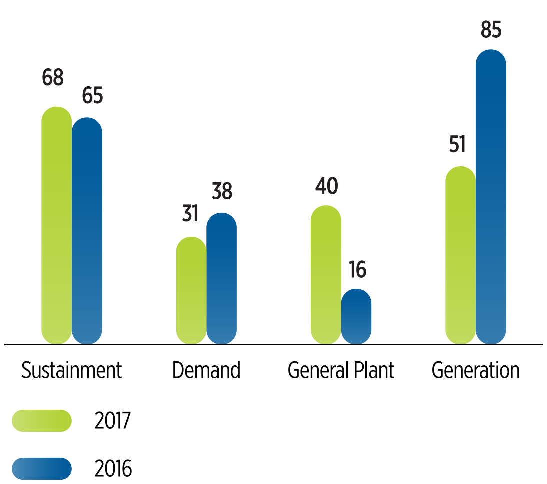
Operating Activities

Cash generated by operating activities decreased by $4.4 million in 2017. The majority of this decrease relates to the net movement in regulatory balances, which is primarily due to changes impacting settlement variance balances. This was offset by improved working capital cash flows mainly related to timing of settlement of accounts receivable and accounts payable and accrued liabilities.

Investing Activities

Cash used in investing activities decreased by $201.7 million in 2017. The decrease is partially due to the additional spending in 2016, in connection with the acquisition of the 27-megawatt Centrale Hull-2 hydroelectric generating station from Hydro-Québec. The release of restricted cash held in-trust to Hydro Ottawa, in accordance with the Chaudière expansion project financing trust indenture, further offset the impact of the ongoing construction at Chaudière Falls and our continuing investment in electrical distribution and generation infrastructure. Total investment in property, plant and equipment and in intangible assets was $190.1 million in 2017. The chart below shows Hydro Ottawa's capital investments by category for both 2017 and 2016.

Gross Capital Expenditures [$ millions]



Capital investments in 2017 included: $68 million on sustainment capital to replace aging infrastructure and to modify the existing distribution system; $31 million on demand projects, including third-party-driven growth projects such as new residential or commercial installations, and municipal improvement projects such as the City of Ottawa's Light Rail Transit project; $40 million on general plant, including the facilities renewal program, information technology infrastructure, fleet, and other sundry items; and $51 million on generating plants, of which 77 percent relates to the expansion at Chaudière Falls.

Some of the major capital projects completed in 2017 include the extension of the West 44kV line, which will provide backup supply to the communities of Stittsville, Richmond and Munster; and phase 1 of the Woodroffe switchgear and Leitrim transformer replacements, which will help to improve the reliability of the distribution system. On the generation side, the Chaudiere Hydro North L.P. and Hull Energy L.P. generating station refurbishment projects are both proceeding on schedule and on budget. Significant progress was made on engineering and procurement, with construction to commence in 2018.

Financing Activities

Financing activities include dividends paid to the shareholder, the City of Ottawa, as well as proceeds from the issuance of long-term debt.

Dividends were paid to the shareholder in 2017 in accordance with the approved dividend policy. The 2017 payment totalled $20.6 million based on 2016 results, and the 2016 payment totalled $19.4 million based on 2015 results. Revisions to the dividend policy were approved by the City of Ottawa on June 22, 2016. The amended policy sets dividends at the greater of 60 percent of Hydro Ottawa Limited's net income, or $20 million. This positions the Corporation to reinvest in its growth and help strengthen its key credit metrics.

In 2016, the Corporation completed the offering of senior secured amortizing bonds representing a cash inflow of $204 million.

Accounting Matters

Significant Accounting Estimates

The preparation of consolidated financial statements, in conformity with IFRS, requires management to make estimates and assumptions that affect the reported amounts of consolidated revenues, expenses, assets and liabilities; and requires disclosure of commitments and contingencies as of the date of the consolidated financial statements.

These estimates are based on historical experience, current conditions and various other assumptions believed to be reasonable under the circumstances. Because they involve varying degrees of uncertainty, the amounts currently reported in the consolidated financial statements could prove to be inaccurate in the future.

Significant areas where estimates are made in the application of IFRS are as follows [references to associated notes in the consolidated financial statements are provided in brackets]:

- Accounts receivable [Note 2(d)(i)]
- Regulatory balances [Note 2(d)(ii)]
- Revenue recognition [Note 2(d)(iii)]
- Useful lives of depreciable assets [Note 2(d)(iv)]
- Impairment of non-financial assets [Note 2(d)(v)]
- Employee future benefits [2(d)(vi)]
- Fair value of assets and liabilities acquired [Note 2(d)(vii)]
- Deferred Income taxes [Note 2(d)(viii)]

New Accounting Pronouncements

A number of new standards, amendments and interpretations have either been adopted for the year ended December 31, 2017, or, have been issued but are not yet effective and have therefore not been applied in preparing the accompanying consolidated financial statements.

Recently adopted accounting standards

- **Disclosure to reconcile liabilities related to financing activities in the statement of cash flows:** The IASB issued amendments to IAS 7 requiring entities to disclose changes in their financing liabilities to assist readers in evaluating changes in liabilities arising from financing activities, including changes from cash flows and non-cash changes [such as foreign exchange gains or losses]. IAS 7 is effective for annual periods beginning on or after January 1, 2017. Although there was no financial impact to the Corporation's consolidated financial statements as a result of this change, a reconciliation of liabilities arising from financing activities has been added [refer to Note 24 in the consolidated financial statements].

Recently issued accounting guidance not yet adopted

- **Revenue from contracts with customers:** In May 2014, the IASB published a new standard, Revenue from Contracts with Customers ['IFRS 15'], which replaces most of the detailed guidance on revenue recognition that currently exists under IFRS. IFRS 15 provides a standardized five-step model to recognize all types of revenue earned from customer contracts, while previously significant room was allowed for judgment in devising and applying revenue recognition policies and practices. IFRS 15 is more prescriptive in many areas, such as the combination of related contracts for revenue recognition purposes, unbundling of multiple performance obligations within a single contract, and the capitalization of costs of obtaining or fulfilling a contract. IFRS 15 also contains additional disclosure requirements. IFRS 15 is effective for annual periods beginning on or after January 1, 2018. As the majority of the Corporation's revenue is recognized on a usage basis at regulated prices [power recovery and distribution revenue] or on a per unit basis at contracted or market prices [generation revenue], and does not carry significant bundled contracts of combined products and services, IFRS 15 will not have a material impact on the accounting for these revenue streams. However, IFRS 15 will impact the Corporation's revenue-related disclosures.

- **Financial instruments:** In July 2014, the IASB issued the final version of IFRS 9 - Financial Instruments ['IFRS 9'], which replaces International Accounting Standard 39 Financial Instruments: Recognition and Measurement ['IAS 39']. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including basing the classification of financial instruments on their contractual cash-flow characteristics and on the entity's business model for managing financial assets, whereas IAS 39 bases the classifications on specific definitions for each category. Moreover, IFRS 9 simplifies the current IAS 39 classifications into three main categories [amortized cost, fair value through other comprehensive income, and fair value through profit or loss], and introduces a new expected credit loss model for measuring impairment on financial assets. The standard is effective for annual periods beginning on or after January 1, 2018. As the Corporation does not currently have complex financial instruments, IFRS 9 will not have a material impact on its consolidated financial statements. Management is currently evaluating the impact of adopting the new expected credit loss model for measuring impairment.
- **Leases:** In January 2016, the IASB issued a new standard, IFRS 16 - Leases ['IFRS 16'], which replaces accounting requirements introduced more than 30 years ago that are no longer considered suitable and is a major revision of the way in which companies account for leases. IFRS 16 removes the current requirement for lessees to account for leases as either operating or finance leases – under complex rules and tests – which may result in all-or-nothing being recognised on the balance sheet. Under IFRS 16, all leases from the lessee's perspective will have to be recognized on the balance sheet, except for exempted short-term [< 1 year] and low-value leases. The new standard becomes effective for reporting periods beginning on or after January 1, 2019 and early adoption is permitted if IFRS 15 is also adopted. The Corporation is currently evaluating the IFRS 16 impact on its consolidated financial statements and related disclosures.

- **Uncertain tax positions:** On June 7, 2017, the IASB, through the International Financial Reporting Interpretations Committee, issued Interpretation 23 Uncertainty over Income Tax Treatments ['IFRIC 23']. The interpretation provides guidance on the accounting for current and deferred tax liabilities and assets in circumstances in which there is uncertainty over income tax treatments. IFRIC 23 requires an entity to contemplate whether uncertain tax treatments should be considered separately or together as a group, to determine if it is probable that the tax authorities will accept the uncertain tax treatment, and to measure the tax uncertainty based on the most likely amount or expected value. IFRIC 23 is applicable for annual periods beginning on or after January 1, 2019 and early adoption is permitted. The Corporation is currently evaluating the IFRIC 23 impact on its consolidated financial statements and related disclosures.

RISKS AND UNCERTAINTIES

Hydro Ottawa has adopted a systematic approach to the management of risks and uncertainties, integrated into business processes and the periodic reporting of organizational performance. Capabilities and processes have been built across all business units to enable the effective identification of, and timely responses to, events likely to impede the achievement of corporate objectives.

The Corporation's Enterprise Risk Management ['ERM'] framework, established by the Board in 2006 and renewed annually, consolidates quarterly risk reporting to the President and Chief Executive Officer, and to the Board. Reporting highlights potential risk factors that may have an impact upon Hydro Ottawa's near-term business objectives and strategic direction. The ERM framework supports and complements the Corporation's strategic planning and annual business planning cycles, thereby enabling continuous review of assumptions and regularly refreshed environment scans.

Hydro Ottawa monitors sources of risk that are structural to the industry and to the regulated environment. These include, but are not restricted to: the weather; the policy and regulatory environment; the state of the economy and macro-economic trends; the state of financial markets and of investment in the utilities space; government policies relating to the production and procurement of renewable and clean energy, as well as carbon emissions and conservation; the convergence of information technology and operational technology; cybersecurity; labour force demographics, with a particular emphasis on the renewal of human resources in the trades; and the impact of fiscal policies on customers. In combination, these sources of risk will shape the evolution of the industry, which could in turn present new and emerging risks that need to be managed effectively.

Policy and Regulatory Environment

Actual performance versus forecasts in electricity distribution

Hydro Ottawa's electricity distribution business has obtained approval from the OEB for a re-basing of its distribution rates for 2016–2020. As a result, the Corporation expects to be able to carry out its planned capital programs, provide safe and reliable electricity to its customers, and earn the allowed rate of return. However, results may be affected if actual loads and energy consumption vary substantially from forecast, or if actual costs of operations, maintenance, administration, capital and financing materially exceed projections included in the approved revenue requirements.

Long-term impact of Government policies and incentives for LDCs

Over the long term, the Ontario Government's policies on the production, procurement, pricing and sale of renewable energy – coupled with financial and other incentives directed at consumers as part of the Province's CDM, climate change action and net metering programs – could result in significant changes in the business environment for rate-regulated LDCs such as Hydro Ottawa Limited. The proposals included in the Government's Long Term Energy Plan, released in late 2017, appear to reinforce and might even accelerate these changes.

Potential adverse impacts include "grid flight". For example, as costs decline for a range of energy generation and storage technologies – such as solar photovoltaics, battery storage, fuel cells, geothermal energy systems, micro turbines, and electric vehicle-enhanced storage – LDCs may see their customers move progressively towards these cost-competitive alternatives, thereby reducing customer need for and dependence on the grid.

At this point, should trends such as grid flight materialize at a significant scale, policy and regulatory responses will be necessary to enable utilities to adapt while maintaining their century-old mandate to deliver electricity reliably, safely and at reasonable cost to their customers.

On a separate but related front, uncertainty exists around the short- and long-term impacts on LDCs from the government's rate mitigation program known as the Ontario Fair Hydro Plan.

In addition, early experience with the province's new prohibition on winter disconnection of residential customers suggests a risk of higher levels of bad debt going forward.

LDC Consolidation in Ontario

At a strategic level, the Corporation has identified consolidation with other municipally owned LDCs as an opportunity to attain economies of scope and scale that would work to the benefit of the customers of all the participating utilities. However, the pursuit of this opportunity may be unviable if valuations for mergers and acquisitions remain at levels that Hydro Ottawa may consider excessive or potentially detrimental to the interests of its own Shareholder and ratepayers. Voluntary consolidation or collaboration with other municipally owned LDCs for mutual benefit can be facilitated by policy direction, regulatory guidance and tax incentives that are appropriately aligned.

Long-term policy direction for the electricity sector

The results of the 2018 provincial elections in Ontario could have a significant impact upon long-term policy direction for the electricity sector. The outcome of this election might affect a variety of areas, including the continuation of the Climate Change Action Plan, ongoing support for CDM programs, the content of the Long Term Energy Plan, support for renewable energy generation, and priorities for rate regulation. The impact could range from a complete reversal of the policy initiatives of the last fifteen years to increased momentum on those very initiatives.

Market Prices for Electricity

Market prices for electricity fluctuate due to a number of factors, including: the amount of excess generating capacity relative to load in the market; the structure of the market; weather conditions that impact electrical load; growth in demand for electricity; absolute and relative prices for energy; and developments in CDM and government policy direction.

Approximately 18 percent of the Corporation's installed generation capacity is directly linked to the market price for electricity in the state of New York. In the absence of a fixed rate power purchase agreement, the Corporation may explore a number of options to reduce its exposure to market fluctuations.

Major Project Execution

The successful and timely completion of major projects is critical to the Corporation's long-term strategic direction, in particular its projected growth in generation revenue.

There are inherent risk factors in such projects, including: construction delays; cost overruns; equipment performance not in accordance with expectations; delays in permissions and clearances from all levels of government and their agencies; and technical issues in connecting to the grid.

Infrastructure

Hydro Ottawa has developed a long-term Distribution System Plan to phase in the investments required to replace its aging distribution infrastructure, and maintain high standards of reliability and operability, while keeping pace with the growth of its service territory. Aging electricity assets pose a dual risk to LDCs. Apart from being more prone to failure [during extreme weather events, for example], they make restoration of the distribution system more complex and financially onerous.

Equipment failure could also have an adverse impact on the generation of electricity at any of the Company's various facilities.

Exchange Rate Fluctuations

The Corporation's functional currency is the Canadian dollar. A significant depreciation of the value of the U.S. dollar relative to the Canadian dollar may adversely affect the value of the Corporation's U.S.-based assets and the related revenues. Conversely, a significant depreciation of the Canadian dollar relative to the U.S. dollar may affect the Corporation's capacity to finance additional growth in the U.S. market.

Economy

The state of the local, national and international economies could have a significant impact on the Corporation's business performance through factors such as inflation, customer credit risk, weakening demand for electricity and/or value-added services, and availability of market capital to fund growth. The economic climate could also have an effect on the stability and performance of some of Hydro Ottawa's key business partners.

Credit Ratings and Interest Rates

The Corporation continues to maintain strong investment grade credit ratings, however the Corporation's continued growth in unregulated businesses may negatively affect future ratings.

Nearly 90 percent of the Corporation's debt is subject to a fixed rate of interest, and is accordingly insulated from the impact of upward revision of interest rates. A rise in interest rates would affect the Corporation's credit facility, though its impact is not expected to be material.

Technology Infrastructure

The Corporation's business performance is dependent upon complex information systems, covering frontline operations [e.g. geographic information system, outage management system, electricity system supervisory control and data acquisition system] as well as upon back office processes [e.g. customer information and billing systems, and ERP system]. The failure of one or more of these key systems, or a failure of the Corporation to either plan effectively for future technology needs or to transition effectively to new technology systems, could adversely impact the Corporation's business operations.

Many of these key systems also draw upon data and signals from several hundred thousand smart devices [chiefly smart meters], as well as the related systems and web interfaces. The processing of data in many cases entails a number of automated interfaces, as well as multiple internal and external dependencies, including Ontario's Smart Metering Entity. Risks arising from the reliability and performance of any single component of this integrated network, or of the system as a whole, could lead to a disruption of key business processes, such as the meter-to-cash cycle.

There is growing convergence of core operational systems with enterprise information systems, increasing automation, and extensive use of common technology in facilitating such integration and connectivity. This has the potential to heighten existing risks and to create new ones.

Cybersecurity

The Corporation's reliance on information systems and expanded data transmission and exchange networks, in conjunction with the growing extent of systems and data integration within the electricity sector, increases its exposure to information security threats, including cybersecurity risks. Hydro Ottawa's information systems and information assets could be put at risk by a security breach, data corruption or system failure at a shared resource or common service provider.

Customer and Media Perceptions

Electrical utilities across Ontario are confronted with risks arising from negative customer and media perceptions, typically owing to high commodity prices, which are outside of the Company's control.

Pension Plans

The Corporation provides a defined benefit pension plan for the majority of its employees through the Ontario Municipal Employees Retirement System ['OMERS']. As OMERS is a multi-employer, contributory, defined benefit pension plan, it is not practicable to determine the Corporation's portion of pension obligations or the fair value of plan assets. Future funding shortfalls and net losses at OMERS, if any, are subject to the OMERS Sponsors Corporation Funding Management Strategy, which outlines how benefits and contributions will be modified as the OMERS Primary Plan cycles through periods of funding deficit and surplus.

Hydro Ottawa has also established a separate defined benefit pension plan and a separate defined contribution pension plan for a small number of employees, with appropriate financial and investment procedures and oversight, as required by law. Pension benefit obligations and related net pension cost can be affected by volatility in the global financial and capital markets. There is no assurance that pension plan assets will earn the assumed long-term rates of return. Market-driven changes impacting the performance of the pension plan assets may result in material variations in actual returns on pension plan assets.

Labour Force Demographics

Across the electricity sector, retirements are outpacing new entrants to the workforce, which could have an adverse impact on the ability of the Corporation to build a sustainable workforce and achieve its business objectives. Hydro Ottawa's investments in apprenticeships, internships, diversity, knowledge management, succession planning and retiree and older worker engagement programs are designed to manage risks relating to workforce demographics.

Consolidation of Labour Bargaining Power

Following structural changes in the ownership of several of Ontario's electrical utilities, there has been a degree of consolidation of labour bargaining power within the province's electricity sector. Whether and how this consolidation might grow is difficult to determine at this stage, as is its potential impact on labour relations and service delivery.

Weather, Hydrology and Gas Quality

Severe weather can significantly impact financial results, in part through increased capital and maintenance costs to repair or replace damaged equipment and infrastructure and through reduced revenue. Distribution revenues in turn tend to increase with severe weather and decrease with moderate weather.

Weather is also of potential direct relevance to Energy Ottawa's renewables generation portfolio. Hydroelectric generation depends on weather-sensitive water flows, which have both seasonal and annual variations, and which may be further impacted by either natural disaster or government policy and controls. Weather is also directly relevant to solar generation, while landfill gas availability and quality also fluctuates.

OUTLOOK

Subject to the risks and uncertainties discussed above, Hydro Ottawa expects to continue to provide efficient, reliable and competitively priced electricity distribution services to customers. It further expects to generate green power, and to provide energy and utility services and conservation expertise, while at the same time maintaining sustainable earnings.

Hydro Ottawa Limited has an approved rate structure and capital investment plan for 2016–2020. The application was made using a rate-setting model designed to account for the LDC's significant capital requirements. Approved rates are expected to be sufficient to provide an appropriate return, while also supporting: prioritized replacement of aging infrastructure and other investments in system reliability; major infrastructure development and growth within the service territory; and introduction of new customer services. Hydro Ottawa customers, meanwhile, will continue to benefit from stable, moderate, and predictable rate impacts. In the interests of moderating future rate increases as fully as possible, the Company remains committed to ongoing innovation, productivity and cost containment.

The successful completion of the Chaudière expansion project represents a further and particularly significant milestone in the buildout of Energy Ottawa's renewable generation portfolio – bringing total capacity to 128 megawatts. In addition, the commencement of the refurbishment of generation infrastructure acquired from Hydro Québec in 2016 and Domtar in 2012, coupled with the three associated 40-year fixed price power purchase agreements for the plants in question, provides long-term generation revenue stability.

Hydro Ottawa also continues to pursue expansion in other non-regulated areas, including energy and utility services. Both business lines will leverage existing assets and expertise, and may include: advisory, project-management and design-build services; partnerships and licensing arrangements with third parties; commercialization of Hydro Ottawa technologies; asset-renewal arrangements with municipalities; and outsourced service provision to other utilities. Hydro Ottawa is encouraged by the strong interest received in 2017 in its cable testing technology service offering. These new business lines are expected to represent a third driver of financial strength in future years, supplementing the core distribution business and renewable generation.

Hydro Ottawa Holding Inc.

Consolidated Financial Statements

December 31, 2017

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Report of Management

Management is responsible for the integrity of the financial data reported by Hydro Ottawa Holding Inc. [the 'Corporation']. Fulfilling this responsibility requires the preparation and presentation of consolidated financial statements and other data using management's best judgment and estimates, as well as International Financial Reporting Standards as issued by the International Accounting Standards Board.

Management maintains appropriate systems of internal control and corporate-wide policies and procedures, which provide reasonable assurance that the Corporation's assets are safeguarded and that financial records are relevant and reliable.

The Board of Directors, through the Audit Committee, ensures that management fulfills its responsibility for financial reporting and internal control. The Audit Committee consists of outside directors and, at regular meetings, reviews audit, internal control and financial reporting matters with management and external auditors. The Audit Committee has reviewed the consolidated financial statements and submitted its report to the Board of Directors.

On behalf of Management,

Bryce Conrad President and Chief Executive Officer	Geoff Simpson Chief Financial Officer

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Ottawa ON K2P 2P8
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Telephone 613-212-5764
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INDEPENDENT AUDITORS' REPORT

To the Shareholder of Hydro Ottawa Holding Inc.

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated 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 consolidated financial statements.

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

KPMG

Opinion

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

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Ottawa, Canada

April 19, 2018

Hydro Ottawa Holding Inc.

Consolidated Statement of Income
Year ended December 31, 2017
[in thousands of Canadian dollars]

	2017	2016
	$	$
Revenue and other income		
Power recovery revenue	**896,528**	974,207
Distribution revenue	**171,400**	165,729
Generation revenue	**22,898**	17,489
Commercial services revenue	**26,960**	18,294
Conservation and demand management income	**23,976**	19,643
Net gain from insurance proceeds [Note 8]	**2,939**	-
Other revenue	**6,753**	7,033
	1,151,454	1,202,395
Expenses		
Purchased power	**908,649**	966,072
Operating costs [Note 20]	**139,797**	128,072
Depreciation [Notes 7 and 10]	**45,234**	37,502
Amortization [Note 9]	**9,566**	12,140
	1,103,246	1,143,786
Income before the undernoted items	**48,208**	58,609
Financing costs [Note 21]	**22,683**	19,398
Interest income	**(648)**	(267)
Share of profit from joint ventures [Note 11(a)]	**(1,063)**	(1,039)
Income before income taxes	**27,236**	40,517
Income tax expense [Note 22]	**14,803**	9,041
Net income	**12,433**	31,476
Net movements in regulatory balances, net of tax [Note 6]	**23,513**	3,340
Net income after net movements in regulatory balances	**35,946**	34,816
Attributable to non-controlling interest	**(29)**	(20)
Net income after net movements in regulatory balances attributable to equity shareholder	**35,975**	34,836

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

Hydro Ottawa Holding Inc.

Consolidated Statement of Comprehensive Income
Year ended December 31, 2017
[in thousands of Canadian dollars]

	2017	2016
	$	$
Net income after net movements in regulatory balances attributable to equity shareholder	**35,975**	34,836
Other comprehensive income		
Items that may be subsequently reclassified to net income		
Exchange differences on translation of foreign operations, net of tax	**(3,722)**	(1,852)
Items that will not be subsequently reclassified to net income		
Actuarial loss on post-employment benefits, net of tax	**(663)**	(280)
Net movement in regulatory deferral account balances related to other comprehensive income, net of tax	**405**	94
Total comprehensive income	**31,995**	32,798

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

Hydro Ottawa Holding Inc.

Consolidated Balance Sheet
As at December 31, 2017
[in thousands of Canadian dollars]

	2017	2016
	$	$
Assets		
Current assets		
Cash	**933**	982
Accounts receivable [Note 5]	**192,696**	192,670
Restricted cash [Note 16]	**65,798**	79,975
Income taxes receivable	**1,448**	1,762
Prepaid expenses	**3,690**	4,431
Inventory [Note 12(c)]	**2,162**	1,577
Current portion of notes receivable from related parties [Note 12]	**4,641**	2,049
	271,368	283,446
Non-current assets		
Restricted cash [Note 16]	**-**	44,110
Property, plant and equipment [Note 7]	**1,261,191**	1,146,170
Intangible assets [Note 9]	**130,165**	121,668
Investment properties [Note 10]	**2,602**	2,297
Deferred income tax asset [Note 22]	**5,498**	5,645
Notes receivable from related parties [Note 12]	**8,767**	5,462
Investments in joint ventures [Note 11(a)]	**8,869**	7,875
Other long-term asset [Note 8(a)]	**5,771**	-
Retirement benefit asset [Note 15(a)]	**-**	161
Total assets	**1,694,231**	1,616,834
Regulatory balances [Note 6]	**25,466**	13,744
Total assets and regulatory balances	**1,719,697**	1,630,578
Liabilities and shareholder's equity		
Current liabilities		
Bank indebtedness [Note 13]	**145,423**	68,751
Accounts payable and accrued liabilities [Note 14]	**170,286**	196,251
Income taxes payable	**116**	2,522
	315,825	267,524
Non-current liabilities		
Deferred revenue	**88,570**	71,208
Employee future benefits [Note 15]	**14,439**	13,335
Customer deposits	**31,423**	18,402
Long-term debt [Notes 16 and 24]	**773,168**	772,960
Deferred income tax liability [Note 22]	**30,133**	20,936
Other liabilities	**3,489**	2,733
Total liabilities	**1,257,047**	1,167,098
Shareholder's equity		
Share capital [Note 18]	**228,453**	228,453
Accumulated other comprehensive income	**657**	4,637
Retained earnings	**209,080**	193,705
Non-controlling interest	**(49)**	(20)
Total liabilities and shareholder's equity	**1,695,188**	1,593,873
Regulatory balances [Note 6]	**24,509**	36,705
Total liabilities, shareholder's equity and regulatory balances	**1,719,697**	1,630,578

Contingent liabilities and commitments [Notes 25 and 26]

On behalf of the Board:

Director

Director

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

Hydro Ottawa Holding Inc.

Consolidated Statement of Changes in Equity
Year ended December 31, 2017
[in thousands of Canadian dollars]

	Share capital $	Accumulated other comprehensive income $	Non-controlling interest $	Retained earnings $	Total $
Balance at December 31, 2015	228,453	6,675	-	178,269	413,397
Net income after net movements in regulatory balances	-	-	(20)	34,836	34,816
Other comprehensive income	-	(2,038)	-	-	(2,038)
Dividends [Note 18(b)]	-	-	-	(19,400)	(19,400)
Balance at December 31, 2016	228,453	4,637	(20)	193,705	426,775
Net income after net movements in regulatory balances	-	-	(29)	35,975	35,946
Other comprehensive income	-	(3,980)	-	-	(3,980)
Dividends [Note 18(b)]	-	-	-	(20,600)	(20,600)
Balance at December 31, 2017	**228,453**	**657**	**(49)**	**209,080**	**438,141**

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

Hydro Ottawa Holding Inc.

Consolidated Statement of Cash Flows
Year ended December 31, 2017
[in thousands of Canadian dollars]

	2017	2016
	$	$
Net inflow (outflow) of cash related to the following activities:		
Operating		
Net income	**35,946**	34,816
Adjustments for:		
Depreciation	**45,234**	37,502
Amortization	**9,566**	12,140
Loss on disposal of non-financial assets	**581**	1,816
Amortization of debt-issuance costs	**165**	136
Share of profit from joint ventures	**(1,063)**	(1,039)
Amortization of deferred revenue	**(2,180)**	(1,628)
Employee future benefits	**280**	1,647
Financing costs, net of interest income	**22,035**	19,131
Income tax expense	**14,803**	9,041
Other	**(53)**	75
Changes in non-cash working capital and other operating balances [Note 23]	**(2,169)**	(13,362)
Income taxes paid, net of refunds received	**(6,045)**	(2,863)
Financing costs paid, net of interest income received	**(21,122)**	(18,720)
Additions to deferred revenue	**19,542**	20,160
Change in customer deposits	**(45)**	805
Net movements in regulatory balances	**(23,513)**	(3,340)
	91,962	96,317
Investing		
Acquisition of property, plant and equipment [Note 23]	**(167,992)**	(170,806)
Acquisition of intangible assets [Note 23]	**(19,830)**	(13,256)
Proceeds from disposal of property, plant and equipment	**1,183**	640
Acquisition of subsidiaries, net of cash acquired [Note 27]	**(10,000)**	(41,131)
Financing costs paid	**(10,109)**	(1,969)
Restricted cash held in-trust	**58,288**	(124,085)
Repayment of notes receivable from joint ventures	**386**	830
	(148,074)	(349,777)
Financing		
Proceeds from issuance of long-term debt, net of debt-issuance costs	**-**	201,096
Dividends paid [Note 18]	**(20,600)**	(19,400)
	(20,600)	181,696
Effects of exchange rate changes on cash held in U.S. dollars	**(9)**	(7)
Net change in cash	**(76,721)**	(71,771)
Bank indebtedness, net of cash, beginning of year	**(67,769)**	4,002
Bank indebtedness, net of cash, end of year	**(144,490)**	(67,769)

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

Hydro Ottawa Holding Inc.

Notes to the Consolidated Financial Statements
Year ended December 31, 2017
[in thousands of Canadian dollars]

1. DESCRIPTION OF BUSINESS AND CORPORATE INFORMATION

Hydro Ottawa Holding Inc. ['HOHI' or the 'Corporation''] is a holding company incorporated on October 3, 2000 whose sole shareholder is the City of Ottawa. The Corporation's primary operations, as carried out by its subsidiaries and joint ventures below, are the distribution of electricity within the City of Ottawa, the generation of renewable energy throughout Ontario, Québec and New York state, and the provision of distribution and energy related commercial services. The Corporation is domiciled in Canada with its registered head office located at 3025 Albion Road North, Ottawa, Ontario, K1G 3S4. Significant subsidiaries, each of which is wholly-owned, either directly or indirectly, by the Corporation as at December 31, 2017, are as follows:

Subsidiary	Principal activity
Hydro Ottawa Limited	An electricity distribution company regulated by the Ontario Energy Board ['OEB'] that owns and operates electrical infrastructure in the City of Ottawa and the Village of Casselman. In additional to distribution services, Hydro Ottawa Limited invoices customers for amounts it is required to pay to other organizations in Ontario's electricity system for providing wholesale generation and transmission services.
Energy Ottawa Inc. ['Energy Ottawa']	Owns and operates three hydroelectric generating stations totalling 16MW located in Ontario at Chaudière Falls. In addition to providing streetlight installation and maintenance services to the City of Ottawa, the Company also provides expert energy management and procurement services to large energy-consuming organizations.
Chaudiere Hydro L.P. ['CHLP']	Owns and operates a 29MW generating station completed in 2017 via a major expansion of its Ontario facilities at Chaudière Falls [the 'Chaudière Expansion'].
Hull Energy L.P. ['Hull Energy LP']	Owns and operates a 27MW generating station located in Québec at Chaudière Falls.
EONY Generation Limited ['EONY']	Owns and operates four hydroelectric generation stations totalling 23MW located in New York state. EONY is a foreign operating subsidiary.
Chaudiere Hydro North L.P. ['CHLP North']	Owns and operates a 12MW generating station located in Québec at Chaudière Falls.
EO Generation Limited Partnership ['EO Gen']	Owns and operates six hydroelectric generation stations totalling 8MW located throughout eastern Ontario.

Joint ventures the Corporation is a party of as at December 31, 2017, are as follows:

Joint venture	Principal activity
PowerTrail Inc. [60% owned]	Owns and operates a 6MW landfill gas-to-energy plant at the Trail Road landfill site in Ottawa, Ontario.
Moose Creek Energy LP [50.05% owned]	Owns and operates a 4MW landfill gas-to-energy plant at the Laflèche landfill site in Moose Creek, Ontario.

Beginning in 2018 and over the next two years, the Corporation plans to refurbish its facilities held by Hull Energy LP and CHLP North [the 'refurbishment projects']. Both entities currently sell electricity to Hydro Québec. Upon completion of the refurbishment projects, these entities will sell electricity to the Province of Ontario under two separate forty-year Hydroelectric Standard Offer Program – Municipal Steam Contracts with the Independent Electrical System Operator ['IESO'].

2. BASIS OF PRESENTATION

(a) Statement of compliance

These consolidated financial statements have been prepared by management on a going-concern basis in accordance with International Financial Reporting Standards ['IFRS']. In the opinion of management, all adjustments necessary for fair presentation are reflected in these consolidated financial statements. These consolidated financial statements have been approved and authorized by the Corporation's Board of Directors for issue on April 19, 2018.

(b) Basis of measurement

The Corporation’s consolidated financial statements are prepared on a historical cost basis, except for employee future benefits as disclosed in Note 3 (q).

(c) Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars, which is the Corporation’s functional currency.

(d) Use of estimates

The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of revenue, expenses, assets, liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements.

Due to the inherent uncertainty involved, actual results could differ from estimates recorded in preparing these consolidated financial statements, including changes as a result of future decisions made by the Ontario Energy Board ['OEB'] or the Ontario provincial government. Management reviews its estimates on an ongoing basis using the most current information available. These consolidated financial statements have, in management's opinion, been properly prepared using reasonable limits of materiality and within the framework of the significant accounting policies. Significant areas where estimates are made in the application of IFRS are as follows:

(i) Accounts receivable

Accounts receivable, which includes unbilled revenue, are reported based on the amounts expected to be recovered less an estimated allowance for uncollectible amounts. Management utilizes historical loss experience in conjunction with the aging and arrears status of accounts receivable at year-end in the determination of the allowance.

(ii) Regulatory balances

The recognition and measurement of regulatory balances is subject to certain estimates and assumptions, including assumptions made in the interpretation of the OEB’s regulations and decisions.

(iii) Revenue recognition

The Corporation uses the percentage-of-completion method in accounting for its fixed-price contracts to deliver certain products and services. The use of the percentage-of-completion method requires the Corporation to estimate the work performed to date as a proportion of the total work to be performed. Management conducts periodic reviews of its estimated costs to complete, percentage-of-completion estimates and revenues and margins recognized, on a contract-by-contract basis. The impact of any revisions in cost and earnings estimates is reflected in the period in which the need for a revision becomes known.

2. BASIS OF PRESENTATION [CONTINUED]

(d) Use of estimates [continued]

(iv) Useful lives of depreciable assets

Depreciation and amortization expense is calculated based on estimates of the useful lives of property, plant and equipment, intangible assets and investment properties. Management estimates the useful lives of the various types of assets using assumptions and estimates of life characteristics of similar assets based on a long history of electricity distribution and generation industry experience.

(v) Impairment of non-financial assets

Non-financial assets are reviewed by management for impairment using the future cash flows method as outlined in Note 3(p). By their nature, estimates of future cash flows, including estimates of future capital expenditures, revenue, operating expenses, discount rates, generation production, inflation, terminal capitalization rates and forecasted market pricing are subject to measurement uncertainty. Management factors in current economic conditions, past experience and obtains third party consultations to support its estimates when necessary.

(vi) Employee future benefits

The measurement of employee future benefits involves the use of numerous estimates and assumptions. Actuaries make assumptions for items such as discount rates, future salary increases and mortality rates in the determination of benefits expenses and defined benefit obligations.

(vii) Fair value of assets and liabilities acquired

The purchase of an existing business requires management to assign fair values to the assets and liabilities acquired, as well as the consideration transferred [including contingent consideration]. Fair values can be determined by applying judgment based on experience in the industry, third-party independent appraisals and by examining open market data for similar assets in the same industry.

(viii) Deferred income taxes

Tax interpretations, regulations and legislation in the various jurisdictions in which the Corporation and its subsidiaries operate are subject to change. Deferred income tax assets are assessed by management at the end of each reporting period to determine the likelihood that they will be realized from future taxable income.

(e) Key management judgments

(i) Evidence of asset impairment

At the end of each reporting period, or earlier if required, management uses its judgment to assess whether there is an indication that the carrying amount of a non-financial asset [or cash-generating unit, 'CGU'] exceeds its recoverable amount. This assessment involves the consideration of whether any events or changes in circumstances could have affected the recoverability of the carrying amount of a non-financial asset or CGU. Management considers various indicators including, but not limited to, adverse changes in the industry or economic conditions, changes in the degree or method of use of an asset, a lower-than-expected economic performance of an asset or a significant change in market or interest rates.

2. BASIS OF PRESENTATION [CONTINUED]

(e) Key management judgments [continued]

(i) Evidence of asset impairment [continued]

Based on management's judgment, an indicator of impairment [under International Accounting Standards 36 Impairment of Assets ['IAS 36']] existed within EONY at December 31, 2017 pertaining to the energy market prices in New York State. However, management's discounted cash flow analysis under the value-in-use method [as prescribed by IAS 36] resulted in no impairment to be recognized in the 2017 fiscal year. Assumptions with respect to these cash flows are sensitive to the various inputs into the value-in-use calculation, and thus are subject to measurement uncertainty [Note 2(d)(v)].

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of consolidation

The consolidated financial statements include the accounts of the Corporation and its subsidiaries including those described in Note 1 of these consolidated financial statements. Subsidiaries are entities controlled by the Corporation. The Corporation controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns by directing and controlling the activities of the entity. Subsidiaries are fully consolidated from the date on which the Corporation obtains control, and continue to be consolidated until the date that control ceases to exist. All intercompany balances and transactions have been eliminated in these consolidated financial statements. The financial statements of the subsidiaries are prepared for the same reporting period as the Corporation using consistent accounting policies.

One subsidiary has a non-controlling interest which is presented as part of equity.

(b) Joint ventures

The Corporation is party to two joint ventures as described in Note 1 of these consolidated financial statements whereby control is shared with third parties via a contractual agreement. Joint ventures are accounted for using the equity method. Under this method, the Corporation’s interests in joint ventures are initially recorded at cost, and subsequently adjusted to recognize the Corporation’s share of post-acquisition profits or losses, movements in other comprehensive income ['OCI'] and dividends or distributions received.

(c) Business combinations

Business combinations are accounted for using the acquisition method. The consideration for an acquisition is measured at the aggregate of the fair values, at the date of exchange, of the assets transferred, equity instruments issued, and the liabilities incurred to former owners of the acquired business in exchange for control. Identifiable assets acquired and liabilities assumed in a business combination are measured initially at their fair values at the date of acquisition.

The Corporation evaluates the integrated set of activities [inputs, processes, outputs] associated with an acquired asset group to determine whether it meets the definition of a business as prescribed by IFRS 3 *Business Combinations*.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Corporation will report in its consolidated financial statements provisional amounts for the items for which the accounting is incomplete. Within one year, the Corporation will retrospectively adjust the provisional amounts recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and, if known, would have affected the measurement of the amounts recognized as at that date.

Transaction costs with respect to a business combination are expensed as incurred and included in general and administrative expenses as part of operating costs.

3. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

(d) Foreign currency translation

Transactions denominated in foreign currencies are translated at exchange rates in effect at the transaction date. At each reporting date, monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rate in effect at the end of the reporting period. Non-monetary assets and liabilities carried at historical cost are not re-translated; they remain at the exchange rate in effect at the date of the original transaction. Non-monetary assets and liabilities carried at fair value are translated at the exchange rate in effect at the date the fair value was measured. Any resulting exchange gains or losses are included in net income for the year.

The assets and liabilities of EONY are translated into Canadian dollars at the exchange rate in effect at the end of the reporting period. Revenue and expenses are translated into Canadian dollars at the average exchange rate in effect during the reporting period. Any resulting exchange gains and losses arising from the translation are included in OCI for the year.

Fair value adjustments to identifiable assets acquired and liabilities assumed through acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences are recognized in OCI.

(e) Regulation – Hydro Ottawa Limited

Hydro Ottawa Limited is regulated by the OEB under the authority of the *Ontario Energy Board Act*, *1998*. The OEB is charged with the responsibilities of approving or setting rates for the transmission and distribution of electricity, and ensuring that distribution companies fulfill obligations to connect and service customers.

For the fiscal year ended December 31, 2017, Hydro Ottawa Limited operated under an incentive rate-setting application ['Custom IR'] prescribed by the OEB. The Custom IR is one of the rate-setting options contained in the *Renewed Regulatory Framework for Electricity Distributors: A Performance-Based Approach* ['RRFE'] policy. The RRFE provides distributors three rate-setting methods: 4th Generation IR, Custom IR and Annual IR Index. Hydro Ottawa Limited filed a Custom IR application with the OEB on April 29, 2015 seeking approval to change the rates that Hydro Ottawa Limited charges for electricity delivery, retail services, allowances, loss factor and specific service charges for a period of five years, to be effective January 1, 2016 to December 31, 2020. This application requested a revenue requirement to recover costs, and to provide a rate of return on a deemed capital structure applied to rate base assets.

The key components of Hydro Ottawa Limited's Custom IR framework included the establishment of several regulatory accounts, namely: an asymmetrical earnings sharing mechanism variance account, revenue requirement differential variance account related to capital additions, new facilities deferral account, connection cost recovery agreement deferral account, and the efficiency adjustment mechanism deferral account. An annual IR application is required to set rates each year for 2017 to 2020. 2017 rates were set based on Hydro Ottawa Limited's Year 2 IR annual update.

On August 14, 2017, Hydro Ottawa Limited filed its Custom IR year 3 update application for distribution rates and other charges, effective January 1, 2018. This application was approved in December 2017 and included adjustments to base rates, low voltage, transmission, retailer services and specific services charges. As well it includes the approval for the disposition of certain deferral and variance accounts as at December 31, 2016 including interest projected to December 31, 2017. Hydro Ottawa Limited also applied to change the composition of certain distribution service rates. The fixed monthly charge for residential customers for 2018 is adjusted upward while the variable usage rate is lowered as stipulated in OEB's residential rate design policy. The distribution rates for residential classes will be fully fixed effective January 1, 2020.

Hydro Ottawa Limited applies for distribution rates based on estimated costs. Once rates are approved, they are not adjusted as a result of actual costs being different from those that were estimated, other than for certain prescribed costs that are eligible for deferral treatment and are either collected or refunded in future rates. The OEB has the general power to include or exclude costs and revenue in the rates of a specific period, resulting in a change in the timing of accounting recognition from that which would have applied in an unregulated company.

3. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

(e) Regulation – Hydro Ottawa Limited [continued]

Hydro Ottawa Limited continues to assess the likelihood of recovery of all regulatory debit balances subject to recovery through a future rate filing. The absence of OEB approval is a consideration in this evaluation. If the requirement for a provision becomes more likely than not, Hydro Ottawa Limited will recognize the provision in operating costs for the year.

The following regulatory treatments have resulted from the adoption of IFRS 14 *Regulatory Deferral Accounts* ['IFRS 14'], which permits rate-regulated entities to use its existing rate-regulated activities practices if and only if, in its first IFRS financial statements, it recognized regulatory deferral account balances by electing to apply the requirements of IFRS 14:

(i) Regulatory balances – Hydro Ottawa Limited

Regulatory debit balances primarily represent costs that have been deferred because it is probable that they will be recovered in future rates. Similarly, regulatory credit balances can arise from differences in amounts billed to customers for electricity services and the costs that Hydro Ottawa Limited incurs to purchase these services.

Hydro Ottawa Limited accrues interest on the regulatory balances as directed by the OEB.

Regulatory balances principally comprise of the following:

- Regulatory asset/liability refund account ['RARA'/'RLRA'] consists of balances of regulatory assets or regulatory liabilities approved for disposition by the OEB through temporary additional rates referred to as rate riders.

- Settlement variances relate primarily to the charges Hydro Ottawa Limited incurred for transmission services, the commodity, wholesale market operations and the global adjustment that were not settled with customers during the year. The nature of the settlement variances is such that the balance can fluctuate between assets and liabilities over time, and they are reported at year-end dates in accordance with rules prescribed by the OEB.

- In its Guidelines released December 19, 2014 with an update on August 11, 2016, the OEB advised Distributors to continue to rely on the Lost Revenue Adjustment Mechanism to track and dispose of lost revenues ['LRAM'] that result from approved Conservation and Demand Management ['CDM'] programs between 2015 and 2020, noting that the same process as described in the OEB guidelines released April 26, 2012 regarding the 2011 to 2014 period should be followed. Hydro Ottawa Limited is to record the difference between the actual validated CDM activities and activities included in Hydro Ottawa Limited's load forecast multiplied by the appropriate variable distribution rate. On May 19, 2016 the OEB released an updated policy for LRAM that clarified the inclusion of peak demand savings in the LRAM calculation.

- Earnings sharing mechanism ['ESM'] variance account captures 50% of any regulated earnings above Hydro Ottawa Limited's approved return on equity for years 2016 to 2020.

- Other Post-employment Benefits deferral account ['OPEB deferral account'] was authorized by the OEB in 2011 to record the adjustment to employee future benefits other than pension relating to the cumulative actuarial gains or losses. This account is adjusted annually to record any changes in the cumulative actuarial gains or losses. No interest charges are recorded on this account as instructed by the OEB.

Hydro Ottawa Holding Inc.

Notes to the Consolidated Financial Statements
Year ended December 31, 2017
[in thousands of Canadian dollars]

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3. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

(e) Regulation – Hydro Ottawa Limited [continued]

(ii) Other regulatory variances and deferred costs – Hydro Ottawa Limited

Other regulatory variances and deferred costs principally comprise the following:

- The OEB allows electricity distributors to record in a deferral account the difference between low voltage charges paid to Hydro One Networks Inc. ['HONI'] and those charged to customers.

- The OEB allows electricity distributors to record in deferral accounts the net cost of providing retailer billing services and transaction request services. As of January 1, 2016, Hydro Ottawa Limited has incorporated the net costs into its revenue requirement and will no longer record the net cost into the deferral accounts.

- In its Guidelines released June 16, 2009, the OEB created four new deferral accounts to allow distributors to begin recording expenditures for certain activities relating to the connection of renewable generation and the development of a smart grid. These deferral accounts were authorized to be used to record qualifying incremental capital investments or operating, maintenance and administrative expenses. These accounts have been subsequently discontinued and future investments should be addressed in the local distribution company's consolidated distribution plan.

(iii) Income taxes – Hydro Ottawa Limited

Hydro Ottawa Limited is considered to be a Municipal Electric Utility ['MEU'] and is required to make payments in lieu of corporate income taxes ['PILs'] as contained in the *Electricity Act, 1998*, as all of its share capital is indirectly owned by the City of Ottawa and not more than 10% of its income is derived from activities carried on outside the municipal boundaries of the City of Ottawa [excluding generation income earned from a contract with a crown agency]. The *Electricity Act, 1998* provides that a MEU that is exempt from tax under the *Income Tax Act (Canada)* ['ITA'] and the *Taxation Act, Ontario* ['TAO'] is required to make, for each taxation year, a PILs payment to the Ontario Electricity Financial Corporation in an amount approximating the tax that it would be liable to pay under the ITA and the TAO if it were not exempt from tax.

Hydro Ottawa Limited follows the liability method for recording income taxes. Under the liability method, current income taxes payable are recorded based on taxable income. Deferred income taxes arising from temporary differences in the accounting and tax basis of assets and liabilities are provided based on substantively enacted tax rates that will be in effect when the differences are expected to reverse.

The *Accounting Procedures Handbook* issued by the OEB provides for the recovery of income taxes by Hydro Ottawa Limited through annual distribution rate adjustments as approved by the OEB. Hydro Ottawa Limited recognizes regulatory balances for the amounts of deferred income taxes expected to be refunded to or recovered from customers in future electricity rates.

(iv) Employee future benefits – Hydro Ottawa Limited

Hydro Ottawa Limited provides other post-employment benefits, the accounting treatment of which is described in Note 3(q)(ii). However, actuarial gains and losses recognized in OCI with respect to Hydro Ottawa Limited are reclassified to a regulatory debit balance as permitted by the OEB.

3. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

(f) Revenue recognition

The Corporation recognizes revenue when it is likely that economic benefits will flow to the Corporation and where the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable, excluding any discounts, rebates and sales taxes. The Corporation has determined that it acts as a principal in the following revenue arrangements and therefore has presented them on a gross basis.

(i) Power recovery

Power recovery revenue represents the flow-through of the cost of power to the consumer as purchased by the Corporation and is recognized when electricity is delivered to the customer, as measured by meter readings or usage estimates. Power recovery revenue is regulated by the OEB and includes charges to customers for the electricity commodity, the transmission of electricity and the administration of the wholesale electricity system.

(ii) Distribution

The Corporation charges customers for the delivery of electricity, based on rates established by the OEB. The rates are intended to allow the Corporation to recover its prudently-incurred costs and earn a fair return on invested capital. Distribution revenue is recognized when electricity is delivered to the customer, as measured by meter readings or usage estimates.

(iii) Generation

Generation revenue is recorded on the basis of regular meter readings.

(iv) Commercial services revenue

Commercial services revenue comprise revenue earned under contracts related to distribution projects, energy-related turnkey projects, the provision of street light installation and maintenance services, pole attachment and duct rental services, energy management and data analysis and non-destructive cable testing.

Certain commercial services [distribution projects, turnkey projects and street light installation services] are accounted for using the percentage-of-completion method, whereby revenue and the corresponding costs are recognized proportionately with the degree of completion of the services under contract. Losses on such contracts are fully recognized when they become evident. Other commercial service revenues are recognized as services are rendered, or on a straight-line basis over the period of the contract if the services performed consist of an indeterminate number of acts over a specified period of time.

(v) Other

Other revenue consists primarily of investment property rentals, amortization of capital contributions and other revenue ancillary to electricity distribution such as account set-up charges and fees.

Capital contributions received from electricity customers to construct or acquire property, plant and equipment for the purpose of connecting a customer to the Corporation's distribution network are recorded to deferred revenue. Since the contributions will provide customers with ongoing access to the supply of electricity, these contributions are classified as deferred revenue, and recognized as other revenue at an equivalent rate to that used for the depreciation of the related property, plant and equipment.

3. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

(g) Interest income and financing costs

Interest income is recognized as it accrues under the effective interest method and comprises interest earned on cash and notes receivable from related parties.

Financing costs are calculated using the effective interest rate method and are recognized as an expense unless they are capitalized as part of the cost of a qualifying asset.

(h) Government grant income

CDM income stems from the delivery of provincial government programs that promote conservation. Government grants under CDM programs are recognized when there is reasonable assurance that the grant will be received and all related conditions will be met. Grants under full cost recovery funding are recognized as income on a systematic basis over the period to match to the costs they are intended to compensate. CDM performance incentives under full cost recovery funding are recognized when it is probable that future economic benefits will flow to the Corporation, and the amount can be measured reliably.

(i) Income taxes

The Corporation and Energy Ottawa are MEUs that account for income taxes using the liability method.

EONY is subject to the income tax regime in the United States [the 'Internal Revenue Service'], as more than 10% of its income is derived from activities carried on outside the municipal boundaries of the City of Ottawa. PowerTrail is taxable under the ITA and TAO as less than 90% of each company's capital is owned by the City of Ottawa through Energy Ottawa and the Corporation. Corporate income taxes are accounted for using the liability method as described above.

Moose Creek Energy LP, CHLP, EO Gen, CHLP North and Hull Energy LP are not taxable entities for federal and provincial income tax purposes. Tax on the net income (loss) is borne by the individual partners through the allocation of taxable income.

(j) Restricted cash

Cash and cash equivalents [highly-liquid temporary investments with a maturity date between three months and one year] that are restricted as to withdrawal or use under the terms of certain contractual agreements are classified as restricted cash.

(k) Bank indebtedness

Bank indebtedness includes short-term advances and/or bankers' acceptances drawn on the Corporation's credit facility with a maturity date of three months or less, and outstanding cheques.

(l) Financial instruments

All financial instruments are initially recorded at fair value. When financial instruments are not measured at fair value through profit and loss ['FVTPL'], directly attributable transaction costs are included in the initial measurement. The fair value of a financial instrument is the amount of consideration that would be agreed upon in an arm's-length transaction between willing parties. The subsequent measurement of each financial instrument depends on the classification elected by the Corporation at the time of recognition.

3. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

(l) Financial instruments [continued]

The Corporation classifies and measures its financial instruments as follows:

- Cash, restricted cash, accounts receivable and notes receivable from related parties are classified as loans and receivables and are measured at amortized cost using the effective interest method, less any impairment if applicable.
- Bank indebtedness, accounts payable and accrued liabilities, customer deposits and long-term debt are classified as other financial liabilities and are measured at amortized cost using the effective interest rate method.

Financial instruments which are measured at fair value are classified using a three-level hierarchy. Each level reflects the inputs used to measure the fair values of financial assets and financial liabilities, and are as follows:

- Level 1: inputs are unadjusted quoted prices of identical instruments in active markets;
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3: inputs for the liabilities that are not based on observable market data [unobservable inputs].

All financial assets except for those classified as FVTPL are subject to review for impairment at least at each reporting date. Financial assets are impaired only when an event has occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset. Impairment losses, if any, are recognized in net income. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized.

(m) Property, plant and equipment

Property, plant and equipment consist principally of land, buildings and fixtures, electricity distribution and infrastructure, furniture and equipment, rolling stock, generating equipment, reservoirs, dams and waterways, civil structures and assets under construction. Property, plant and equipment acquired in a business combination are initially recorded at their acquisition date fair values.

Property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses, if any. Self-constructed asset costs comprise all directly attributable expenditures to bring the asset into operation including labour, materials, employee benefits, transportation, contracted services and borrowing costs. Where parts of an item in property, plant and equipment are significant and have different estimated economic useful lives, they are accounted for as separate items [major components] of property, plant and equipment. Certain assets may be acquired or constructed with financial assistance in the form of contributions from customers. Contributions from customers are treated as deferred revenue.

The cost of major inspections and maintenance is recognized in the carrying value of an asset provided that the Corporation will derive future economic benefits from the expenditure. The carrying amount of a replaced part is derecognized. The costs of day-to-day servicing, repairs, and maintenance, are expensed as incurred.

Depreciation is recorded on a straight-line basis over the estimated service life of each component of property, plant and equipment. Emergency capital spare parts that are expected to be used for more than one year are considered to be assets under construction and are depreciated only once they are put into service.

Gains and losses on disposal of retired, sold or otherwise derecognized property, plant and equipment are recognized in income and are calculated as the difference between net proceeds from disposal and the carrying amount of the asset. Compensation from third parties for property, plant and equipment lost, impaired or given up is measured at fair value and recognized when the compensation becomes receivable.

[in thousands of Canadian dollars]

3. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

(m) Property, plant and equipment [continued]

The estimated useful lives, residual values and depreciation methods are reviewed at each year-end with the effect of any changes in estimate being accounted for on a prospective basis.

Estimated service lives for property, plant and equipment classes are as follows:

Land, buildings and structures	
Land	Indefinite
Buildings and fixtures	20 to 100 years
Civil structures	100 years
Electricity distribution infrastructure	10 to 60 years
Generation and other	
Generating equipment	10 to 50 years
Reservoirs, dams and waterways	100 to 125 years
Furniture and equipment	5 to 10 years
Rolling stock	7 to 15 years

Assets under construction and land are not subject to depreciation. Borrowing costs are capitalized as a component of the cost of self-constructed property, plant and equipment assets that take a substantial period of time to get ready for their intended use. The capitalization rate is the Corporation’s weighted average cost of borrowing.

(n) Intangible assets

Intangible assets include land and water rights, computer software, capital contributions, power purchase agreements, deferred contract costs and assets under development. Water rights represents the inherent value of the right to draw water from government-owned rivers and lakes for purposes of generating electricity.

Intangible assets with finite lives are measured at cost less accumulated amortization and accumulated impairment losses, if any. Intangible assets with finite lives are amortized on a straight-line basis over the estimated service lives of the related assets while those with indefinite lives are not amortized. Intangible assets acquired in a business combination are initially recorded at their acquisition-date fair values.

Intangible assets are derecognized on disposal or when no further future economic benefits are expected from their use. Gains or losses on disposal of intangible assets are recognized in income and are calculated as the difference between net proceeds from disposal and the carrying amount of the asset.

The estimated useful lives and amortization methods are reviewed at each year-end with the effect of any changes in estimate being accounted for on a prospective basis.

Estimated service lives for intangible assets with finite lives are as follows:

Land rights	50 years
Water rights with a definite useful life	7 to 100 years
Computer software	5 to 10 years
Other contractual rights	
Capital contribution agreements	45 years
Power purchase agreements ['PPA']	15 years
Deferred contract costs	15 years

Hydro Ottawa Holding Inc.

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3. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

(o) Investment properties

Investment property is land and/or buildings held for purposes other than for use in the Corporation's operating activities. The Corporation holds investment properties either for potential expansion of the service delivery network or as excess administrative property. Investment properties are measured at cost plus transaction costs, and have estimated service lives ranging between 25 and 50 years. Any gain or loss arising from the sale of an investment property is immediately recognized in the consolidated statement of income. Rental income from investment property, net of the related operating expenses, is presented as part of other revenue.

(p) Impairment of non-financial assets

At the end of each reporting period, or earlier if required, the Corporation assesses whether there is an indication that a non-financial asset [or CGU] may be impaired. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. If any indication exists, the Corporation estimates the asset's recoverable amount, which is the higher of an asset or CGU's fair value less costs of disposal and its value in use. If the carrying value of a non-financial asset exceeds its recoverable amount, the difference is immediately recognized as an impairment loss in the consolidated statement of income.

Intangible assets with indefinite useful lives [i.e. certain water rights] and assets under development are tested for impairment [within their respective CGUs] at least annually, and whenever there is an indication that the asset may be impaired.

When determining the recoverable amount, the Corporation determines its value-in-use by discounting estimated future cash flows to their present value using a discount rate that reflects changes in the time value of money and the risks specific to the asset of the CGU. The discount rate estimated and used by management represents the weighted average cost of capital determined for the CGU being tested. Terminal values are included in the determination of management's value-in-use calculations and are based on an earnings multiple approach via a terminal capitalization rate.

Where the assets and liabilities of a CGU containing water rights with indefinite useful lives have not changed significantly; the CGU is not impacted by events or circumstances that would cause its VIU calculation to significantly change; and the most recent VIU calculation resulted in an amount that exceeded the CGUs' carrying amount by a substantial margin; the most recently performed VIU calculation will continue to be used in the Corporation's evaluation of impairment in the current year.

At the end of a reporting period, if there is any indication that an impairment loss recognized in a prior period no longer exists or has decreased, the loss is reversed up to its recoverable amount. The carrying amount following the reversal must not be higher than the carrying amount that would have prevailed [net of amortization] had the original impairment not been recognized in prior periods.

Compensation for impairment of non-financial assets, such as insurance recoveries, is included in determining profit or loss when it becomes receivable and is not offset against the cost of restoring, purchasing or constructing replacement assets.

(q) Employee future benefits

(i) Pension plans

The Corporation provides pension benefits for its employees through the Ontario Municipal Employees Retirement System ['OMERS'] Fund [the 'Fund']. OMERS is a multi-employer pension plan that provides pensions for employees of Ontario municipalities, local boards, public utilities and school boards. The Fund is a defined benefit pension plan, which is financed by equal contributions from participating employers and employees and by the investment earnings of the Fund.

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3. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

(q) Employee future benefits [continued]

(i) Pension plans [continued]

Although the plan is a defined benefit plan, sufficient information is not available to the Corporation to account for it as such because it is not possible to attribute the fund assets and liabilities between the various employers who contribute to the Fund. As a result, the Corporation accounts for the plan as a defined contribution plan, and contributions payable as a result of employee service are expensed as incurred as part of operating costs. The Corporation shares in the actuarial risks of the other participating entities in the plan, and its future contributions may therefore be increased due to actuarial losses relating to the other participating entities. In addition, the Corporation's contributions could be increased if other entities withdraw from the plan.

CHLP is the sponsoring employer of the Pension Plan for Employees of Chaudiere Hydro L.P. and Participating Employers ['Chaudiere Hydro Pension Plan' or 'CHPP'] which provides pension benefits for certain of the Corporation's employees and is accounted for as follows:

- CHPP assets are held by an insurance corporation and are measured at fair value, which are determined as follows: bond, equity and other investment funds are valued using the unit values supplied by the fund manager, which reflects the fund's proportionate share of underlying net assets at fair values determined using closing quotations from Canadian investment dealers, and short-term investments are valued at cost, including accrued interest, which due to their short-term maturity approximates fair value.

- Defined benefit obligations of the CHPP are determined based on the expected future benefit payments discounted using market interest rates on high-quality debt instruments that match the timing and amount of expected benefit payments.

- The cost of pension earned by employees is actuarially determined using the projected benefit method prorated on services, and management's best estimate of salary escalation, retirement ages and life expectancy.

- The defined benefit expense is presented in employee benefits in net income on the consolidated statement of income and includes, as applicable, the estimated cost of employee benefits for the current year service, interest cost, interest income on CHPP's assets, plan amendments, curtailments, other administration costs of the pension plans and any gain or loss on settlement. Current service cost, interest income on CHPP's assets and interest costs are computed by applying the discount rate used to measure the plan obligation at the beginning of the annual period.

- Remeasurements arising on CHPP's assets and defined benefit obligation are presented in OCI on the consolidated statement of comprehensive income and arise from actuarial gains and losses on defined benefit obligations, the difference between the actual return [net of costs of managing CHPP's assets] and interest income on plan assets, if applicable. CHPP's significant assumptions are assessed and revised, as appropriate.

- Past service costs are included in the cost of the CHPP for the year when they arise.

The fair value of the CHPP assets is offset against the defined benefit obligation. The net amount is recognized as a retirement benefit asset or retirement benefit liability.

3. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

(q) Employee future benefits [continued]

(ii) Other post-employment benefits

Other post-employment benefits provided by the Corporation include life insurance, a retirement grant and other benefits. These plans provide benefits to certain employees when they are no longer providing active service.

Employee future benefits expense is recognized in the period during which the employees render services.

Employee future benefits are recorded on an accrual basis. The defined benefit obligation and current service costs are calculated using the projected benefit method prorated on service and based on assumptions that reflect management's best estimates. The current service cost for a period is equal to the actuarial present value of benefits attributed to employees' services rendered in the period. Actuarial gains and losses resulting from experience different from that assumed or from changes in actuarial assumptions are recognized in OCI.

(iii) Short-term employee benefits

The Corporation provides short-term employee benefits such as salaries, employment insurance, short-term compensated absences, sick leave and health and dental care. These benefits are recognized as the related service is rendered and are measured on an undiscounted basis. Short-term employee benefits are recognized as an expense unless they qualify for capitalization as part of the cost of an item of property, plant and equipment or intangible assets. A liability is recognized in respect of any unpaid short-term employee benefits for services rendered in the reporting period.

The Corporation recognizes a liability for the expected cost of accumulated non-vested sick leave benefits at the end of the reporting period. The Corporation presents its non-vested sick leave obligation as a non-current liability since it does not expect to settle all of its sick leave benefits within twelve months from the balance sheet date.

(r) Customer deposits

Customer deposits are cash collections from non-residential customers to guarantee the payment of future energy bills and fulfillment of construction obligations. Deposits estimated to be refundable to such customers within the next fiscal year are classified as current liabilities and included in accounts payable and accrued liabilities.

(s) Provisions and contingencies

The Corporation recognizes provisions when there is a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

3. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

(s) Provisions and contingencies [continued]

The evaluation of the likelihood of the contingent events requires judgment by management as to the probability of exposure to potential loss. Actual results could differ from these estimates.

A contingent asset is not recognized in the financial statements. However, a contingent asset is disclosed where an inflow of economic benefits is probable.

(t) Deferred revenue

In certain situations, financial assistance in the form of contributions is required from customers to finance additions to property, plant and equipment. This occurs when the estimated revenue resulting from the addition to property, plant and equipment is less than the cost of providing the service or where special equipment is needed to supply the customers' specific requirements. Since the contributions will provide customers with ongoing access to the supply of electricity, these contributions are classified as deferred revenue, and recognized as other revenue at an equivalent rate to that used for the depreciation of the related property, plant and equipment.

(u) Debt-issuance costs

The Corporation incurs debt-issuance costs that are external, direct and incremental in nature arising from its debenture and bond offerings. Debt-issuance costs associated with its debenture and bond offerings are netted against the proceeds of the debt and amortized using the effective interest method.

(v) Leases

Leases in which the Corporation assumes all of the risks and rewards of ownership are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to the asset. Payments under finance leases are apportioned between interest expense and a reduction of the outstanding liability.

All other leases are classified as operating leases and the leased assets are not recognized on the Corporation's consolidated balance sheets. Payments made under operating leases are recognized in the consolidated statement of income on a straight-line basis over the term of the lease.

(w) Inventory

Inventory consists of work-in-process and finished goods used in the installation and maintenance of street lights as part of the Corporation's commercial services. Inventory is measured at the lower of weighted average variable costs and net realizable value. The cost of inventory is based on the first-in, first-out cost formula based on standard costs. Net realizable value is the estimated selling price in the ordinary course of business less any applicable selling expenses.

4. NEW ACCOUNTING PRONOUNCEMENTS

A number of new standards, amendments and interpretations relevant to the Corporation have either been adopted for the year ended December 31, 2017, or, are not yet effective and have not been applied in preparing these consolidated financial statements.

4. NEW ACCOUNTING PRONOUNCEMENTS [CONTINUED]

(a) Recently adopted accounting standards

(i) Disclosure to reconcile liabilities related to financing activities in the statement of cash flows

The International Accounting Standards Board ['IASB'] issued amendments to IAS 7 requiring entities to disclose changes in their financing liabilities to assist readers in evaluating changes in liabilities arising from financing activities, including changes from cash flows and non-cash changes [such as foreign exchange gains or losses]. IAS 7 is applied prospectively for annual periods beginning on or after January 1, 2017. Although there was no change to the Corporation's consolidated financial statements, a reconciliation of liabilities arising from financing activities is disclosed in Note 24.

(b) Recently issued accounting guidance not yet adopted

(i) Revenue from contracts with customers

In May 2014, the IASB published a new standard, *Revenue from Contracts with Customers* ['IFRS 15'], which replaces most of the detailed guidance on revenue recognition that currently exists under IFRS. IFRS 15 provides a standardized five-step model to recognize all types of revenue earned from customer contracts, while previous IFRSs allowed significant room for judgment in devising and applying revenue recognition policies and practices. IFRS 15 is more prescriptive in many areas, such as the combination of related contracts for revenue recognition purposes, unbundling of multiple performance obligations within a single contract and the capitalization of costs of obtaining or fulfilling a contract. IFRS 15 also contains additional disclosure requirements. IFRS 15 is effective for annual periods beginning on or after January 1, 2018. As the majority of the Corporation's revenue is recognized on a usage basis at regulated prices [power recovery and distribution revenue] or per unit of output basis at contracted or market prices [generation revenue], and does not carry significant bundled contracts of combined products and services, IFRS 15 will not have a material impact on the accounting for these revenue streams. However, IFRS 15 will impact the Corporation's revenue-related disclosures.

(ii) Financial instruments

In July 2014, the IASB issued the final version of *IFRS 9 - Financial Instruments* ['IFRS 9'], which replaces International Accounting Standard 39 *Financial Instruments: Recognition and Measurement* ['IAS 39']. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including basing the classification of financial instruments on their contractual cash flow characteristics and the entity's business model for managing financial assets, whereas IAS 39 bases the classifications on specific definitions for each category. Moreover, IFRS 9 simplifies the current IAS 39 classifications into three main categories [amortized cost, fair value through other comprehensive income and fair value through profit or loss], and introduces a new expected credit loss model for measuring impairment of financial assets. The standard is effective for annual periods beginning on or after January 1, 2018. As the Corporation does not currently have complex financial instruments, IFRS 9 will not have a material impact on its consolidated financial statements. Management is currently evaluating the impact of adopting the new expected credit loss model for measuring impairment.

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4. NEW ACCOUNTING PRONOUNCEMENTS [CONTINUED]

(b) Recently issued accounting guidance not yet adopted [continued]

(iii) Leases

In January 2016, the IASB issued a new standard, *IFRS 16 - Leases* ['IFRS 16'], which removes the current requirement for lessees to account for leases as either operating or finance leases – under complex rules and tests – which may result in all-or-nothing being recognised on the balance sheet. Under IFRS 16, all leases from the lessee's perspective will have to be recognized on the balance sheet, except for exempted short-term [< 1 year] and low value leases. The new standard becomes effective for reporting periods beginning on or after January 1, 2019 and early adoption is permitted if IFRS 15 is also adopted. The Corporation is currently evaluating the IFRS 16 impact on its consolidated financial statements and related disclosures.

(iv) Uncertain Tax Positions

On June 7, 2017, the IASB issued International Financial Reporting Interpretations Committee 23 *Uncertainty over Income Tax Treatments* ['IFRIC 23']. IFRIC 23 requires an entity to contemplate whether uncertain tax treatments should be considered separately or together as a group, to determine if it is probable that the tax authorities will accept the uncertain tax treatment, and to measure the tax uncertainty based on the most likely amount or expected value. IFRIC 23 is applicable for annual periods beginning on or after January 1, 2019 and early adoption is permitted. The Corporation is currently evaluating the IFRIC 23 impact on its consolidated financial statements and related disclosures.

5. ACCOUNTS RECEIVABLE

	2017	2016
	$	$
Electricity receivables	**54,056**	70,370
Unbilled revenue	**84,963**	103,253
Trade and other receivables	**47,158**	11,579
Less: allowance for doubtful accounts [Note 19(c)]	**(2,512)**	(1,782)
	183,665	183,420
Amounts due from related parties [Note 28]	**9,031**	9,250
	192,696	192,670
Aging:		
Outstanding for 30 days or less	**97,229**	80,893
Outstanding for more than 30 days but not more than 120 days	**9,585**	8,018
Outstanding for more than 120 days	**3,431**	2,288
Unbilled revenue	**84,963**	103,253
Less: allowance for doubtful accounts	**(2,512)**	(1,782)
	192,696	192,670

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6. REGULATORY BALANCES

Information about the Corporation's regulatory balances is as follows:

	Remaining recovery/ reversal [years]	2016 $	Balances arising in the year $	Recovery/ reversal $	Other movements[1] $	**2017 $**
Regulatory debit balances						
RARA	1	274	(5,679)	4,868	975	**438**
Settlement variances	1 - 5	2,496	(805)	-	817	**2,508**
OPEB deferral account	1 - 5	147	635	-	-	**782**
LRAM	1 - 5	1,469	1,102	-	-	**2,571**
Regulatory asset for deferred income taxes	[2]	7,684	9,113	-	-	**16,797**
Other variances and deferred costs	1 - 5	1,674	682	13	1	**2,370**
		13,744	5,048	4,881	1,793	**25,466**
Regulatory credit balances						
RLRA	1	409	15,162	(15,083)	976	**1,464**
Settlement variances	1 - 5	36,137	(16,193)	-	817	**20,761**
ESM	1 - 5	-	1,385	-	-	**1,385**
Other variances and deferred costs	1 - 5	159	740	-	-	**899**
		36,705	1,094	(15,083)	1,793	**24,509**

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6. REGULATORY BALANCES [CONTINUED]

	Remaining recovery/ reversal [years]	2015 $	Balances arising in the year $	Recovery/ reversal $	Other movements[1] $	2016 $
Regulatory debit balances						
RARA	1	205	68	1	-	274
Settlement variances	1 - 5	5,502	(3,006)	-	-	2,496
OPEB deferral account	1 - 5	4,432	(4,285)	-	-	147
LRAM	1 - 5	-	1,628	-	(159)	1,469
Regulatory asset for deferred income taxes	[2]	-	7,684	-	-	7,684
Other variances and deferred costs	1 - 5	4,291	(2,776)	-	159	1,674
		14,430	(687)	1	-	13,744
Regulatory credit balances						
RLRA	1	3,266	1,618	(4,475)	-	409
Settlement variances	1 - 5	29,919	6,218	-	-	36,137
Stranded meters	1	5,974	(5,974)	-	-	-
LRAM	1 - 5	159	-	-	(159)	-
Regulatory liability for deferred income taxes	[2]	513	(513)	-	-	-
Other variances and deferred costs	1 - 5	994	(994)	-	159	159
		40,825	355	(4,475)	-	36,705

[1] Other movements represent reclassifications of balances.
[2] The balance is being reversed through timing differences in the recognition of deferred income tax assets.

The following regulatory balances include accrued interest which is presented in net movements in regulatory balances:

- The RARA/RLRA includes accrued interest costs of $129 [2016 – $27].
- Settlement variances include accrued interest costs of $137 [2016 – $268].
- Other variance and deferred costs include accrued interest earned of $37 [2016 – $15].

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7. PROPERTY, PLANT AND EQUIPMENT

	Land, buildings and structures $	Distribution $	Generation and other $	Assets under construction $	Total $
Cost					
Balance as at December 31, 2015	115,796	714,764	122,748	77,605	1,030,913
Additions, net of transfers	855	90,696	10,340	85,461	187,352
Acquired via business combination [Note 27]	10,031	-	29,969	-	40,000
Disposals	(2)	(1,544)	(153)	-	(1,699)
Exchange differences	(553)	-	(1,145)	7	(1,691)
Balance as at December 31, 2016	126,127	803,916	161,759	163,073	1,254,875
Additions, net of transfers	71,053	97,518	85,471	(82,835)	171,207
Disposals [Note 8(a)]	-	(2,602)	(8,762)	-	(11,364)
Exchange differences	(1,186)	-	(2,443)	(102)	(3,731)
Balance as at December 31, 2017	**195,994**	**898,832**	**236,025**	**80,136**	**1,410,987**
Accumulated depreciation					
Balance as at December 31, 2015	(5,996)	(48,388)	(17,157)	-	(71,541)
Depreciation	(3,406)	(27,340)	(6,647)	-	(37,393)
Disposals	1	178	46	-	225
Exchange differences	(14)	-	18	-	4
Balance as at December 31, 2016	(9,415)	(75,550)	(23,740)	-	(108,705)
Depreciation	(3,962)	(30,277)	(10,883)	-	(45,122)
Disposals	-	1,206	2,619	-	3,825
Exchange differences	55	-	151	-	206
Balance as at December 31, 2017	**(13,322)**	**(104,621)**	**(31,853)**	**-**	**(149,796)**
Net book value					
As at December 31, 2016	116,712	728,366	138,019	163,073	1,146,170
As at December 31, 2017	**182,672**	**794,211**	**204,172**	**80,136**	**1,261,191**

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7. PROPERTY, PLANT AND EQUIPMENT [CONTINUED]

The Corporation substantially completed the Chaudière Expansion on October 20, 2017 which resulted in the componentization of significant assets previously under construction; the commencement of depreciation thereon; and the ceasing of borrowing cost capitalization. Amounts componentized to land, buildings and structures during the year include $56,514 in civil structures pertaining to the Chaudière Expansion.

On December 13, 2017, the Corporation acquired the primary distribution assets of the Public Services and Procurement Canada ['PSPC'] campuses of Tunney's Pasture, Confederation Heights and the Central Experimental Farm for the sum of one dollar. PSPC agreed to pay the Corporation $14,586 to fund future expenditures related to the asset transfer and replacement, direct maintenance and administration, the supply and installation of meters, and the decommissioning and installation of PSPC's equipment. The Corporation has determined that the acquisition of the group of assets does not constitute a business, and has recognized the individual identifiable assets acquired on the basis of their fair value of $1,436, at the date of purchase.

During the year, the Corporation capitalized borrowing costs of $6,676 [2016 – $4,055] to property, plant and equipment. The average annual interest rate for 2017 was 4.0% [2016 – 3.7%].

8. NET GAIN FROM INSURANCE PROCEEDS

	2017	2016
	$	$
Unit 1 Event	**1,600**	-
Flood Event	**1,339**	-
	2,939	-

(a) Unit 1 Event and other long-term asset

On August 19, 2017, the Unit 1 turbine-generator [of 4 Units] of CHLP experienced a mechanical failure while in operation due to a manufacturer defect and sustained significant damage, requiring a complete overhaul [the 'Unit 1 Event']. Pursuant to the contractual warranty provisions, the subcontractor is responsible for, and has agreed to, reconstruct Unit 1. As a result, the various asset components relating to Unit 1, totalling $5,771, have been derecognized from property, plant and equipment and the Corporation has recognized an asset under warranty of the same amount on its consolidated balance sheet at December 31, 2017. No gain or loss on derecognition has been recorded with respect to this transaction.

In addition, the Corporation's contract with said subcontractor and its insurance policy relating to the Chaudière Expansion provides business interruption compensation in circumstances such as the Unit 1 Event. Accordingly, a $1,600 gain on insurance proceeds has been recognized which compensates the Corporation for lost revenues. The Corporation will continue to make claims for lost revenues going forward to the maximum allowable amount under this contract and its insurance policy until such time Unit 1 is back in service in 2018.

[in thousands of Canadian dollars]

8. NET GAIN FROM INSURANCE PROCEEDS [CONTINUED]

(b) Flood Event

In May 2017, spring melt and heavy rain led to a flooding of the Ottawa River system [the 'Flood Event'] – resulting in a shut-down of several of the Corporation's generating stations, predominately at Chaudière Falls. Remediation efforts commenced as soon as water levels permitted and the affected stations came back into operation between October and November 2017. At December 31, 2017, the Corporation has recorded insurance proceeds receivable totalling $3,660 which comprise reimbursements for remediation expenses incurred of $1,321 [net of a $1,000 deductible]; property, plant and equipment acquired of $204 as a result of the flood; and $2,135 [net of a $297 deductible] in business interruption proceeds to help compensate the Corporation for lost revenues during the shut-down period. As a result of the above, the Corporation has recorded a net gain on insurance proceeds of $1,339. The insurance proceeds have been received by the Corporation subsequent to year-end.

9. INTANGIBLE ASSETS

	Land rights and water rights $	Computer software $	Other contractual rights $	Assets under development $	Total $
Cost					
Balance as at December 31, 2015	52,364	50,345	21,027	4,052	127,788
Additions, net of transfers	473	2,118	3,811	5,857	12,259
Acquired via business combination [Note 27]	10,000	-	-	-	10,000
Exchange differences	(798)	(12)	-	-	(810)
Disposals	-	-	(2,610)	-	(2,610)
Balance as at December 31, 2016	62,039	52,451	22,228	9,909	146,627
Additions	11	14,202	2,218	3,102	19,533
Exchange differences	(1,704)	(26)	-	-	(1,730)
Disposals	-	(1,063)	-	-	(1,063)
Balance as at December 31, 2017	**60,346**	**65,564**	**24,446**	**13,011**	**163,367**
Accumulated amortization					
Balance as at December 31, 2015	(98)	(12,782)	(1,549)	-	(14,429)
Amortization	(3,314)	(7,871)	(955)	-	(12,140)
Exchange differences	(20)	3	-	-	(17)
Disposals	-	-	1,627	-	1,627
Balance as at December 31, 2016	(3,432)	(20,650)	(877)	-	(24,959)
Amortization	(2,258)	(6,763)	(545)	-	(9,566)
Exchange differences	250	10	-	-	260
Disposals	-	1,063	-	-	1,063
Balance as at December 31, 2017	**(5,440)**	**(26,340)**	**(1,422)**	**-**	**(33,202)**
Net book value					
As at December 31, 2016	58,607	31,801	21,351	9,909	121,668
As at December 31, 2017	**54,906**	**39,224**	**23,024**	**13,011**	**130,165**

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9. INTANGIBLE ASSETS [CONTINUED]

A significant portion of the Corporation's water rights with indefinite lives [68% or $16,941] stems from a historical 1889 lease agreement with PSPC. This contract provides rights to waters on the Ottawa River at Chaudière Falls for two of the Corporation's CGUs – the CHLP CGU [water rights carrying value of $9,575] and the CHLP North CGU [water rights carrying value of $7,366] – and effectively renews every 21 years into perpetuity. As a result of the deemed indefinite life, the Corporation does not amortize these water rights. In addition, the Corporation also carries water rights held by the Hull Energy LP CGU [water rights carrying value of $9,889 at December 31, 2017], which stem from a lease agreement with the Gatineau Power Company and are amortized over the 100-year life of the agreement.

The Corporation's annual impairment test with respect to the CHLP CGU is based on its most recent detailed calculations made in the preceding year, which exceeded the carrying value of the CHLP CGU. Based on an analysis of events and circumstances that have changed since the most recent VIU calculations, the likelihood that a current VIU amount determination would be less than the current carrying amount of the CHLP CGU is remote.

In light of the upcoming refurbishment projects as described in Note 1, the Corporation performed impairment tests with respect to the CHLP North CGU and Hull Energy LP CGU which resulted in no impairment for the 2017 fiscal year [2016 – $nil]. Management's VIU calculations were based on discounted future cash inflows to be earned under each CGUs' 40-year HESOP contract, while the cash outflows were based on management's industry experience and third party input; taking into account the estimated cost of the refurbishment projects. The key assumption in the VIU calculations were a weighted average cost of capital ['WACC'] of 4.6% [2016 – $4.6%]. A 10% increase or decrease in the WACC, while holding all other assumptions constant, would not impact management's position with respect to its water rights at December 31, 2017 or 2016.

Capital contribution agreements are connection and cost recovery agreements that govern the construction by HONI of new or modified transformer stations for the purpose of serving the Corporation's customers. Each of the Corporation's capital contribution agreements has a term of 25 years.

During the year, the Corporation capitalized borrowing costs of $900 [2016 – $81] to intangible assets. The average annual interest rate for 2017 was 3.9% [2016 – 3.7%].

10. INVESTMENT PROPERTIES

	2017 **$**	2016 $
Net book value, beginning of year	**2,297**	2,360
Additions	**417**	46
Depreciation	**(112)**	(109)
Net book value, end of year	**2,602**	2,297

The fair value of investment properties is $8,913, which is based on the latest Municipal Property Assessment Corporation valuation dated May 23, 2017.

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11. INVESTMENTS IN JOINT VENTURES

(a) Investment in joint ventures summary

	2017 $	2016 $
Moose Creek LP [50.05%]		
Investment in joint venture, beginning of year	**4,055**	3,488
Share of profit	**448**	567
Investment in joint venture, end of year	**4,503**	4,055
PowerTrail [60%]		
Investment in joint venture, beginning of year	**3,820**	3,306
Share of profit, net of tax	**594**	451
Other adjusting items related to profit	**21**	21
Non-cash (distribution) contribution	**(69)**	42
Investment in joint venture, end of year	**4,366**	3,820
Total investments in joint ventures	**8,869**	7,875

(b) Balance sheet and statement of income summary

	2017 $	2016 $
Moose Creek LP [50.05%]		
Current assets	**1,306**	1,276
Non-current assets	**13,269**	12,882
Total assets	**14,575**	14,158
Current liabilities	**2,016**	1,585
Non-current liabilities	**3,320**	4,229
Total liabilities	**5,336**	5,814
Revenue	**2,739**	3,679
Net income	**895**	1,134
PowerTrail [60%]		
Current assets	**1,182**	915
Non-current assets	**11,167**	10,761
Total assets	**12,349**	11,676
Current liabilities	**859**	938
Non-current liabilities	**3,826**	3,949
Total liabilities	**4,685**	4,887

Hydro Ottawa Holding Inc.

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11. INVESTMENTS IN JOINT VENTURES [CONTINUED]

(b) Balance sheet and statement of income summary [continued]

	2017 **$**	2016 $
Revenue	**3,682**	3,658
Net income	**990**	752

(c) Credit facility

During the 2017 year, PowerTrail entered into an operating revolving line of credit totalling $1,000 for general business purposes, that bears annual interest at the prime rate. PowerTrail continues to also maintain a credit facility of $200 [2016 – $200] to provide standby letters of credit to the IESO. As at December 31, 2017, PowerTrail had drawn an amount of $133 [December 31, 2016 – $133] in standby letters of credit and had no outstanding balances drawn against its operating revolving line of credit [December 31, 2016 – $nil]. Both facilities contain customary covenants and events of default, including a covenant to maintain a tangible net worth of $1,000.

12. NOTES RECEIVABLE FROM RELATED PARTIES

	2017 **$**	2016 $
Moose Creek LP promissory note, 6.0%, due January 1, 2025	**2,324**	2,710
PowerTrail promissory notes, non-interest bearing	**1,338**	1,179
City of Ottawa note, 3.0%	**9,746**	3,622
	13,408	7,511
Less: current portion	**(4,641)**	(2,049)
	8,767	5,462

(a) Moose Creek LP

The note receivable is an unsecured ten-year promissory note with quarterly blended repayments. As approved by the Board of Directors of Moose Creek LP in 2017, accelerated principal payments in the aggregate of $350 are to be made to the Corporation in addition to the regular quarterly blended payments in 2018. Future principal and interest payments on the notes receivable are therefore as follows: 2018 – $660, 2019 – $326, 2020 – $349, 2021 – $370, 2022 and thereafter – $619.

(b) PowerTrail

To fund the construction of its gas generation plant at the Trail Road landfill site, between 2005 and 2007, the Corporation provided unsecured, non-interest bearing grid promissory notes to PowerTrail totaling $4,860. Pursuant to the Shareholder Agreement, loans from the Corporation to PowerTrail are made on a pro rata basis – based upon its share of contributions of capital in the Corporation [60%]. Repayments on the grid promissory notes are made when possible as agreed to by the shareholders. The initial fair value of each advance was calculated using discount rates ranging between 7.6% and 8.0%. Future cash repayments on the notes receivable are estimated to be as follows: 2018 – $390, 2019 – $600 and 2020 – $510 while the remaining imputed interest to be earned by the Corporation over the next three years is $162.

12. NOTES RECEIVABLE FROM RELATED PARTIES [CONTINUED]

(c) City of Ottawa

In February 2016, the Corporation entered into two agreements with the City of Ottawa [the 'City']. Over a span of an estimated six years from the contract signing date, the Corporation is engaged to convert 58,000 legacy street lights to LED [S/L conversion contract] and to provide maintenance services to all legacy and converted LED street lights [S/L maintenance contract].

While payment terms under the S/L maintenance contract are in accordance with the Corporation's usual credit terms, the Corporation and the City have negotiated a 3% interest bearing note, calculated on a quarterly basis with open repayment terms, for the S/L conversion contract. Under such terms, the City is to pay the Corporation on a quarterly basis an amount calculated based on the City's electricity, maintenance and capital expenditure savings resulting from the LED street light conversions. Of the total $9,746 outstanding at December 31, 2017, $937 represents accrued work performed to be billed in early 2018. The Corporation estimates that $3,591 will be repaid in 2018.

The Corporation carries inventory of $2,162 [December 31, 2016 – $1,577] relating to City of Ottawa street light conversion and maintenance endeavours at December 31, 2017. During the year, the Corporation expensed $4,826 of inventory as cost of goods sold which is included in operating and maintenance costs [2016 – $2,426].

13. CREDIT FACILITY

During the year, the Corporation renewed and restructured its credit facility for an amount of $340,750 and US$200 [December 31, 2016 – $340,750 and US$200]. The Corporation cancelled its revolving line of $100,000 in 2017 and the facility is now structured into four types of credit availability and consists of a $190,000 [2016 – $75,000] revolving operating line maturing on August 1, 2020, a $150,000 [2016 – $150,000] 364 day revolving operating term line which may be used to assist with refinancing debt and support day to day operations and a $750 and US$200 [2016 – $750 and US$200] commercial card facility – all of which matures on August 1, 2019. The revolving operating lines can be used by way of direct advances, bankers' acceptances, and/or by way of letters of credit and other guarantees. Generally, the need to use these forms of credit is based on the Corporation's consolidated cash position and therefore any drawings outstanding may not necessarily coincide with the amount of bank indebtedness presented on the Corporation's consolidated balance sheet.

The credit facility is unsecured and has customary covenants including a maximum debt to total capitalization of 75% and a negative pledge not to encumber the assets of the Corporation, Hydro Ottawa Limited, or Energy Ottawa Inc., other than those permitted in the credit facility.

As at December 31, 2017, the Corporation had drawn $28,400 in direct advances against the revolving operating line of credit [2016 – $1,100] and $129,000 in bankers' acceptances against the $150,000 revolving operating term line [2016 – $76,000]. The Corporation has also drawn $24,771 [2016 – $24,451] against its facilities in standby letters of credit.

As at December 31, 2017, the Corporation has a standby letter of credit to the Receiver General of Canada on behalf of Fisheries and Oceans Canada in the amount of $538 [December 31, 2016 – $538] in connection with the Chaudière Expansion. Also, the Corporation has a standby letter of credit to BNY Trust Company of Canada in the amount of $12,900 [December 31, 2016 – $12,900] in connection with the Trust Indenture dated September 7, 2016 as described in Note 16. No amounts have been drawn on any of these letters of credit. Finally, during the year, two standby letters of credit that existed at December 31, 2016 in connection with CHLP's 40-year HESOP contract in the amount of $587 and $294 were cancelled.

The Corporation has an operating revolving line of credit totaling $500 for general business purposes. This line of credit bears annual interest at the prime rate. As at December 31, 2017, the Corporation had drawn $129 against this line [December 31, 2016 – $76] and is netted against cash on the Corporation's consolidated balance sheet.

[in thousands of Canadian dollars]

14. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2017 **$**	2016 $
Purchased power payable	**79,120**	92,874
Trade accounts payable and accrued liabilities	**56,081**	63,039
Customer deposits	**16,017**	14,452
Customer credit balances	**11,203**	7,391
Acquisition-related payables	**-**	10,000
Accrued interest on long-term debt	**7,812**	8,359
Due to related parties [Note 28]	**53**	136
	170,286	196,251

15. EMPLOYEE FUTURE BENEFITS

(a) Pension plans

The Corporation contributes to two defined benefit plans covering substantially all of its employees.

The Corporation's participating employer contributions under OMERS for the year ended December 31, 2017 amounted to $6,434 [2016 – $6,218].

The Corporation provides retirement benefits to certain employees through the Chaudiere Hydro Pension Plan. As at December 31, 2017, CWPI and Chaudiere Hydro North L.P. are the only two entities with employees who are part of the Chaudiere Hydro Pension Plan.

(i) Defined benefit obligation

	2017 **$**	2016 $
Balance, beginning of year	**5,753**	4,502
Current service cost	**196**	159
Interest cost	**221**	183
Benefits paid	**(111)**	(91)
Employee contributions	**75**	58
Actuarial loss	**415**	182
Acquired via business combination [Note 27]	**-**	760
Balance, end of year	**6,549**	5,753

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15. EMPLOYEE FUTURE BENEFITS [CONTINUED]

(a) Pension plans [continued]

(ii) Plan assets

	2017 **$**	2016 $
Fair value, beginning of year	**5,914**	4,889
Interest credit	**231**	179
Employer contributions	**199**	147
Benefits paid	**(111)**	(91)
Non-investment expenses	**(40)**	(10)
Employee contributions	**75**	60
Actuarial loss (gain)	**164**	(110)
Acquired via business combination [Note 27]	**-**	850
Fair value, end of year	**6,432**	5,914

(iii) Funded status

	2017 **$**	2016 $
Retirement benefit asset, beginning of year	**161**	387
Change in retirement benefit asset	**(278)**	(316)
Acquired via business combination [Note 27]	**-**	90
Retirement benefit (liability) asset, end of year	**(117)**	161

The assets of the Chaudiere Hydro Pension Plan are held and managed by an independent custodian and accounted for separately in the Corporation's pension plan. The asset allocation structure is subject to diversification requirements and constraints which reduce risk by limiting exposure to individual equity investments, credit rating categories and foreign currency exposures. Based on the fair value of assets held as at December 31, 2017, the Chaudiere Hydro Pension Plan's assets were comprised of 89.8% [2016 – 89.3%] fixed income Canadian bonds, 6.9% [2016 – 7.1%] Canadian and international equities and 3.3% [2016 – 3.6%] in alternative investments. The Chaudiere Hydro Pension Plan's investments are primarily held and managed in pooled funds, and thus do not have a quoted market price in an active market.

Employee future benefits under the Chaudiere Hydro Pension Plan are calculated using an annual compensation rate of 2.0% [2016 – 2.0%], an inflation rate of 2.0% [2016 – 2.0%] and a discount rate of 3.4% [2016 – 3.9%]. The valuations also include several other economic and demographic assumptions including mortality rates, which are based on the Canadian Pensioners' Mortality report published by the Canadian Institute of Actuaries in February 2014.

An actuarial extrapolation was performed as at December 31, 2017 and the last actuarial valuation was performed at January 1, 2015. No valuation allowance has been recorded by the Corporation as at December 31, 2017 and December 31, 2016 with respect to the retirement benefit asset.

Significant actuarial assumptions for defined benefit obligation measurement purposes are discount rate and salary scale. The following sensitivities are based on reasonably possible changes of the assumptions, in isolation of one another, occurring at the end of the reporting period. A 1.0% decrease in discount rate would increase the defined benefit obligation by $1,216 or 37.7% [2016 – $1,140 or 22.8%], while a 1.0% increase in salary scale would increase the defined benefit obligation by $172 or 5.7% [2016 – $162 or 3.2%].

[in thousands of Canadian dollars]

Hydro Ottawa Holding Inc.

15. EMPLOYEE FUTURE BENEFITS [CONTINUED]

(b) Other post-employment and short-term employee benefits

The Corporation provides life, health and dental benefits to certain employees. Employee future benefits are calculated using an annual compensation rate increase of 2.0% [2016 – 2.0%] and a discount rate of 3.4% [2016 – 3.9%]. Cost trends for health are estimated to increase [at a declining rate from 7.5% to 5.0%] and dental benefits are estimated to increase by 5.0% per annum. The valuations also include several other economic and demographic assumptions including mortality rates, which are based on the Canadian Pensioners' Mortality report published by the Canadian Institute of Actuaries in February 2014.

Information about the Corporation's other post-employment benefits is as follows:

	2017 **$**	2016 $
Defined benefit obligation, beginning of year	**13,335**	11,332
Current service costs	**341**	380
Past service costs	**-**	1,778
Interest on defined benefit obligation	**516**	521
Benefits paid	**(661)**	(607)
Actuarial loss (gain)	**791**	(105)
Acquired via business combination [Note 27]	**-**	36
Defined benefit obligation, end of year	**14,322**	13,335

An actuarial valuation was performed as at December 31, 2017 [December 31, 2016 – actuarial valuation].

Significant changes in actuarial assumptions related to discount rates, future health and dental costs, mortality rates and retirement age may affect the valuation of the defined benefit obligation.

16. LONG-TERM DEBT

	2017 **$**	2016 $
Senior unsecured debentures		
Series 2006-1, 4.97%, due December 19, 2036	**50,000**	50,000
Series 2013-1, 3.99%, due May 14, 2043	**150,000**	150,000
Series 2015-1, 2.61%, due February 3, 2025	**200,000**	200,000
Series 2015-2, 3.64%, due February 2, 2045	**175,000**	175,000
Senior secured amortizing bonds		
Series 2016-1, 4.08%, due March 31, 2057	**203,802**	203,802
	778,802	778,802
Less: unamortized debt-issuance costs	**(5,634)**	(5,842)
	773,168	772,960

Hydro Ottawa Holding Inc.

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16. LONG-TERM DEBT [CONTINUED]

(a) Senior unsecured debentures

Interest payments on each of the above debentures are payable semi-annually in arrears in equal installments. Each debenture contains customary covenants and events of default, including a covenant to ensure that the aggregate principal amount of the consolidated funded obligations does not exceed 75% of the total consolidated capitalization. Interest payments on these debentures over the next five years will be $20,067 per year.

(b) Senior secured amortizing bonds

On September 7, 2016, the Corporation completed the offering of senior secured amortizing bonds [the 'bonds'] of $203,802 to fund the Chaudière Expansion. The bonds carry an interest rate of 4.08% and are due on March 31, 2057 [the 'maturity date']. Equal semi-annual interest-only payments are due and payable on March 31 and September 30 each year until and including March 31, 2022. Thereafter, semi-annual blended payments of principal and interest will be due and payable on March 31 and September 30 in each year commencing on September 30, 2022 until and including the maturity date. In addition, a balloon payment of $30,570 [15% of the principal] will be due and payable on the maturity date. The Corporation incurred debt issuance costs of $2,684 in 2016 with respect to this issuance which consisted of legal, broker and consulting fees.

The bonds are secured by a first-charge interest on the assets of the Chaudière Expansion, and the Corporation is required to maintain a minimum debt-coverage service ratio ['DCSR']. The DCSR divides the sum of the net operating and investing cash flows [as defined by the Trust Indenture] by the current interest and principal repayments due within the next calendar year. The Corporation was in compliance with all financial covenants associated with the bonds at December 31, 2017 and 2016.

Cash proceeds from the bonds are restricted and held in-trust prior to release to the Corporation, as periodic submissions of qualifying costs are required in accordance with the Trust Indenture. Of the total bond proceeds, $44,110 is held in a distributions reserve account which is expected to be available to the Corporation upon "Final Completion" of the Chaudière Expansion. Final Completion requires, among other items, approval of final construction costs for the remaining non-generation components of the Chaudière Expansion and the expiration of all holdback periods under the *Lien Act* relating to construction; both of which have been achieved subsequent to year-end. As required by the Trust Indenture, the Corporation must maintain, in a reserve account, an amount equal to the next six months of interest and principal; and in a major maintenance account, a three year look-forward reserve that covers 100%, 67% and 33% of the projected major maintenance expenses in the coming three years. As the Corporation plans to obtain new standby letters of credit to ensure these obligations are met, these requirements will not restrict the use of the Corporation's cash after its initial release from trust.

Annual interest payments on the bonds are expected to be $8,315 over the next five years.

17. CAPITAL DISCLOSURES

The Corporation’s main objectives when managing capital are to:

- Ensure continued access to funding to maintain and improve the operations and infrastructure of the Corporation;
- Ensure compliance with covenants related to the credit facilities and its long-term debt; and
- Align the capital structure of the Corporation's regulated subsidiary, Hydro Ottawa Limited, with the debt to equity structure recommended by the OEB.

Hydro Ottawa Holding Inc.

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17. CAPITAL DISCLOSURES [CONTINUED]

The Corporation's capital consists of the following:

	2017 **$**	2016 $
Bank indebtedness	**145,423**	68,751
Long-term debt	**773,168**	772,960
Total debt	**918,591**	841,711
Shareholder's equity	**438,141**	426,775
Total capital	**1,356,732**	1,268,486
Debt capitalization ratio	**67.71 %**	66.34 %

A subsidiary of the Corporation, Hydro Ottawa Limited, is deemed by the OEB to have a capital structure that is funded by 56% long-term debt, 4% short-term debt and 40% equity. The OEB uses this deemed structure only as a basis for setting distribution rates. As such, the Corporation's actual capital structure may differ from the OEB deemed structure.

The Corporation is in compliance with all financial covenants and limitations associated with its credit facilities and its long-term debt.

The Corporation met its capital management objectives, which have not changed during the year.

18. SHARE CAPITAL

(a) Authorized

Unlimited number of voting first preferred shares, redeemable at one dollar per share
Unlimited number of non-voting second preferred shares, redeemable at ten dollars per share
Unlimited number of non-voting third preferred shares, redeemable at one hundred dollars per share
Unlimited number of voting fourth preferred shares [ten votes per share], redeemable at one hundred dollars per share
Unlimited number of voting Class A common shares
Unlimited number of non-voting Class B common shares
Unlimited number of non-voting Class C common shares, redeemable at the price at which such shares are issued

The above shares are without nominal or par value.

Holders of second preferred shares, fourth preferred shares and common shares are entitled to receive dividends as and when declared by the Board of Directors at their discretion.

(b) Issued

	2017 **$**	2016 $
214,901,003 Class A common shares	**228,453**	228,453

18. SHARE CAPITAL [CONTINUED]

(b) Issued [continued]

Any invitation to the public to subscribe for shares of the Corporation is prohibited by shareholder resolution.

A shareholder's resolution directs the Corporation to target dividends at the greater of 60% of its subsidiary, Hydro Ottawa Limited's net income or $20,000, provided that the Corporation is in compliance with the *Business Corporations Act (Ontario)* and relevant OEB Guidelines; is not in breach of any covenants on its senior unsecured debentures or credit facility obligations; and the payment thereof does not negatively impact the Corporation's credit rating.

On April 20, 2017, the Board of Directors declared a $20,600 dividend to the City of Ottawa, which was paid on April 28, 2017 [April 21, 2016 the Board of Directors declared a $19,400 dividend to the City of Ottawa, which was paid on April 29, 2016].

19. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

(a) Fair value disclosures

The carrying value of the Corporation's financial instruments, except for the instruments described below, approximate fair value because of the short maturity and nature of the instruments.

The Corporation has estimated the fair value of notes receivable from joint ventures as at December 31, 2017 as amounting to $4,662 [December 31, 2016 – $3,878]. The fair value has been determined by discounting all estimated future repayments of principal and imputed interest required to fully repay the loan at the estimated interest rate of 5.7% [December 31, 2016 – 5.7%] that would be available to PowerTrail and Moose Creek LP on December 31, 2017.

The Corporation has estimated the fair value of the senior unsecured debentures as at December 31, 2017 as amounting to $574,693 [December 31, 2016 – $573,518]. The fair value has been determined based on discounting all future repayments of principal and interest between February 3, 2025 and March 31, 2057 at the estimated interest rate of 3.7% [December 31, 2016 – 3.7%] that would be available to the Corporation on December 31, 2017.

The Corporation has estimated the fair value of its senior secured amortizing bonds as at December 31, 2017 as amounting to $203,802 [December 31, 2016 – $203,802]. The fair value has been determined by discounting all estimated future repayments of principal and interest required to fully repay the loan at the estimated interest rate of 4.0% [December 31, 2016 – 4.0%] that would be available to the Corporation at December 31, 2017.

(b) Market risk

The Corporation is exposed to market risk, which is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices are comprised of three types of risks: interest rate risk, foreign exchange risk and commodity price risk.

19. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT [CONTINUED]

(b) Market risk [continued]

(i) Interest rate risk

The Corporation is exposed to interest rate risk on its borrowings. The Corporation mitigates exposure to interest rate risk by issuing long-term fixed-interest-rate debt. Under the Corporation's credit facility, advances on its credit lines expose it to fluctuations in short-term interest rates related to prime rate loans and bankers' acceptances. Given the fact that the borrowing requirements on the credit lines are typically for a short duration [i.e., to bridge gaps between the cash outflows related to the Corporation's monthly power bill and the inflows related to settlements with customers, or the cash outflows related to significant capital acquisitions and the inflows related to the issuance of additional long-term fixed-interest-rate debt], there is limited exposure to interest rate risk.

(ii) Foreign exchange risk

The Corporation's earnings from, and net investment in, its foreign operating subsidiary, EONY, are exposed to fluctuations in the U.S. dollar to Canadian dollar exchange rate. Also, the Corporation purchases a small proportion of goods and services that are denominated in foreign currencies, predominately the U.S. dollar. The Corporation monitors its exposure to foreign currency fluctuations on a regular basis, and has not used derivative instruments to hedge against these exposures to date. On an annual basis, it is estimated that a 5% increase or decrease in the U.S. dollar relative to the Canadian dollar exchange rate of U.S. $1 = CDN $0.80 as at December 31, 2017 would increase or decrease the equity of the Corporation by approximately $2,755.

(iii) Commodity price risk

The Corporation, through its foreign operating subsidiary EONY, is exposed to commodity price risk associated with renewable energy produced and sold in the U.S. wholesale market. The Corporation has not used derivative instruments to hedge against this exposure to date. As all renewable energy produced and sold in Canada is at rates specified by their respective power purchase agreements, the remainder of the Corporation's generation revenue is not exposed to significant commodity price risk. A 10% increase or decrease in the price of electricity in the U.S. through December 31, 2017 would have increased or decreased net income by $280.

(c) Credit risk

Credit risk is the risk that a counterpart will default on its obligations, causing a financial loss to the Corporation. Concentration of credit risk associated with accounts receivable is limited due to the large number of customers the Corporation services. The Corporation has approximately 332,000 customers served by Hydro Ottawa Limited, the majority of which are residential. As a result, the Corporation does not earn a significant amount of revenue and does not have a significant receivable from any individual customer in the ordinary course of business.

The Corporation performs ongoing credit evaluations of customers serviced by Hydro Ottawa Limited and requires collateral to support non-residential customer accounts receivable on specific accounts to mitigate significant losses in accordance with OEB legislation. As at December 31, 2017, the Corporation held customer deposits related to power recovery and distribution revenue in the amount of $15,121 [December 31, 2016 – $14,600] with respect to these customers.

The Corporation's other subsidiaries limit credit risk by dealing with customers that are considered to be of high credit quality. These customers include government agencies, utilities, municipalities, universities, school boards, hospitals, and customers with investment grade credit ratings. The Corporation monitors and limits its exposure to credit risk on a continuous basis.

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19. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT [CONTINUED]

(c) Credit risk [continued]

The carrying amount of accounts receivable is reduced by an allowance for doubtful accounts based on the credit risk applicable to particular customers given their applicable payment history and other information. The Corporation records an allowance for doubtful accounts when the recoverability of an amount becomes doubtful. When the receivable amount is deemed to be uncollectible, it is written off and the allowance for doubtful accounts is adjusted accordingly. Subsequent recoveries of receivables previously provisioned or written-off results in a reduction of operating costs in the consolidated statements of income. As at December 31, 2017, the allowance for doubtful accounts was $2,512 [December 31, 2016 – $1,782]. For details of accounts receivable and the aging of the accounts, refer to Note 5.

As at December 31, 2017, there were no significant concentrations of credit risk with respect to any class of financial assets or counterpart and approximately 12% [December 31, 2016 – 12%] of the Corporation's accounts receivable [excluding unbilled revenue] were aged more than 30 days. The Corporation's maximum exposure to credit risk is equal to the carrying value of accounts receivable less customer deposits held.

(d) Liquidity risk

Liquidity risk is the risk that the Corporation will not meet its financial obligations as they come due. The Corporation regularly monitors and manages its liquidity risk to ensure access to sufficient funds to meet operational and capital investment requirements. The Corporation achieves this objective by ensuring that sufficient facilities, as described in Note 13, are maintained to meet obligations as they come due while minimizing standby fees and interest.

Liquidity risks associated with financial commitments are as follows:

	2017		
	Due within one year $	**Due between one and five years $**	**Due after five years $**
Accounts payable and accrued liabilities	**162,474**	-	-
Senior unsecured debentures			
Series 2006-1, 4.968%, due December 19, 2036	-	-	**50,000**
Series 2013-1, 3.991%, due May 14, 2043	-	-	**150,000**
Series 2015-1, 2.614% due February 3, 2025	-	-	**200,000**
Series 2015-2, 3.639%, due on February 2, 2045	-	-	**175,000**
Senior secured amortizing bonds			
Series 2016-1, 4.080%, due March 31, 2057	-	-	**203,802**
Interest to be paid on long-term debt	**28,382**	**113,529**	**499,803**
	190,856	**113,529**	**1,278,605**

Accounts payable and accrued liabilities in the above table exclude $7,812 of accrued interest which is included in interest to be paid on long-term debt.

[in thousands of Canadian dollars]

20. OPERATING COSTS

	2017 **$**	2016 $
Salaries, wages and benefits	**84,993**	84,545
Maintenance and other	**13,197**	11,196
Outside services	**41,719**	32,356
General and administrative	**32,896**	32,033
Less: capitalized salaries, wages and benefits	**(33,008)**	(32,058)
	139,797	128,072

21. FINANCING COSTS

	2017 **$**	2016 $
Interest on debentures and bonds payable	**27,725**	22,537
Short-term interest and fees relating to credit facility	**2,534**	997
Less: capitalized borrowing costs	**(7,576)**	(4,136)
	22,683	19,398

22. INCOME TAXES

Income tax expense recognized in net income comprises the following:

	2017 **$**	2016 $
Current tax expense		
Current income tax expense	**4,120**	4,457
Deferred tax expense		
Origination and reversal of temporary differences	**10,683**	4,584
Income tax expense recognized in net income	**14,803**	9,041

Income tax recovery recognized in OCI comprises the following:

	2017 **$**	2016 $
Income tax effect on exchange differences on translation of foreign subsidiary	**(1,536)**	(552)

[in thousands of Canadian dollars]

22. INCOME TAXES [CONTINUED]

The provision for income taxes differs from the amount that would have been recorded using the combined Canadian federal and Ontario statutory income tax rates. A reconciliation between the statutory and effective tax rates is provided as follows:

	2017 **$**	2016 $
Federal and Ontario statutory income tax rate	**26.50 %**	26.50 %
Income attributable to equity shareholder before income taxes	**50,778**	43,877
Income taxes at statutory rate	**13,457**	11,627
Increase (decrease) in income taxes resulting from:		
Permanent differences	**30**	49
Impact on foreign exchange translation on subsidiary	**(407)**	(180)
Impact from change in future U.S. tax rate	**1,676**	-
Foreign tax rate differential	**14**	(762)
Corporate minimum tax, net of tax credit	**79**	-
Unrecognized tax benefit	**189**	(1,255)
Tax impact on joint venture	**(282)**	(275)
Adjustment	**(126)**	265
Other	**173**	(428)
	14,803	9,041
Effective income tax rate	**29.15 %**	20.61 %

The Corporation's subsidiary Hydro Ottawa Limited, as a rate-regulated enterprise, is required to recognize deferred income tax assets and liabilities and related regulatory deferral account credit and debit balances for the amount of deferred income taxes expected to be refunded to, or recovered from, customers in future electricity rates.

Significant components of the Corporation's net deferred income tax asset are as follows:

	2017 **$**	2016 $
Property, plant and equipment and intangible assets	**(812)**	1,106
Non-capital loss carryforwards	**6,620**	4,492
Other temporary differences	**(310)**	47
	5,498	5,645

[in thousands of Canadian dollars]

Hydro Ottawa Holding Inc.

22. INCOME TAXES [CONTINUED]

Significant components of the Corporation's net deferred income tax liability are as follows:

	2017 **$**	2016 $
Property, plant and equipment and intangible assets	**(34,988)**	(24,244)
Tax recognized in OCI related to foreign subsidiary translation	**(479)**	(1,821)
Exchange differences and other	**63**	(448)
Non-capital loss carryforwards	**-**	268
Employee future benefits	**4,934**	4,648
Other	**337**	661
	(30,133)	(20,936)

Movements in the net deferred tax asset balances during the year were as follows:

	2017 **$**	2016 $
Deferred tax asset, beginning of year	**5,645**	2,250
Impact of foreign exchange rate change on opening deferred tax asset balance	**(321)**	19
Recognized in net income	**260**	3,370
Recognized in OCI	**11**	6
Other	**(97)**	-
Deferred tax asset, end of year	**5,498**	5,645

Movements in the net deferred tax liability balances during the year were as follows:

	2017 **$**	2016 $
Deferred tax liability, beginning of year	**(20,936)**	(13,695)
Recognized in net income	**(10,819)**	(7,793)
Recognized in OCI	**1,525**	552
Other	**97**	-
Deferred tax liability, end of year	**(30,133)**	(20,936)

The Corporation's regulatory deferral account credit balance for the amounts of deferred income taxes expected to be collected/ refunded to customers in future electricity rates is $16,798 [2016 – $7,694].

[in thousands of Canadian dollars]

Hydro Ottawa Holding Inc.

22. INCOME TAXES [CONTINUED]

As at December 31, 2017, the Corporation had capital losses of $708 [December 31, 2016 – $750] and non-capital losses of $1,069 [December 31, 2016 – $313] for tax purposes, for which the tax benefit has not been recognized in the consolidated financial statements. The Corporation has U.S. losses carried forward of $15,247, which expires between 2035 and 2037. All are considered more likely than not to be realized, resulting in a recognized deferred tax asset of $3,985.

As at December 31, 2017, the Corporation's regulated subsidiary Hydro Ottawa Limited and its joint venture PowerTrail had corporate minimum tax credit carryforwards of $nil and $19 respectively [December 31, 2016 – $470 and $97 respectively], which expire 2035.

Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax assets and unused tax losses can be utilized. Deferred tax assets of $4,243 have been recognized in EONY as there is sufficient positive evidence to demonstrate that it is probable that a deferred tax asset will be realized. Factors considered include: historic and expected future taxable income and the nature, amount and expected timing of reversal of taxable temporary differences.

A deferred tax liability for all taxable temporary differences associated with investments in subsidiaries and investments in joint ventures has not been recognized as the Corporation is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

23. CHANGES IN NON-CASH WORKING CAPITAL AND OTHER OPERATING BALANCES

	2017 **$**	2016 $
Accounts receivable	**128**	(20,430)
Prepaid expenses	**732**	(1,498)
Other	**-**	(4)
Note receivable from parent	**(6,125)**	(3,622)
Accounts payable and accrued liabilities	**(29,227)**	33,757
Inventory	**(585)**	(1,577)
Customer deposits in accounts receivable [Note 7]	**14,586**	-
Net change in accruals related to property, plant and equipment	**8,331**	(11,416)
Net change in accruals related to intangible assets	**(9)**	297
Net change in accruals related to business combinations	**10,000**	(8,869)
	(2,169)	(13,362)

24. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

	January 1, 2017 **$**	**Amortization of bond issuance costs expensed** **$**	**Amortization of bond issuance costs capitalized** **$**	**December 31, 2017** **$**
Long-term debt	**772,960**	**165**	**43**	**773,168**

25. CONTINGENT LIABILITIES

Purchasers of electricity from the IESO are required to provide security to mitigate the risk of their default based on their expected activity in the market. The IESO could draw on these guarantees if the Corporation fails to make a payment required by a default notice issued by the IESO. A prudential support obligation is calculated based upon a default protection amount and the distributor's trading limit less a reduction for the distributor's credit rating. As at December 31, 2017, the Corporation had drawn standby letters of credit in the amount of $10,000 [December 31, 2016 – $10,000] against its credit facility to cover its prudential support obligation.

The Corporation participates with other electrical utilities in Ontario in an agreement to exchange reciprocal contracts of indemnity through the Municipal Electrical Association Reciprocal Insurance Exchange. The Corporation is liable for additional assessments to the extent premiums collected and reserves established are not sufficient to cover the cost of claims and costs incurred. If any additional assessments were required in the future, their cost would be charged to income in the year during which they occur.

The Corporation is party to connection and cost recovery agreements with HONI as described in Note 9. To the extent that the cost of a project is not recoverable from future transformation connection revenues, the Corporation is obligated to pay a capital contribution equal to the difference between these revenues and the construction costs allocated to the Corporation.

Various lawsuits have been filed against the Corporation for incidents that arose in the ordinary course of business. In the opinion of management, the outcomes of the lawsuits, now pending, are neither determinable nor material. Should any loss result from the resolution of these claims, such losses would be claimed through the Corporation’s insurance carrier, with any unrecoverable amounts charged to income in the year of resolution.

26. COMMITMENTS

As at December 31, 2017, the Corporation's regulated subsidiary, Hydro Ottawa Limited, has $155,335 in total open commitments spanning between 2018 and 2024. This includes commitments relating to a customer information system services agreement, construction projects, spare parts and standby equipment and overhead and underground services.

Energy Ottawa has committed $10,272 in outstanding purchase commitments relating to finalizing the non-generation components of the Chaudière Expansion. In addition, Energy Ottawa has $7,189 in outstanding purchase commitments relating to the refurbishment projects as referenced in Note 1 of these consolidated financial statements.

Energy Ottawa maintains leases with various entities for the rights to certain lands, waterways, buildings and other generating assets at its generating stations in Ontario, Québec and New York. These leases are in place through various dates, ranging between August 19, 2019 and December 13, 2117. Certain leases have annual payments which have a fixed and contingent portion, the latter of which is based on either annual gross revenues or power generation levels. During the 2017 fiscal year, the Corporation expensed lease payments of $308 [2016 – $292], which included $136 [2016 – $112] of contingent lease payments. The Corporation's future minimum lease payments will be: 2018 – $172, 2019 to 2022 – $711 and $5,376 thereafter.

[in thousands of Canadian dollars]

27. BUSINESS COMBINATIONS

On December 14, 2016, the Corporation entered into an Agreement of Purchase and Sale ['APS'] with Gatineau Power Company [a subsidiary of Hydro-Québec] to acquire its 27 megawatt Centrale Hull-2 hydroelectric generating station [the 'HQ assets'] and its 33.33% interest in Chaudiere Water Power Inc. ['CWPI'] for a cash purchase price of $50,000, inclusive of contingent consideration estimated at the date of acquisition to be $10,000. CWPI is a non-operating entity with no significant assets or liabilities that flows-through costs associated with maintaining the Chaudière Dam at Chaudière Falls to its shareholders. Also on December 14, 2016, the Corporation entered into two agreements incidental to the APS: [1] a 25-year fixed-price, indexed power purchase agreement with Hydro-Québec to sell electricity from the HQ assets at a market base-rate and [2] a 100-year-less-a-day lease with Gatineau Power Company for the land and associated water rights pertaining to the Québec side of the Ottawa River at Chaudière Falls. The acquisition of the 33.33% interest in CWPI resulted in the Corporation controlling 100% of the entity, resulting in consolidation going forward. The acquisition of HQ assets was determined to be a business combination for accounting purposes.

The following table summarizes the fair values of the assets acquired and liabilities assumed as part of the transaction with Gatineau Power Company.

	Acquisition date fair value $
Non-current assets	
Generation and other	
Reservoirs, dams and waterways	17,944
Generating equipment	12,025
Land, buildings and structures	10,031
Water rights	10,000
Retirement benefit asset	90
Non-current liabilities	
Other post-employment benefits	(36)
Accounts payable and accrued liabilities	(54)
Total net assets acquired	50,000

The fair value of the property, plant and equipment acquired was based on the direct method-replacement cost approach. As such, the asset values were estimated as if they were to be reconstructed on an undeveloped site. These estimates were developed through discussions with third-party engineers, market research and comparisons with similar equipment and facility replacement cost data based on capacity. Moreover, since the assets have been in use over varying periods of time, allowances have been made for physical, functional, and economic factors affecting utility and value as they might apply. The fair value of the water rights was based on the present value of the net cash flow benefits derived from the water rights ownership. As a result, the fair value measurement for the acquired HQ assets are classified within Level 3 of the fair value hierarchy.

Amounts with respect to the retirement benefit asset, other post-employment benefits and accounts payable and accrued liabilities relate to the Corporation's acquired 33.33% interest in CWPI. The $10,000 earn out was included in accounts payable and accrued liabilities as at December 31, 2016 and was settled in 2017.

The Corporation incurred transaction costs [primarily legal and consulting] totaling $1,754 with respect to the acquisition of net assets from Gatineau Power Company. As management is not privy to the applicable financial information, it is impracticable to determine the amount of revenue or income (loss) the HQ assets would have produced had the acquisition occurred on January 1, 2016.

Hydro Ottawa Holding Inc.

Notes to the Consolidated Financial Statements
Year ended December 31, 2017
[in thousands of Canadian dollars]

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28. RELATED PARTY TRANSACTIONS

Transactions with related parties occur in the normal course of business, and are transacted at the amount of consideration determined and agreed to by the related parties. Trade amounts due from and to related parties are non-interest bearing, result from normal operations and are due within one year.

(a) Transactions and balances outstanding with parent

During the year, the Corporation earned power recovery and distribution revenue from the City of Ottawa and its subsidiaries, which is billed at prices and terms approved by the OEB. In addition, the Corporation earned commercial services revenue totaling $744 [2016 – $1,322] via its regulated subsidiary, Hydro Ottawa Limited, and $16,314 [2016 – $8,882] via Energy Ottawa, from the City of Ottawa and its subsidiaries. During the year, the Corporation also received $2,028 [2016 – $4,484] in additions to deferred revenue relating to the upgrade and/or expansion of the Corporation's existing electricity distribution infrastructure and earned $152 [2016 – $nil] in interest revenue with respect to the note receivable from the City of Ottawa.

The Corporation incurred $2,875 [2016 – $2,744] of operating costs to the City of Ottawa. The Corporation also incurred $2,872 [2016 – $nil] in building permit costs and development charges, which are included in property, plant and equipment.

As at December 31, 2017, the Corporation's accounts receivable include $8,872 [December 31, 2016 – $9,203] while the Corporation's accounts payable and accrued liabilities include $53 [December 31, 2016 – $136] due to the City of Ottawa and its subsidiaries in respect of the transactions described above. In addition, the Corporation's note receivable from the City of Ottawa is disclosed in Note 12 of these consolidated financial statements.

(b) Transactions and balances outstanding with joint ventures and joint operations

(i) Moose Creek LP

During the year, the Corporation earned interest income in the amount of $147 [2016 – $182] on its note receivable from the Moose Creek LP joint venture, as well as $34 [2016 – $21] in other revenue for the provision of administrative services. As at December 31, 2017, the Corporation's accounts receivable include $142 [December 31, 2016 – $45] due in respect of the transactions described for balances paid on behalf of Moose Creek LP.

The Corporation's note receivable from Moose Creek LP is disclosed in Note 12 of these consolidated financial statements.

(ii) PowerTrail

During the year, the Corporation earned imputed interest income in the amount of $90 [2016 – $104] on its note receivable from the PowerTrail joint venture, as well as $37 [2016 – $24] in other revenue for the provision of administrative services. As at December 31, 2017, the Corporation's accounts receivable include $17 [December 31, 2016 – $2] due in respect of the transactions described.

The Corporation's note receivable from PowerTrail is disclosed in Note 12 of these consolidated financial statements.

(iii) CWPI

Prior to the consolidation of the CWPI joint operation as of December 14, 2016, the Corporation incurred $971 of operating expenses in relation to the management and operation of the Chaudière Dam at Chaudière Falls, and earned $78 in other revenue for the provision of administrative services. The Corporation also capitalized $329 of generating assets. Subsequent to December 14, 2016, all intercompany balances with CWPI have been eliminated.

[in thousands of Canadian dollars]

28. RELATED PARTY TRANSACTIONS [CONTINUED]

(c) Compensation of key management personnel

	2017 **$**	2016 $
Salaries, director fees and other short-term benefits	**1,401**	1,349
Employee future benefits	**160**	159
Other long-term benefits	**12**	12
	1,573	1,520

29. COMPARATIVE INFORMATION

In certain instances, the 2016 information presented for comparative purposes has been reclassified to conform to the consolidated financial statement presentation adopted for the current year.

Hydro Ottawa's newest 29-megawatt state-of-the-art hydroelectric facility at Chaudière Falls is built entirely below ground and has been feeding clean, renewable energy into the provincial grid since its energization in July 2017 – on time, and on budget.

Two months before production was scheduled to begin, Ottawa experienced one of the worst floods in a century... the first time in history that all gates in the ring dam were opened.

Employees who participated in the response that weekend will never forget the power of the water and the quick action that was needed to save our generating assets. It was a tremendous effort that allowed us to stay on track for our completion date, and an inspiring example of the power of teamwork.

Statement of Executive Compensation

The Governance and Management Resources Committee of the Board is responsible for developing and recommending the approval of the compensation framework for the Corporation and each of its subsidiaries.

In developing the compensation framework, the Governance and Management Resources Committee is guided by two principles: the need to provide a total compensation package that will attract and retain qualified and experienced executives, and linking compensation to performance.

Executive compensation is reviewed by the Governance and Management Resources Committee and approved by the Board of Directors. In making its recommendations to the Board, the Committee examines the responsibilities and performance of individual executives, and considers the recommendations of the President and Chief Executive Officer.

In an effort to attract and retain qualified and experienced executives, the Corporation aims to offer a total compensation package that is competitive with other organizations of a similar size and scope. Executive compensation is reviewed on an annual basis and compared to market data, with the assistance of independent consultants, on an ad hoc basis to ensure competitiveness. In line with best practices for the sector, as identified by the Ontario Minister of Energy's Agency Review Panel in 2007, Hydro Ottawa applies a 50/50 weighting of market data from public and private comparators. The industry component of the market comparator group has a strong sector affiliation [e.g., Transportation and Utilities sector], and is assessed by revenue levels to ensure comparability.

Total cash compensation for Executives consists of two components*: base salary and an at risk performance incentive.

The at risk performance incentive component is paid on an annual basis, and is expressed as a percentage of base salary. It is designed to retain and motivate executives, to reward them for their performance during the preceding year, and to ensure alignment with shareholder objectives. Payments are based on the achievement of corporate and division objectives, both financial and non-financial, which are established each year by the Board of Directors. Non-financial targets are designed to achieve continuous improvement in relation to a number of strategic objectives including, but not limited to, customer service, operational and organizational efficiency and effectiveness, and service reliability.

Executives participate in a benefits program, which includes extended health care, dental care, basic and optional life insurance, and short-term and long-term disability insurance. This same program is available to all management group employees of the Corporation.

Executives also participate in the OMERS pension plan. This plan is a multi-employer, contributory, defined benefit pension plan established by the Province for employees of municipalities, local boards and school boards in Ontario. Pension benefits are determined by a formula based on the highest consecutive five-year average of contributory earnings and years of service. Pension benefits are indexed to increases in the Consumer Price Index subject to an annual maximum of 6 percent. Both participating employers and participating employees are required to make equal contributions to the plan based on the participating employees' contributory earnings. Earnings for pension purposes are capped by the plan.

* The total cash compensation for the President and Chief Executive Officer consists of a base salary only.

COMPENSATION OF OFFICERS AND BOARD MEMBERS

Officers

NAME AND PRINCIPAL POSITION[1]	YEAR	BASE SALARY ($)[2]	AT RISK PERFORMANCE INCENTIVE ($)[3]	OTHER COMPENSATION ($)[4]
Bryce Conrad	2017	380,957	N/A	18,166
President and Chief Executive Officer	2016	375,711	N/A	22,398
	2015	384,163	N/A	15,178
Geoff Simpson	2017	183,839	61,842	8,491
Chief Financial Officer	2016	180,783	67,711	8,479
	2015	184,850	57,254	8,471
Lance Jefferies	2017	162,668	54,720	8,412
Chief Electricity Distribution Officer	2016	159,830	34,798[5]	8,401
Gregory Clarke	2017	186,627	62,780	8,501
Chief Electricity Generation Officer	2016	183,525	66,484	8,798
	2015	187,654	57,055	8,482

1 Officers whose earnings are reported are those who occupied the position at December 31, 2017.

2 The pay cycle for 2015 resulted in 27 pay periods versus the standard 26 in other years. Amounts shown in this column have been rounded to the nearest dollar.

3 Amounts shown in this column reflect the at risk performance incentive for the executive in respect of the achievement of the performance objectives for the previous financial year, paid in the reporting year. These amounts have been rounded to the nearest dollar.

4 Amounts in this column include Board approved discretionary payments such as payments of earned and unused vacation credits, car allowance, computer allowance and employer's share of basic life insurance premiums. These amounts have been rounded to the nearest dollar.

5 Given that Mr. Jefferies assumed the position on January 1, 2016, the at risk performance incentive for 2015, paid in 2016, is based on his previous position with the Corporation.

Board Members

The remuneration of the members of the Boards of Directors of Hydro Ottawa Holding Inc. and Hydro Ottawa Limited is as determined by the City of Ottawa and the Hydro Ottawa Holding Inc. Board respectively. In addition to reimbursement for reasonable out-of-pocket expenses incurred while performing their duties, directors receive an annual stipend and meeting fees for service:

- The Board Chair receives an annual stipend of $40,000;
- All other Board members receive an annual stipend of $7,000;
- The Board Chair receives $600 for each Board or committee meeting chaired or attended;
- Committee Chairs receive $800 for each meeting of the committee chaired; and
- All other Board members receive $600 for each Board or committee meeting attended.

Only one annual stipend is paid where an individual is a director of both the Hydro Ottawa Holding Inc. and Hydro Ottawa Limited Boards of Directors. Members of the Council of the City of Ottawa, as well as the President and Chief Executive Officer, and the one member of management on the Hydro Ottawa Limited Board receive no remuneration in their capacity as directors of the boards.

Corporate Governance

Hydro Ottawa is committed to establishing and maintaining leading governance practices for a company of its size and mandate. Because governance standards and best practices are always evolving, the company seeks to continuously improve its governance practices.

Hydro Ottawa Holding Inc. is a private, for-profit company, incorporated under the *Business Corporations Act* [Ontario]. At the same time, the company is wholly owned by the City of Ottawa and fulfills a public mandate, and is therefore mindful of its responsibility to be accountable both to its shareholder and the public. The company's governance practices are guided not simply by legal obligations, but by best business practices and standards established by independent agencies.

While Hydro Ottawa is not a reporting issuer under the Securities Act and is therefore not subject to governance standards that apply to publicly-traded companies, the company is guided by these standards and seeks to meet or exceed them. In addition, Hydro Ottawa regularly compares its governance practices to those of private and public sector organizations, and to standards set by agencies such as the Canadian Securities Administrators and the Ontario Securities Commission.

GOVERNANCE STRUCTURE

Accountability for the effective oversight of the Corporation and its wholly-owned subsidiaries [Hydro Ottawa Limited and Energy Ottawa Inc.] rests with an eleven-member Board of Directors, which provides direction to the Corporation on behalf of the shareholder, the City of Ottawa. The Board provides leadership within a framework of effective controls that enables risks to be assessed and managed, and is responsible for supervising the management of the business and affairs of the Corporation and its wholly-owned subsidiaries. In carrying out its oversight function, the Board of Directors is guided by a Shareholder Declaration issued by Ottawa City Council and revised from time to time. The Corporation's Code of Business Conduct, its Director Conflict of Interest and Conduct Guidelines and a Related Party Transaction Disclosure Policy and Process also govern the actions of the Board.

In 2006, a separate Board of Directors was established to oversee the operations of Hydro Ottawa Limited, in accordance with the Affiliate Relationships Code for Electricity Distributors and Transmitters issued by the Ontario Energy Board. The powers and functions of that Board are set out in a Shareholder Declaration issued by the Hydro Ottawa Holding Inc. Board of Directors.
On a day-to-day basis, the Corporation is led by an Executive Management Team, comprising the Corporation's President and Chief Executive Officer, the Chief Financial Officer and the senior executives of the subsidiaries and critical functional areas. This team oversees the alignment of business practices and strategies with the goals of the Corporation, and drives performance by managing risks and opportunities. The Executive Management Team is accountable to the Corporation's Board of Directors through the President and Chief Executive Officer.

KEY GOVERNANCE PROCESSES AND CONTROLS

Hydro Ottawa has established a number of leading governance processes and controls to assist the Board and executive management in carrying out their oversight functions.

Risk Management: An extensive, corporate-wide risk management system has been established to track indicative and predictive measures of risk. Risk assessments are included with regular reporting to the Board on all areas of the Corporation's operations.

Internal Audit: Hydro Ottawa conducts a rigorous internal audit program to verify controls and maximize business efficiency and effectiveness. A number of business processes and functions are audited annually based on an audit plan approved by the Board. The use of experienced auditors both internal and external to the Corporation ensures rigour and objectivity.

Business Continuity Plans: Plans are in place to ensure the continuance of critical operations in the event of a major emergency such as a pandemic, and to return the Corporation to normal operations as quickly as possible after such an event. They include detailed strategies for the re-assignment of resources to critical processes, and redundant supply arrangements with critical external suppliers.

APPOINTMENTS TO THE BOARDS OF DIRECTORS

The governance structure for the Corporation [Hydro Ottawa Holding Inc.] and its wholly-owned subsidiaries [Hydro Ottawa Limited and Energy Ottawa Inc.] includes two boards of directors – the Hydro Ottawa Holding Inc. Board and the Hydro Ottawa Limited Board.

In accordance with the terms of the Shareholder Declaration, the City of Ottawa appoints all Directors to the Boards except the President and Chief Executive Officer, and the one member of management on the Hydro Ottawa Limited Board. In doing so, the City considers candidates recommended by the Nominating Committee of the Board of Hydro Ottawa Holding Inc., but is not obliged to select these candidates. The Nominating Committee is assisted by outside consultants in its search for candidates for appointment to the Boards.

As set out in the Shareholder Declaration, all candidates for appointment to the Boards must meet certain requirements, including demonstrated integrity and high ethical standards, relevant career experience and expertise, and an understanding of the role of Hydro Ottawa both as a service to local ratepayers and an asset of taxpayers.

In addition, the nomination and selection process is designed to maintain a Board that includes the following overarching competencies among one or more directors: strong business background including competitive business experience and strategic planning; a strong financial background including financial accreditation and public or private market financing experience; industry sector experience in the areas of business of the subsidiary companies; board experience; and merger and acquisition experience.

COMMITTEES

The following committees were created to help the Boards of Directors carry out their duties. The committees meet regularly and provide feedback on their discussions to their respective Boards.

Hydro Ottawa Holding Inc.

Audit: The Audit Committee reviews financial statements, accounting practices and policies, auditing processes and the results of internal and external audits and related matters. It also oversees financial risk management and assesses internal controls.

Governance and Management Resources: The Governance and Management Resources Committee reviews the Corporation's governance structures and practices to ensure that the Board of Directors can fulfill its mandate. It reviews management resources and compensation practices to ensure systems are in place to attract, retain and motivate qualified management employees. It also reviews and assesses the performance of the President and Chief Executive Officer, oversees the Board Assessment process, and monitors compliance with codes of conduct.

Investment Review: The Investment Review Committee is responsible for assisting management and the Board of Directors in the review and pursuit of business development, acquisition and investment opportunities. In carrying out these functions, the Committee focuses on the consistency of opportunities with strategic plans and investment guidelines, the maximization of shareholder value and the management of risk.

Nominating: The Nominating Committee, with the assistance of outside consultants, identifies and evaluates potential candidates for appointment as Directors. The Nominating Committee makes recommendations to the shareholder [represented by Ottawa City Council] for the appointment of directors.

Strategic Initiatives Oversight: The Strategic Initiatives Oversight Committee is responsible for assisting the Board of Directors in guiding management and providing support and focus for large-scale capital project efforts as identified by the Board from time to time.

BOARD AND COMMITTEE MEETING ATTENDANCE

The following tables illustrate the attendance of members at meetings of the Boards of Directors and their committees.

HYDRO OTTAWA HOLDING INC.

DIRECTOR	BOARD MEETINGS	COMMITTEE MEETINGS
Jim Durrell, C.M., ICD.D [Chair]	7/7	19/19
Bryce Conrad [President and CEO]	7/7	N/A
Dale Craig	5/7	8/8
Jan Harder	7/7	5/5
Andrea Johnson	6/7	9/9
Kalai Kalaichelvan	7/7	8/10
Cyril Leeder[2]	3/3	2/2
J. Douglas McLarty	7/7	9/9
Philip Murray	7/7	8/8
Lori O'Neill	7/7	10/10
Zaina Sovani[1]	4/4	4/5
Marianne Wilkinson	7/7	6/6

1 Depicts outgoing Board member whose term ended on June 30, 2017

2 Depicts incoming Board member whose term took effect July 1, 2017

HYDRO OTTAWA LIMITED

DIRECTOR	BOARD MEETINGS	COMMITTEE MEETINGS
Jim Durrell, C.M., ICD.D [Chair]	4/4	N/A
Bryce Conrad [President and CEO]	4/4	N/A
Lance Jefferies	4/4	N/A

Members of the Boards of Directors

HYDRO OTTAWA HOLDING INC.

Jim Durrell, C.M., ICD.D [Chair]

Bryce Conrad

Dale Craig

Councillor Jan Harder

Andrea Johnson

Kalai Kalaichelvan

Cyril Leeder

J. Douglas McLarty

Philip Murray

Lori O'Neill

Zaina Sovani

Councillor Marianne Wilkinson

HYDRO OTTAWA LIMITED

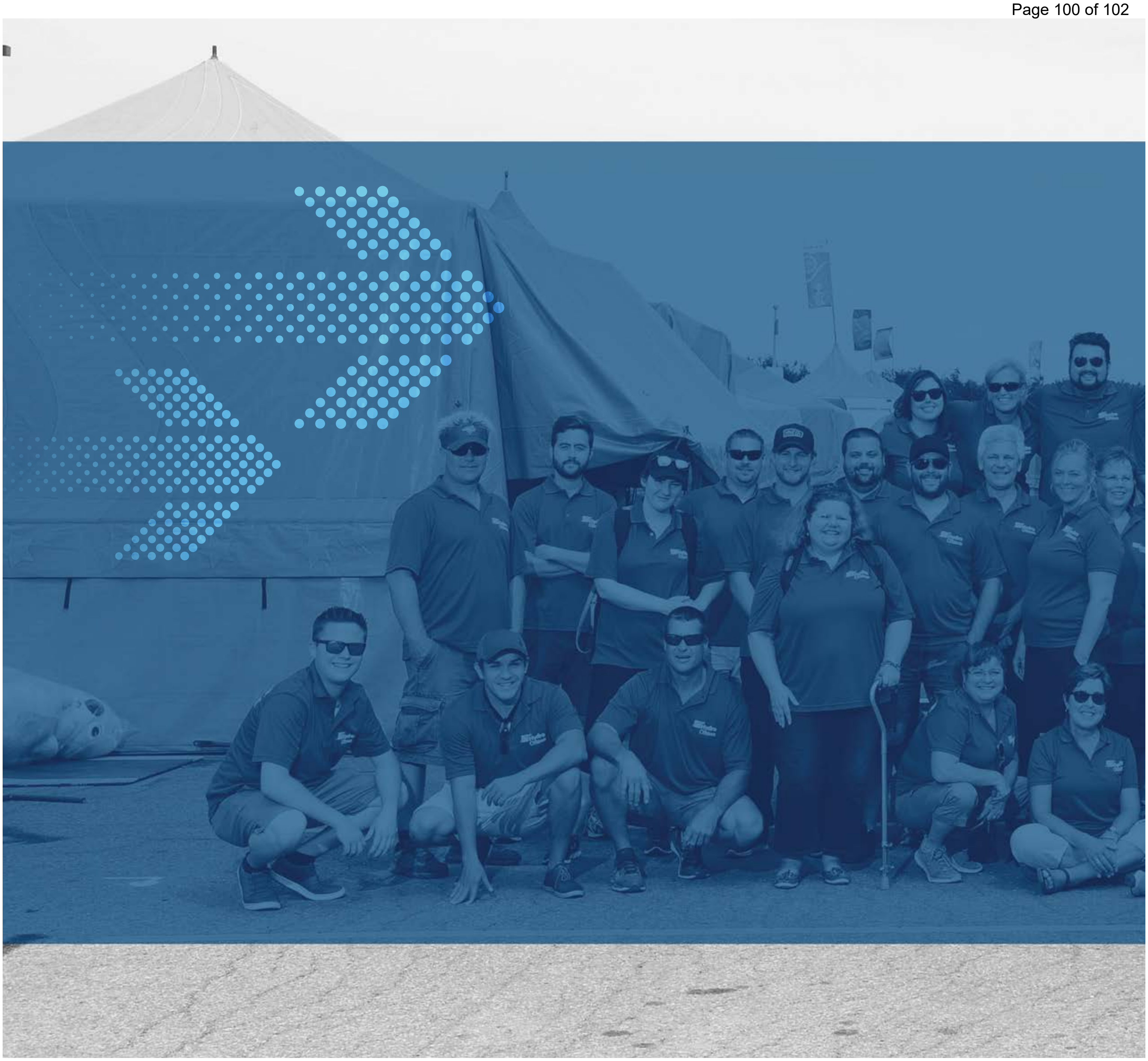
Jim Durrell, C.M., ICD.D [Chair]

Bryce Conrad

Lance Jefferies

Note: Zaina Sovani was first appointed to the Hydro Ottawa Holding Inc. Board of Directors effective December 1, 2014 and was previously a Director of the Hydro Ottawa Limited Board from July 1, 2012 to November 30, 2014. She was appointed to the Audit Committee on July 17, 2012, and Governance and Management Resources Committee on September 18, 2015, and served on these Committees until the end of her term on June 30, 2017. We wish to convey our sincere appreciation to Zaina Sovani for her dedicated service.

Cyril Leeder was appointed to the Hydro Ottawa Holding Inc. Board of Directors effective July 1, 2017.



CSWEEK expanding excellence awards

ENERGYGALA 2017 AWARD WINNERS OEA

CSSE AWARDS OF EXCELLENCE

ieso powerful IDEAS '17

2017 EDA AWARDS

CANADA'S TOP EMPLOYERS FOR YOUNG PEOPLE 2017

NATIONAL CAPITAL REGION'S TOP EMPLOYERS
LES MEILLEURS EMPLOYEURS DE LA RÉGION DE LA CAPITALE
2017

Canadian HR Awards 2017
THE UNIVERSITY OF WATERLOO AWARD FOR
NEXT GENERATION EMPLOYEE INNOVATION OF THE YEAR
WINNER

IABC
International Association of Business Communicators
Gold Quill Awards

RISING STARS 2017

Hydro Ottawa Holding Inc.

Hydro Ottawa wishes to thank all the employees whose photos appear in this Annual Report.

La version française du présent rapport annuel est affichée sur le site hydroottawa.com.

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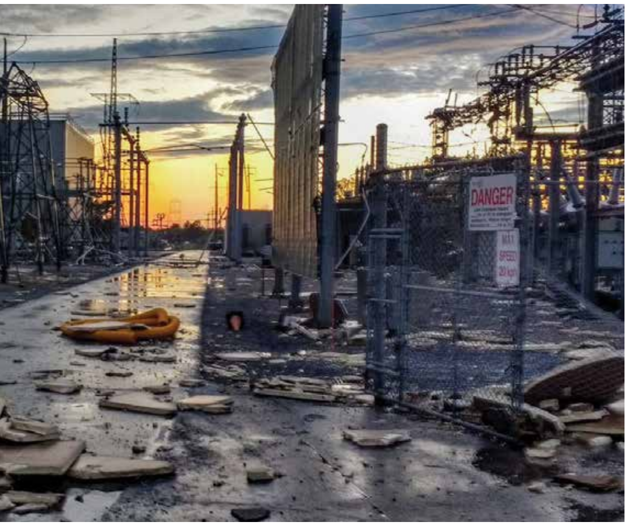
Hydro Ottawa
Holding Inc.









Annual Report 2018



Our Mission

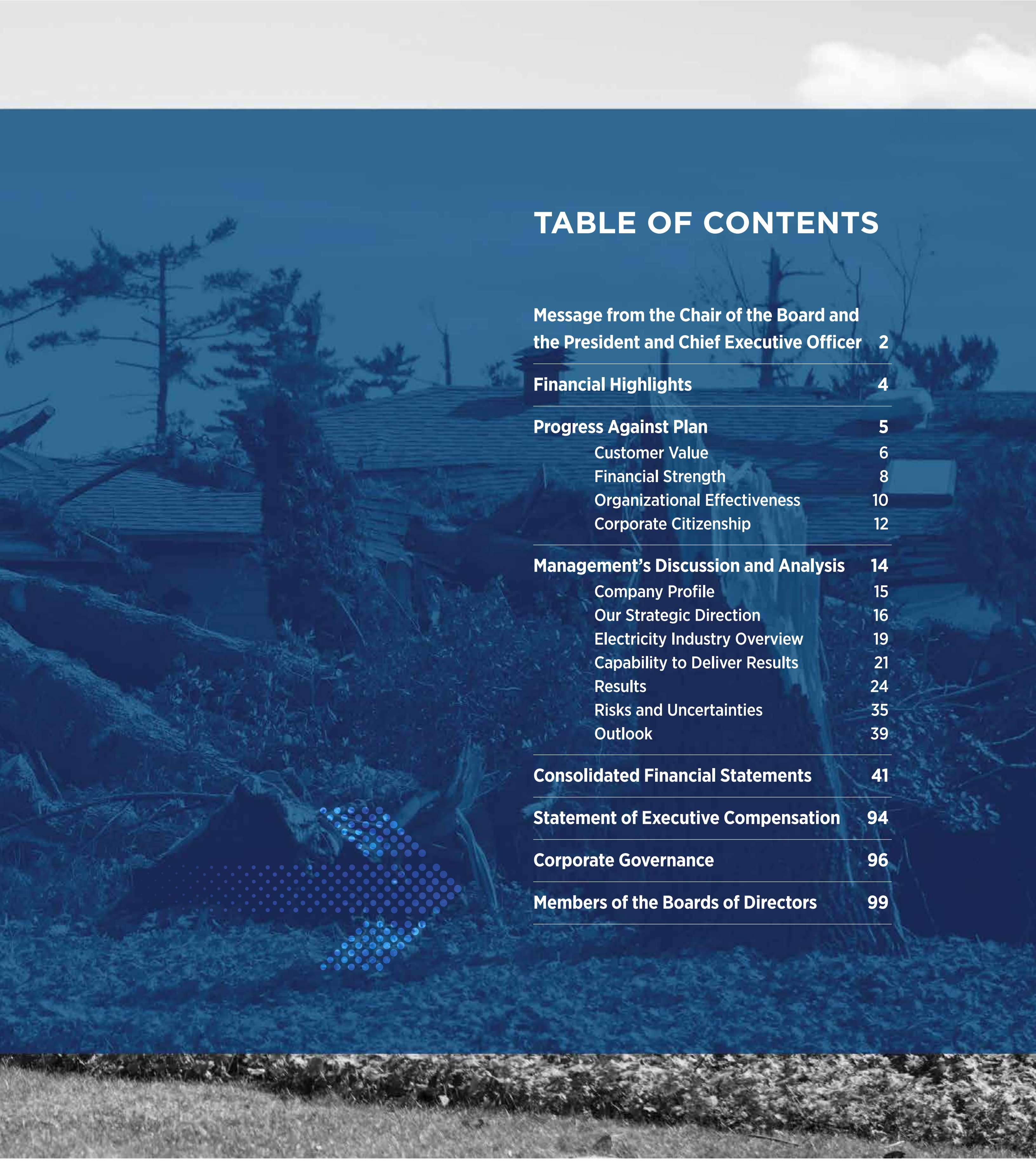
To create long-term value for our shareholder, benefitting our customers and the communities we serve

Our Organizational Values

Teamwork, Integrity, Excellence and Service

Our Vision

Hydro Ottawa – a leading partner in a smart energy future



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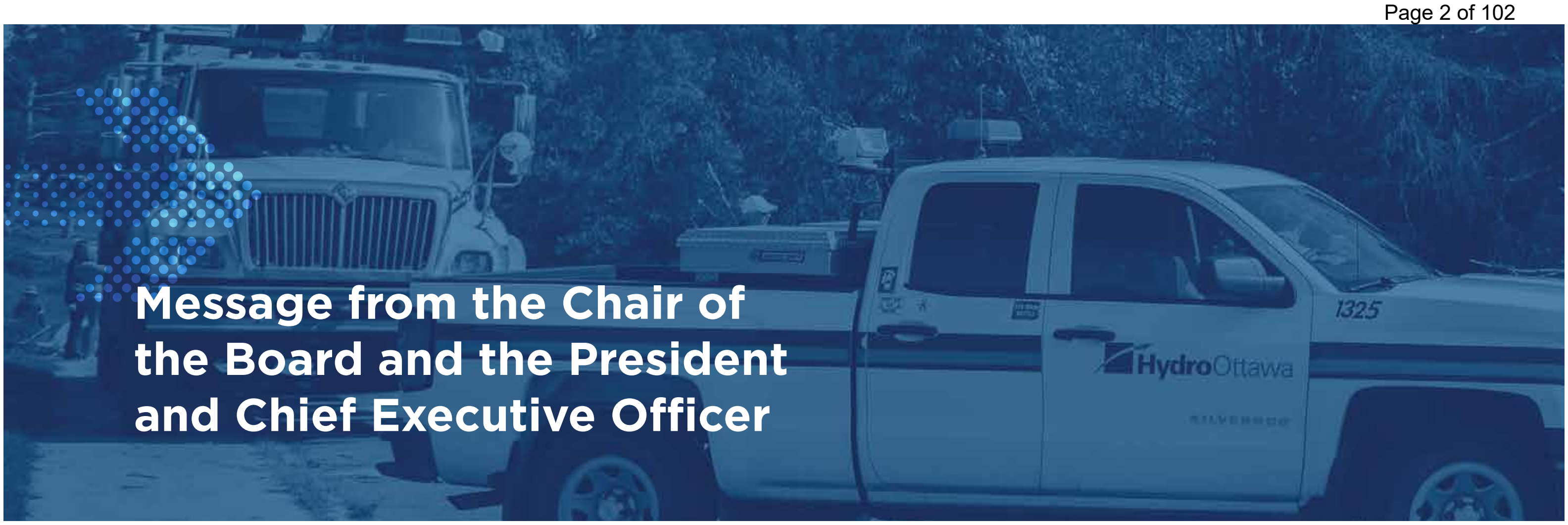


Message from the Chair of the Board and the President and Chief Executive Officer

On behalf of the Board of Directors of Hydro Ottawa Holding Inc., our management and employees, we are pleased to provide this 2018 Annual Report to our shareholder, the City of Ottawa. This report marks our third year of reporting on progress towards the vision and commitments laid out in our 2016-2020 Strategic Direction, which was endorsed by our shareholder in June 2016.

Once again in 2018 – and in fact even more so – key defining events in the life of our city and the conduct of our business were weather related. The ice and wind storms of the spring, while extreme in their own right, paled in comparison to the tornadoes that struck our service territory on Friday, September 21. The devastation in several neighbourhoods was profound, and power was interrupted over wide swaths of the city. It was the worst damage we have suffered since the 1998 ice storm, and affected not only our own distribution grid, but also one of the two critical power transformer stations we rely on to connect to the provincial electricity supply.

We activated our crisis response plan, dispatched crews and staffed an incident command centre round-the-clock, communicated extensively with customers, and kept a sharp focus on employee and public safety. By the early hours of Monday, September 24, service was restored to 95 percent of affected customers with all areas re-energized by Wednesday. Crucially, we achieved this feat with no lost-time injuries. This left us with three takeaways: our employees are remarkably dedicated, our customers are highly supportive, and our ongoing investments in infrastructure resilience are essential.

Despite disruptive weather effects, our financial performance remained strong in 2018. Consolidated net income at $42.1 million was up $6.2 million over 2017, strengthened by a one-time Conservation and Demand Management incentive payment of $4.1 million. This resulted in a $22.3 million dividend payment to the City of Ottawa, while our consolidated return on equity rose to 9.4 percent.

It is important to note that in March 2019, the provincial government announced its intention to refocus and centralize delivery of conservation and demand management programs. The programs that will remain in place will be delivered by the Independent Electricity System Operator [IESO] rather than by local distribution companies. This will have a significant impact on our business, as CDM programs have contributed to our net income and dividends, and this revenue stream will not be available in future years. Hydro Ottawa and local residents and businesses have been leaders in the field of energy conservation and we will continue to work with the IESO to ensure that our customers have access to the remaining programs. Other electricity policy reforms are underway in Ontario, and we will continue to closely monitor and respond to these developments.

What remains constant is our focus on effectively operating and investing in the electricity grid, while insulating our customers as much as possible from cost increases. In 2018, we continued to respond to our customers' strong expectation that we pursue all available savings, through innovation, productivity improvement and cost-control measures. This helped us rank second among our peers in Ontario in terms of lowest costs per customer.

We also continued to improve the customer experience by improving the flow of information and developing innovative services. Enhancements in 2018 focused on social media, our mobile app, digital outage communication, and making it easier to register for our payment plans and other transactional

activities such as moves. Notably, we became the first Canadian utility whose customers can access account and conservation information via smart home audio assistants.

We made prudent and strategic investments to strengthen aging components of our distribution grid, guided by our OEB-approved capital expenditure plan and the principle of directing investments where they will have the greatest value for customers. Our distribution system capital spending was at its highest level ever, reflecting in part asset-replacement expenses arising out of the extreme weather events.

We also maintained strong performance in our non-distribution businesses. 2018 was the first full year in operation of our new generation facility at Chaudière Falls, which boosted our green energy revenues by 52 percent, or $13.3 million. We continued to invest in our generating assets, commencing refurbishments of our two stations in Gatineau. Upon completion of this work in 2020, these stations will feed power into the Ontario grid under 40-year power purchase agreements, helping to alleviate a forecast capacity shortage in Ottawa's downtown core.

Our community involvement remained extensive, encompassing outreach to key stakeholders, and high-impact charitable investments to enhance community well-being. Within our own walls, employee safety and well-being remained an unwavering priority throughout the year.

In a year when we encountered significant weather-related challenges, Hydro Ottawa achieved 94 percent customer satisfaction – our highest rating in the past decade. For us, this is a signal that we are on the right track. We remain committed to providing safe, reliable and competitively priced electricity, and delivering value to our shareholder, our customers and our community.

Jim Durrell, C.M., ICD.D
Chair, Board of Directors

Bryce Conrad
President and Chief Executive Officer

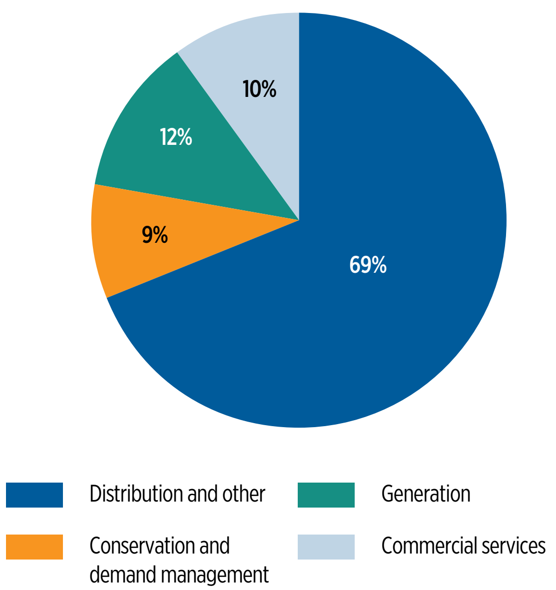
Financial Highlights

[in thousands of Canadian dollars]

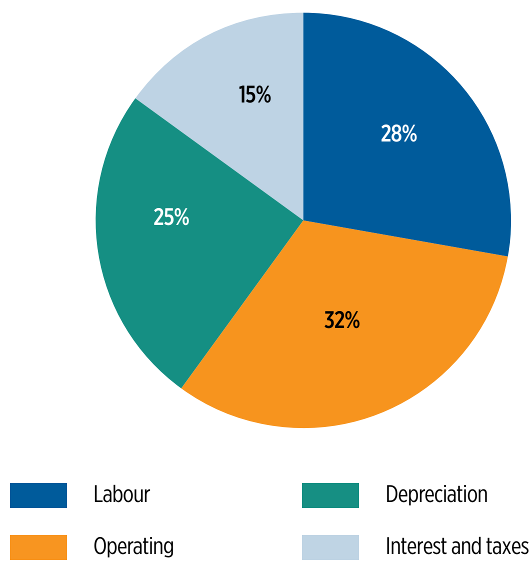
	2018	2017
Operations		
Total revenue [1]	**$ 1,132,294**	$ 1,140,187
Distribution revenue [1]	**$ 180,216**	$ 170,982
Generation revenue	**$ 32,325**	$ 22,898
Commercial services revenue	**$ 28,998**	$ 26,960
Conservation and demand management income	**$ 24,865**	$ 23,976
EBITDA [1]	**$ 141,675**	$ 118,271
Net income	**$ 42,138**	$ 35,975
Dividends	**$ (22,300)**	$ (21,900)
Balance Sheet		
Total assets and regulatory balances	**$ 1,855,616**	$ 1,732,334
Capital assets	**$ 1,573,661**	$ 1,391,356
Debentures	**$ 773,390**	$ 773,168
Shareholder's equity	**$ 462,882**	$ 438,141
Cash Flows		
Operating	**$ 138,979**	$ 91,962
Investing	**$ (182,747)**	$ (148,074)
Financing	**$ (21,900)**	$ (20,600)

1 Pre-IFRS 14 amounts and EBITDA are non-GAAP financial measures

Revenue by Type [1, 2]



Expenses by Type [1, 2]



1 Pre-IFRS 14

2 Excludes Power Recovery and Purchased Power

Progress Against Plan

Hydro Ottawa's 2018 Annual Report is the third to report against the Company's *2016–2020 Strategic Direction* that outlines our business strategy and financial projections for the next five years. This strategy retains the core elements of the previous strategic plan [2012–2016 Strategic Direction], while responding to an altered strategic context and reflecting important changes to the Company itself – including the scale of its renewable generation business. It also outlines a new vision for Hydro Ottawa – to be *a leading partner in a smart energy future*.

The essence of Hydro Ottawa's strategy is to put the customer at the centre of everything that we do. We believe that a sharp focus on the value we provide to our customers will generate positive results in all areas of performance – our financial strength and business growth, our operational efficiency and effectiveness, and our contributions to the community.

Hydro Ottawa's success in the past has been achieved by focusing on four critical areas of performance – our Four Key Areas of Focus: Customer Value, Financial Strength, Organizational Effectiveness, and Corporate Citizenship. These four Key Areas of Focus and supporting strategic objectives continue to guide our activities through the current plan and form the basis of our annual reporting in the pages that follow.

As before, the area of Customer Value takes on central importance as the most important driver of our business strategy.

FOUR KEY AREAS OF FOCUS

Customer Value

STRATEGIC OBJECTIVE

We will deliver value across the entire customer experience

- By providing reliable, responsive and innovative services at competitive rates

Financial Strength

STRATEGIC OBJECTIVE

We will create sustainable growth in our business and our earnings

- By improving productivity and pursuing business growth opportunities that leverage our strengths – our core capabilities, our assets and our people

Organizational Effectiveness

STRATEGIC OBJECTIVE

We will achieve performance excellence

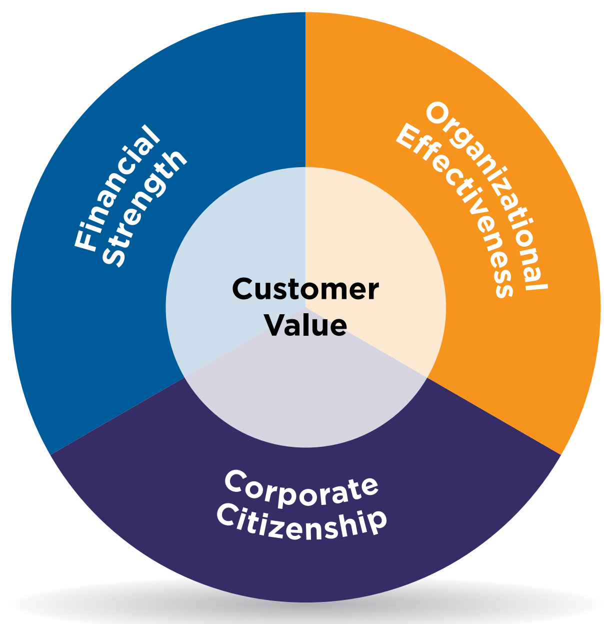
- By cultivating a culture of innovation and continuous improvement

Corporate Citizenship

STRATEGIC OBJECTIVE

We will contribute to the well-being of the community

- By acting at all times as a responsible and engaged corporate citizen



Customer Value

Strategic Objective: We will deliver value across the entire customer experience...by providing reliable, responsive and innovative services at competitive rates.

99% power restored within three days after tornadoes

$84.7M invested to keep distribution system safe and reliable

The essence of Hydro Ottawa's business strategy is to put the customer at the centre of everything we do. In 2018, we continued to deliver on our core commitment of a reliable supply of electricity – even at a time when weather extremes are becoming increasingly routine.

Our service territory was hit by a major ice storm in April, a major wind storm in May, and then by the tornadoes of September 21, which had devastating effects on several Ottawa neighbourhoods and disrupted the power supply for 174,000 customers. Hydro Ottawa immediately moved onto an emergency-operations footing, and was able to fully restore power to all residents within five days of the tornadoes – despite sustaining more damage to the distribution grid than during any other event since the 1998 ice storm.

While these weather events had an unavoidable impact on average outage duration during the year, we were able to moderate that impact due to improvements we have made to our physical infrastructure and our monitoring and remote-response capabilities, which have increased resilience. In early September, for example, we upgraded our Supervisory Control and Data Acquisition [SCADA] system, and were therefore better able to monitor and respond to grid impacts when the tornadoes struck just days later.

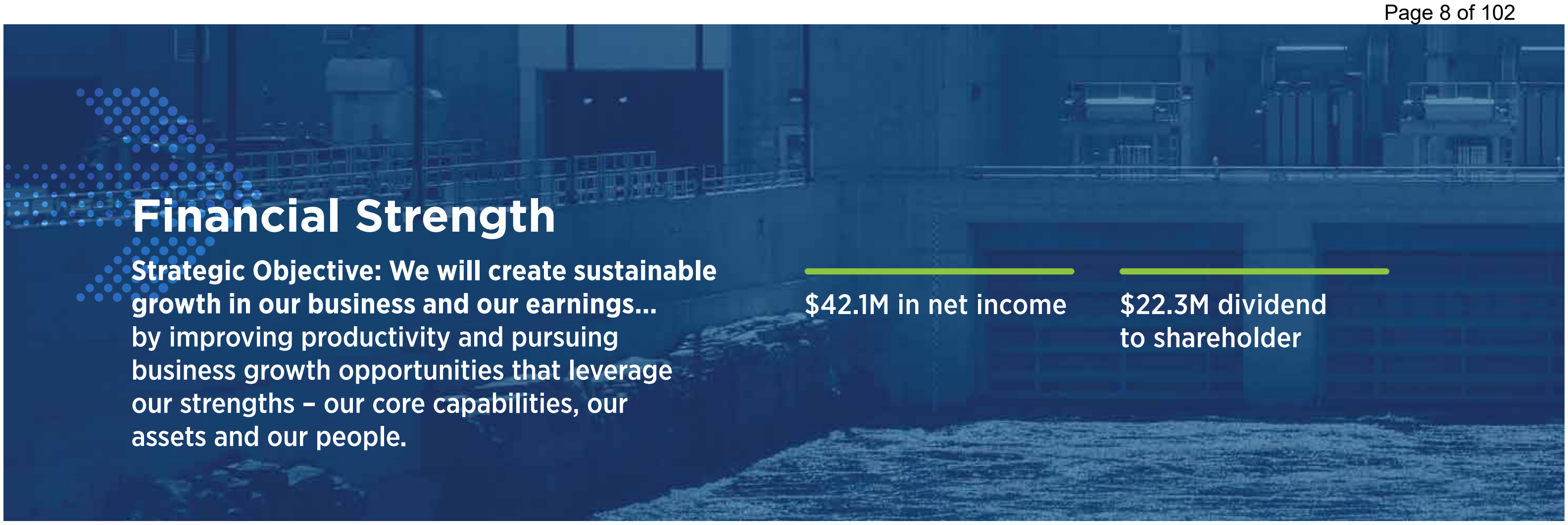
Our investments in system renewal totaled $84.7 million in 2018, including asset-replacement costs arising out of the extreme weather events. Consistent with both our customer-value focus and our OEB-approved capital plan, these investments targeted aging infrastructure and other imminent reliability risks. We invested a further $40.9 million to meet growing demand and to connect new customers to the grid, and gross distribution-related capital spending reached its highest-level ever in 2018.

We also continued to advance well beyond traditional utility service models in 2018. We made it easier for customers to report outages, to stay informed through social media, and to access detailed information through our outage map. We became the first Canadian utility whose customers can access account and conservation information via their Alexa and Google home audio assistants, and launched a residential electric vehicle charging pilot project.

We also made transactions more convenient by simplifying electronic payments and equal-monthly-payment services. Nearly half of our customers now use our e-billing option.

We continued to offer services and information to support energy conservation, including various features of the Hydro Ottawa App, while also continuing to deliver a broad suite of both commercial and residential conservation and demand management programs in 2018.

We achieved a 94 percent overall customer satisfaction score, which was the highest level in the past decade. We also received favourable customer and stakeholder feedback on the effectiveness of our response to the tornadoes and other weather events.



Financial Strength

Strategic Objective: We will create sustainable growth in our business and our earnings... by improving productivity and pursuing business growth opportunities that leverage our strengths – our core capabilities, our assets and our people.

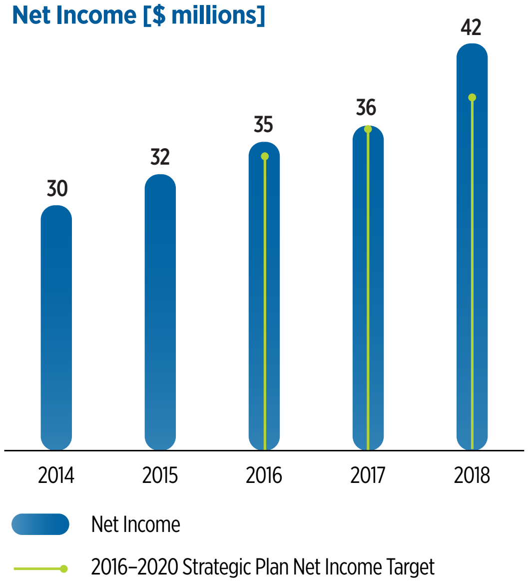
$42.1M in net income

$22.3M dividend to shareholder

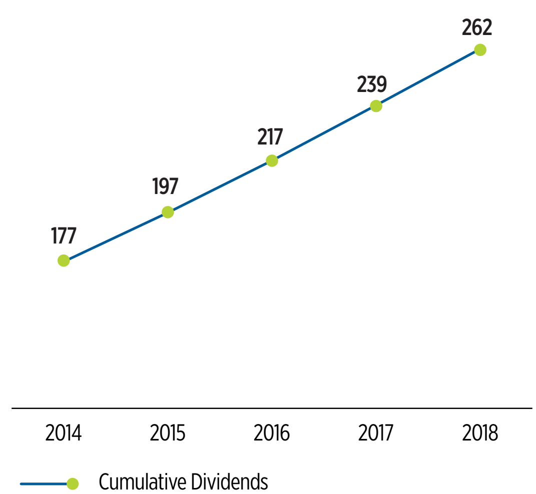
Hydro Ottawa achieved excellent financial results again in 2018. Key contributing factors included a one-time conservation and demand management [CDM] incentive payment of $4.1 million; the first full year in operation of the new Chaudière generating station on the Ottawa River, resulting in a 52 percent [$13.3 million] increase in generation revenues; and continued development of new business lines and revenues. Due to provincial policy changes announced in March 2019, Hydro Ottawa will not receive CDM incentive payments in future years.

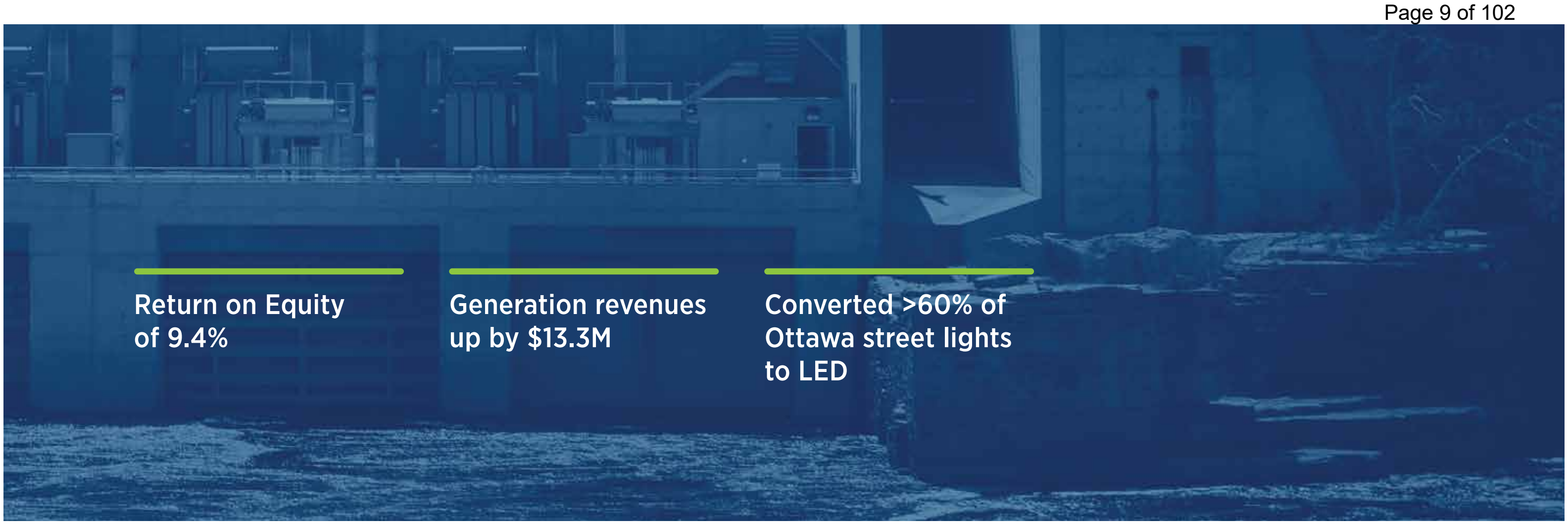
Our consolidated net income rose by $6.2 million to $42.1 million, surpassing the commitment in our 2016-2020 Strategic Direction by 11 percent. With a consolidated return on equity of 9.4 percent, Hydro Ottawa continued to create value for its sole shareholder, the City of Ottawa. Our 2018 performance generated a dividend payment of $22.3 million, well above the floor of $20 million, due in large part to the CDM incentive payment. This brought cumulative dividends paid to $262 million since 2005.

Net Income [$ millions]



Cumulative Dividends [$ millions]





Return on Equity of 9.4%

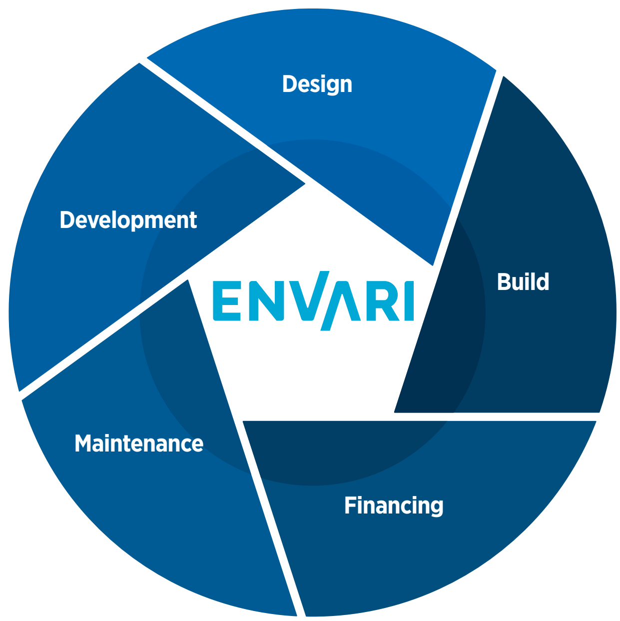
Generation revenues up by $13.3M

Converted >60% of Ottawa street lights to LED

These results were achieved despite the financial impacts of the tornadoes and other major weather events during the year; and despite the cancellation of Ontario's cap-and-trade program, which previously helped customers finance the purchase of energy-efficiency services and products. Productivity and cost containment gains were key to our financial success. In 2018, Hydro Ottawa ranked second for lowest costs per customer among large distributors in Ontario.

In July 2018, we suspended operations at two generating stations in Québec to commence significant refurbishments. Once this work is fully completed in 2020, Hydro Ottawa will sell electricity from these stations to the Province of Ontario under a 40-year contract with the IESO, helping to alleviate a forecast capacity shortage in Ottawa's downtown core.

At the end of 2018, our energy and utility-services business was separated from our generation business, and is now pursuing a growth and diversification strategy under the Envari brand. Envari's largest current project is the City of Ottawa streetlight conversion contract, which is almost two-thirds complete and delivering earlier and higher than projected energy savings to the City. Envari is also exploring and developing a range of other services. To date, it has seen particularly encouraging interest in its cable testing service, which achieved significant revenue growth in 2018.



Organizational Effectiveness

Strategic Objective: We will achieve performance excellence...by cultivating a culture of innovation and continuous improvement.

Safety remained our top priority

Renewed our trades workforce with 15 new apprentices

We believe that achieving the objectives set out in our 2016-2020 Strategic Direction for enhancing customer, shareholder and community value requires an effective and constantly learning organization, with the right skills and organizational capacity to deliver on existing and new business lines. As such, in 2018 we continued to focus on three main outcomes: a safe and healthy work environment; an engaged, aligned and prepared workforce; and effective and efficient operations that enhance the customer experience.

Protection of employee and public health and safety remained our top priority, with a particular focus on employee wellness, and mindful and safe work practices. We provided an average of 20 hours of safe work practices training per employee, and more than 33 hours for employees in higher risk trades. Our Occupational, Health, Safety and Environment [OHSE] management system continued to be certified to the internationally recognized standards of OHSAS 18001 and ISO 14001.

We reached two noteworthy safety-related milestones, the first being zero lost-time injuries during our demanding emergency responses to the tornadoes and other extreme weather events during the spring and fall. And we achieved a full one-million hours worked without a new lost time injury during the year.

Like many other utilities, Hydro Ottawa faces challenging workforce demographics. But with the benefit of a proactive and long-standing Talent Management Strategy, we have been successful in getting in front of this trend and in achieving significant workforce renewal. In 2018, we had apprentices in the pipeline in all trades required for our operations and the percentage of employees eligible to retire began to decrease. Our partnership with Algonquin College to replenish the Powerline Technician Trade remained strong, and the College recognized Hydro Ottawa with an Employer of the Year Award for our commitment to training and hiring its alumni.

Our summer and co-op student programs continued, as did our retiree and older-worker engagement programs, and our second diversity and inclusion plan progressed well. Inaugural celebrations of International Women's Day and Lineworker Appreciation Day were part of a much broader suite of initiatives aimed at advancing workforce diversity, inclusion, engagement and appreciation.

Productivity and performance improvement remained a focal point. Significant initiatives in 2018 included new vegetation management service contracts that reduced tree trimming costs; and digitization of our distribution system design, review and sign off processes. Technology also continued to play a key role in our efforts to enhance performance and productivity, as well as customer service. In 2018, we invested $10.2 million in next generation technology to support customer service, operational efficiency, grid modernization and cybersecurity.

The construction phase of our Facilities Renewal Program neared completion in 2018. In 2019 we will dispose of two facilities – inherited from pre-amalgamation utilities – and relocate into modern operations centres and administrative office, which have been designed and located to match the current scale and configuration of our service territory.

Corporate Citizenship

Strategic Objective: We will contribute to the well-being of the community...by acting at all times as a responsible and engaged corporate citizen

Raised >$370K through charitable fundraising

Educated >18,000 students on electrical safety

In 2018, Hydro Ottawa remained true to its heritage as a responsible company – one that is well-governed, open and engaged with our stakeholders, environmentally responsible, and an active contributor to community well-being.

We were highly visible to and engaged with our stakeholders, while also providing high-impact support in diverse and carefully chosen ways within our service territory. And we took steps to further reduce our own environmental footprint, while contributing to the wider transition to a greener economy and lifestyles in our service territory.

We communicated regularly in 2018 with the City of Ottawa [and its mayor and councillors] as our sole shareholder, as well as with community associations and business improvement areas, and with Ottawa residents generally. We hosted open houses to discuss our planned work projects and their community impacts, sponsored or participated in more than 400 community events, and educated more than 18,000 local students about electrical safety. And we maintained a high profile on both traditional and social media channels.

Our Community Investment Program continued to be a leading source of targeted charitable contributions in Ottawa. We raised over $370,000 as part of our 2018 employee driven charitable fundraising campaign, with funds directed to a five-year, $1 million arrangement with The Ottawa Hospital to help build the Breast Health Centre as well as to the United Way, including their mental health programs.

Special Needs Day continued to be one of the year's employee volunteer highlights making it possible for children and adults with intellectual and/or physical disabilities to experience a day at the Capital Fair. We also maintained our long-standing corporate support for Christie Lake Kids, whose programming benefits economically disadvantaged youth. Numerous additional smaller scale community-partnership investments were directed primarily to youth-focused organizations, and to initiatives ranging from the Help Santa Toy Parade to the Capital Pride Community Fair.

Strong waste diversion, local purchasing, and installation of solar arrays at our new operating facilities were among the practices that reduced our own environmental footprint. In combination with the important role we play in green-energy generation and in facilitating broader electrification, this helped earn us recognition in 2018 as one of Canada's Greenest Employers for the seventh time.

We were once again pleased to have earned third-party recognition in 2018 for the quality of our performance in relation to best employer, corporate social responsibility, leading safety and customer programs, and human resources innovation. [See the inside back cover for full list.] Consistent with our ongoing focus on diversity and inclusion, we were recognized for the first time in 2018 as one of Canada's Best Diversity Employers.

Management's Discussion and Analysis

INTRODUCTION

The Management's Discussion and Analysis ['MD&A'] reviews Hydro Ottawa Holding Inc.'s operational performance and financial results, and should be read in conjunction with the audited consolidated financial statements and accompanying notes for the year ended December 31, 2018. On January 1, 2015, Hydro Ottawa Holding Inc. adopted International Financial Reporting Standards ['IFRS'] including early adoption of *IFRS 14 Regulatory Deferral Accounts* ['IFRS 14']. The accompanying consolidated financial statements are prepared in accordance with IFRS, as issued by the International Accounting Standards Board ['IASB'], and are expressed in thousands of Canadian dollars.

The MD&A contains forward-looking statements, including, but not limited to, statements as to future operating results and plans. These statements reflect management's expectations as of the date of approval of the consolidated financial statements. The impacts of risks and uncertainties may cause actual results, performance or achievements to differ materially from those projected here.

CORE BUSINESS AND STRATEGY

Company Profile

Hydro Ottawa Holding Inc. ['Hydro Ottawa', 'the Company' or 'the Corporation'] is 100 percent owned by the City of Ottawa. It is a private company, registered under the *Ontario Business Corporations Act*, and overseen by an independent Board of Directors consisting of the President and Chief Executive Officer and 10 members appointed by City Council. The core businesses of the Corporation are electricity distribution, renewable energy generation, and energy and utility services. Hydro Ottawa owns and operates three primary subsidiary companies.

Hydro Ottawa Limited, the first of these subsidiaries, is a regulated electricity local distribution company ['LDC'] operating in the City of Ottawa and the Village of Casselman. As the third-largest municipally owned electrical utility in Ontario, Hydro Ottawa Limited maintains one of the safest, most reliable and cost-effective electricity distribution systems in the province, serving approximately 335,000 residential and commercial customers across 1,116 square kilometres. As a condition of its distribution licence, the Company is required to meet conservation and demand management ['CDM'] targets established by the Ontario Energy Board ['OEB']. The Company's customer base grows by an average of one percent per year.

Energy Ottawa Inc. ['Energy Ottawa'], the second of these subsidiaries, is the largest Ontario-based municipally owned producer of green power. Energy Ottawa owns and operates six run-of-the-river hydroelectric generation plants at Chaudière Falls near Ottawa's core, along with the historic Ottawa River Ring Dam, and 10 other run-of-the-river facilities in Ontario and New York. It also holds majority interests in two landfill gas-to-energy joint ventures, which produce clean, renewable energy from landfill gas at the Trail Road and Laflèche landfill sites in Ottawa and in Moose Creek, Ontario; and has 14 solar installations across the City of Ottawa. In total, Energy Ottawa has over 128 megawatts of installed green generation capacity – enough to power 107,000 homes.

Envari Holding Inc. ['Envari'], the third of these subsidiaries, sells energy solutions to municipalities, to industrial and commercial clients, and to various LDCs. Envari manages large energy transformation projects on behalf of its clients, offers a portfolio of energy efficient and environmentally friendly products and services, and provides operations and maintenance capabilities to its customer base. These activities were previously under Energy Ottawa until December 31, 2018.

For a list of the significant operating subsidiaries and joint ventures included in Hydro Ottawa's consolidated financial results, refer to Note 1 [Description of Business and Corporate Information] in the consolidated financial statements included in this report.

Our Strategic Direction

In 2016, Hydro Ottawa issued a new strategic plan [2016–2020 Strategic Direction], outlining the Company's business strategy and financial projections for the next five years. This strategy retains the core elements of the previous strategic plan [2012–2016 Strategic Direction], while responding to an altered strategic context and reflecting important changes to the Company itself – including the scale of its renewable generation business. It also outlines a new Vision for Hydro Ottawa: to be a *leading partner in a smart energy future*.

Strategy

The essence of Hydro Ottawa's strategy is to put the customer at the centre of everything we do. Reorienting our business around the customer was the primary goal of our 2012–2016 Strategic Direction, and customer centrality continues to drive our business strategy. We believe that a sharp focus on the value we provide to our customers will generate positive results in all areas of performance – our financial strength and business growth, our operational efficiency and effectiveness, and our contributions to the well-being of our community.

A core premise of our 2016–2020 Strategic Direction is that the electricity service model is in the midst of significant transformation – taking on a more decentralized, customer-centric, technologically advanced and environmentally sustainable form. The transition to a more customer-driven and customer-centric model of electricity will present opportunities for energy providers that are able to innovate, and challenges for those that fail to adapt. Our strategy for responding to this emerging landscape involves eight core elements:

- Taking customer experience to the next level;
- Continuing to achieve strategic growth, including continued growth in our renewable energy business, evaluating opportunities to grow our electricity distribution business, and expanding the range of services we provide;
- Ensuring access to capital for growth;
- Making sure we have the right skill sets and organizational capacity to deliver on existing and new business lines;
- Continuing to enhance operational performance, including productivity and safety;
- Delivering on critical projects such as the Chaudière expansion project;
- Continuing to build public confidence and trust; and
- Being ready to embrace change and disruption in our industry.

Our aim is to be the trusted energy advisor for our customers – large and small – and our community. As the energy needs and options of our customers and our community evolve, and as signature projects and developments proceed, Hydro Ottawa will play a leading role in helping our City to transition to a smart energy future.

We will also continue to grow shareholder value, maintaining a focus on strategic business growth within our core areas of strength. Our growth agenda involves four basic components:

- **Electricity Distribution:** continuing to evaluate opportunities to increase our distribution service territory;
- **Renewable Generation:** increasing the supply of clean energy for customers and earnings for our shareholder by making smart investments in renewable generation;
- **Energy Services:** providing innovative solutions to help consumers, businesses and communities meet their energy objectives, through energy management, conservation, efficient street lighting, energy generation, energy storage, district energy, and demand response opportunities, among others; and
- **Utility Services:** leveraging our assets and expertise to help other utilities to enhance the value they provide, creating new revenue streams and economies of scale.

Taken as a whole, we believe this strategy for the Company's future presents a balanced program for solid performance, adaptation to a changing business environment, and sustainable and profitable business growth.

Mission, Vision & Guiding Principles

OUR MISSION – *To create long-term value for our shareholder, benefitting our customers and the communities we serve*

Hydro Ottawa is both a community asset and an investment for our shareholder, the City of Ottawa. As a community asset, our purpose is to provide efficient and reliable services and a first-class customer experience to our customers, and to continue to be a strong strategic partner with the City, helping to deliver on its economic development and environmental agendas. As an investment, our purpose is to provide stable, reliable and growing returns, and to increase shareholder value both in the short- and long-term.

OUR VISION – Hydro Ottawa – *a leading partner in a smart energy future*

OUR GUIDING PRINCIPLES

Hydro Ottawa is committed to creating long-term value in a manner that will withstand the test of public scrutiny and inspire confidence and trust. To that end, we strive to achieve excellent operating and financial results while abiding by professional standards of conduct. We are guided not only by legal obligations, but also by best governance and business practices, and standards established by independent agencies. These expectations provide the foundation for our commitment to all of our stakeholders, and are reflected in our organizational values, our Code of Business Conduct, and our operating policies and procedures.

OUR ORGANIZATIONAL VALUES

At Hydro Ottawa we are committed to an organizational environment that fosters and demonstrates ethical business conduct at all levels and reflects our shared values of teamwork, integrity, excellence and service. Every employee must lead by example in this endeavour.

OUR COMMITMENTS TO OUR STAKEHOLDERS

Hydro Ottawa takes into account the interests of all our stakeholders including employees, customers, suppliers, our shareholder, and the communities and environment in which we operate.

Employees

The quality of our workforce is our strength and we will strive to hire and retain the best-qualified people available and maximize their opportunities for success. We are committed to maintaining a safe, secure and healthy work environment enriched by diversity and characterized by open communication, trust, and fair treatment.

Customers

Our continued success depends on the quality of our customer interactions, and we are committed to delivering value across the entire customer experience. We are honest and fair in our relationships with our customers, and provide reliable, responsive and innovative products and services in compliance with legislated rights and standards for access, safety, health and environmental protection.

Suppliers and Contractors

We are honest and fair in our relationships with our suppliers and contractors and purchase equipment, supplies and services on the basis of merit, with a preference for local procurement. We pay suppliers and contractors in accordance with agreed terms, encourage them to adopt responsible business practices, and require them to adhere to our health, safety and environment standards when working for Hydro Ottawa.

Community and the Environment

We are committed to being a responsible corporate citizen and will contribute to making the communities in which we operate better places to live and do business. We are sensitive to the community's needs, and dedicated to protecting and preserving the environment where we operate.

Shareholder and Other Suppliers of Finance

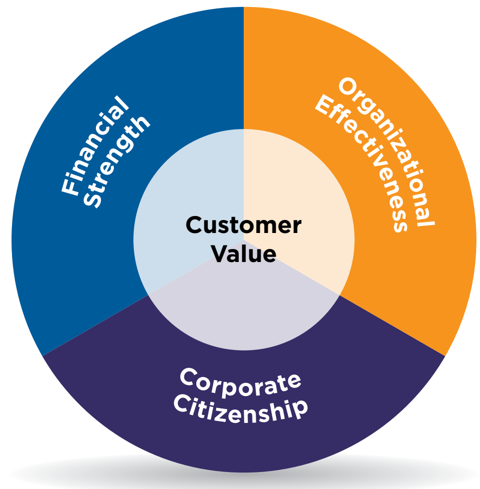
We are financially accountable to our shareholder and to the institutions that underwrite our operations, and communicate to them all matters material to our organization. We protect our shareholder's investment, and manage risks effectively. We communicate to our shareholder all matters that are material to an understanding of our corporate governance.

Four Key Areas of Focus

Hydro Ottawa's success in the past has been achieved by focusing on four critical areas of performance – our four Key Areas of Focus. In each of these areas, we have set one overarching objective:

- **CUSTOMER VALUE:** We will deliver value across the entire customer experience by providing reliable, responsive and innovative services at competitive rates;
- **FINANCIAL STRENGTH:** We will create sustainable growth in our business and our earnings by improving productivity and pursuing business growth opportunities that leverage our strengths – our core capabilities, our assets and our people;
- **ORGANIZATIONAL EFFECTIVENESS:** We will achieve performance excellence by cultivating a culture of innovation and continuous improvement; and
- **CORPORATE CITIZENSHIP:** We will contribute to the well-being of the community by acting at all times as a responsible and engaged corporate citizen.

These four areas of focus and strategic objectives will continue to guide our activities through the current plan. As before, the area of Customer Value takes on central importance as the most important driver of our business strategy.



Electricity Industry Overview

Within the broader electricity sector, different entities are responsible for generating electricity, transmitting it, and delivering it to customers' homes and businesses; as well as for directing grid and market operations, and overseeing and regulating the system as a whole. These entities are different in the three markets where Hydro Ottawa operates: Ontario, Québec and New York.

Electricity Generation

Electricity is created at generating stations — hydroelectric, nuclear, fossil-fueled, wind, biomass and biogas, and solar – as well as at small-scale "distributed energy" installations [mainly renewables] at or near end-use locations. Facilities such as nuclear and large hydroelectric stations operate continuously, while wind and solar operate intermittently, and others such as natural gas stations can start up or slow down as required to follow demand fluctuations. Hydro Ottawa, through its subsidiary, Energy Ottawa, has a fleet of hydroelectric, landfill gas-to-energy and solar generating stations, and is the largest Ontario-based municipally owned producer of green power.

Electricity Transmission

Electricity is transmitted from generating stations to large industrial customers and local distribution companies through a high-voltage network of transformer stations, transmission towers and wires. In Ontario, the transmission network is primarily operated by Hydro One, while in Québec it is operated by Hydro-Québec TransÉnergie. In New York State, the transmission system is operated by a number of private and public entities such as National Grid and the New York Power Authority, which are collectively referred to as New York Transmission Owners.

Electricity Distribution

After transmission, electricity in Ontario is distributed at lower voltages to homes, businesses, hospitals, schools, factories, and farms by LDCs such as Hydro Ottawa Limited. LDCs deal directly with electricity customers, maintain their communities' systems of electricity wires, and create and implement electricity conservation programs for customers. LDCs are the primary electricity-billing agent collecting all electricity charges. Hydro Ottawa Limited is a municipally owned LDC that operates in the City of Ottawa and the Village of Casselman.

While it is always an LDC that delivers electricity through its distribution lines to a home or business, electricity customers have the choice of buying their electricity from their local LDC or an electricity retailer. Most Ontario customers choose to buy from their LDC. Hydro Ottawa is not engaged in electricity distribution in markets outside Ontario.

System Operators

The Independent Electricity System Operator ['IESO'] connects all participants in Ontario's power system — generators that produce electricity, transmitters that send it across the province, retailers that buy and sell it, industries that use it in large quantities, and LDCs that deliver it to homes and businesses. The IESO forecasts electricity demand throughout the province in continuously updated five-minute intervals and collects offers from generators to provide the required amount. Customers buying directly from the provincial market can therefore see prices fluctuate based on current supply and demand, and can respond accordingly. The IESO monitors the system, identifies what is required to maintain reliability in the future, and publishes its findings in regular reports. It also coordinates emergency preparedness for the province's electricity system.

The *New York Independent System Operator* ['NYISO'] is at the heart of New York's electricity system, monitoring the grid and power infrastructure, administering and monitoring the wholesale electricity markets, and planning for the state's energy future. The NYISO was created to provide fair and open access to the electrical grid. New York is divided into 11 electricity zones and, within each, the NYISO is responsible for scheduling generation and load, contracting for the services necessary to maintain grid reliability, and scheduling imports and exports. The NYISO is also responsible for publishing current demand or load in real time. Hydro Ottawa's New York State assets are located in the NYISO Zone E – Mohawk Valley.

Hydro-Québec operates the entire electricity system in Québec through various divisions; the division that performs the system operator role is Hydro-Québec TransÉnergie.

Regulatory Framework

In Ontario, the Ministry of Energy ['the Ministry'] sets the overall policy for the energy sector, guided by relevant laws and regulations. The Ministry oversees the IESO and the Ontario Energy Board [OEB], which regulate the energy sector as set out primarily in three statutes — the *Ontario Energy Board Act*, *1998* ['OEB Act']; the *Electricity Act, 1998*; and the *Energy Consumer Protection Act, 2010*. The OEB Act establishes the authority of the OEB to approve and fix all rates for the transmission and distribution of electricity in Ontario, and to set standards of service, conduct and reporting that must be adhered to as a condition of being licensed.

In the United States, electrical utilities and independent power producers are regulated at both the federal and state levels. Under the *Federal Power Act*, the Federal Energy Regulatory Commission ['FERC'], an independent agency within the U.S. Department of Energy, regulates the transmission and wholesale sale of electricity in interstate commerce. Unless otherwise exempt, any entity that owns or operates facilities used for the wholesale transmission or sale of electricity in interstate commerce is a public utility subject to FERC's jurisdiction. Also under the oversight of FERC are regional system operators like NYISO, as well as privately-owned hydroelectric stations, whose operating licenses are issued by FERC.

In Québec, the electricity sector is regulated by La Régie de l'énergie ['the Régie'], an independent agency. The *Act Respecting the Régie de l'énergie* grants the Régie exclusive authority to determine or modify the rates and conditions under which electricity is transmitted and distributed by Hydro-Québec.

Rates

Hydro Ottawa Limited recovers its costs from customers through electricity distribution rates. These include the costs to:

- design, build, and maintain overhead and underground distribution lines, poles, stations and local transformers;
- operate local distribution systems, including smart meters; and
- provide customer service and emergency response.

Costs and rates vary from one distributor to another, depending on factors such as the age and condition of assets, geographic terrain and distances served, population density and growth, and the proportion of residential to commercial and industrial consumers.

Hydro Ottawa Limited's distribution charge represents just over 20 percent of a customer's total electricity bill. Hydro Ottawa Limited collects the whole amount, but keeps only this portion. The remainder is passed on, without mark-up, to regulators, the provincial government, and the other companies responsible for generating and transmitting electricity.

Hydro Ottawa Limited's distribution rates are set by the OEB, based on rate-change applications. For more information on the rate-setting framework and Hydro Ottawa Limited's rates, see Note 3[d] [Significant Accounting Policies - Regulation] to the consolidated financial statements included in this report.

Energy Ottawa's hydroelectric generation rates are set through facility-specific contracts. For hydroelectric facilities delivering power to Ontario and Québec, Energy Ottawa operates under agreements with the IESO and Hydro-Québec respectively, whereby a "base contractual rate" is determined at the outset of each agreement. In Ontario, an indexing factor is applied on an annual basis until the completion of the contract term; while in Québec the rate is locked in for the first two years after which it fluctuates based on applicable market rates. In July 2018, the Corporation suspended operations at its two generating stations in Québec in order to commence significant refurbishments – once this is completed in 2020, the Corporation will sell its electricity from these stations to the Province of Ontario under a contract with the IESO. For hydroelectric stations located in upstate New York, Energy Ottawa's power purchase agreements – all of which are with the Niagara Mohawk Power Corporation, a subsidiary of National Grid plc – are currently market-based. As a result, the rates that determine generation revenues from these stations fluctuate.

CAPABILITY TO DELIVER RESULTS

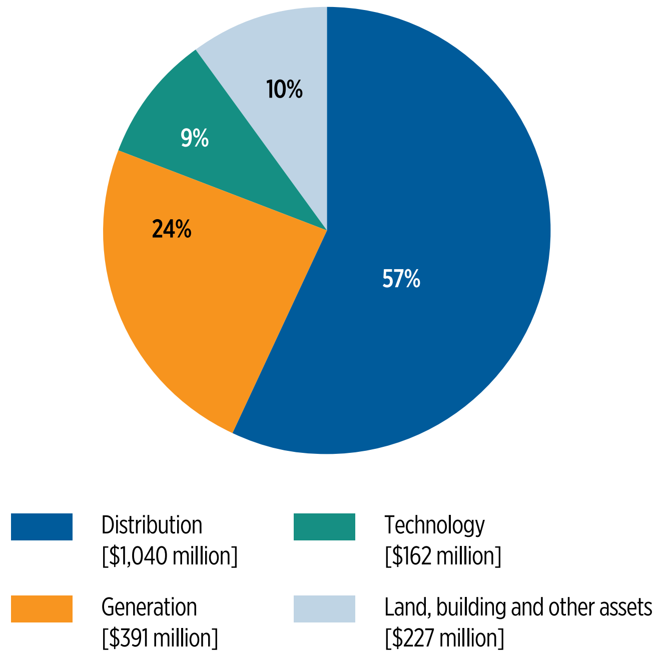
Hydro Ottawa's capability to achieve the objectives set out in its strategic direction is a function of its tangible and intangible assets, expertise, systems, and capital resources across the following areas.

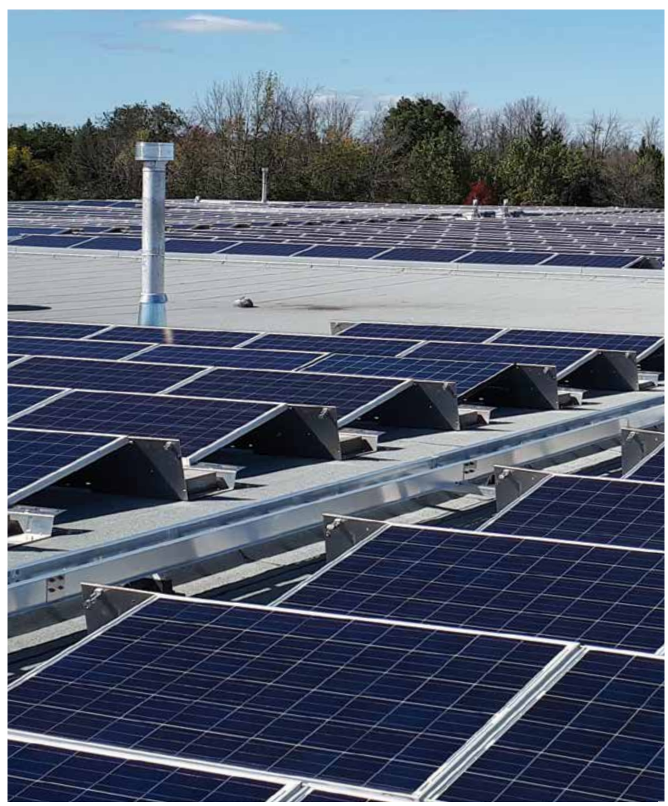
Assets

Hydro Ottawa's gross asset base is $1.82 billion, with significant ongoing investments in distribution and generation infrastructure and technology systems. Like all utilities, Hydro Ottawa is affected by the reality of aging infrastructure, and continues to manage this through increased infrastructure investments and a detailed Distribution System Plan to target spending where it will have the most benefit. In 2018, the Corporation invested $85 million to maintain its distribution system and a further $41 million to expand the system to meet customer needs [see 'Investing Activities' for more details]. These investments are having the desired impact, with electricity service reliability remaining strong system-wide despite the occurrence of major-weather-event days in 2018. Hydro Ottawa has also recognized the need to replace core work and operational centres that are at the end of their useful life. In 2018, work progressed on its facilities renewal project, including construction and preparations for the move in 2019. Hydro Ottawa also continues to grow its renewable generation infrastructure with $49 million invested in 2018.

- ***Electricity Distribution Assets*** – For more than 100 years, Hydro Ottawa and its predecessor companies have delivered a reliable supply of electricity to homes and businesses.
  - › Service Area – 1,116 square kilometers
  - › Circuitry – 5,767 kilometers
  - › Substations – 88
  - › Transformers – 46,536
  - › Poles – 48,514
- ***Renewable Generation Assets*** – Largest Ontario-based municipally owned producer of green power with 128 megawatts of installed generation capacity, enough to power 107,000 homes.
  - › Run-of-the-River Hydroelectric Generating Stations – 16
  - › Landfill Gas-to-Energy Plants – 2
  - › Solar Installations – 14

Gross Tangible and Intangible Assets





Workforce

A highly skilled, properly trained and knowledgeable workforce – and a safe and healthy work environment – are essential to Hydro Ottawa's continued success. The company's strategic objectives will only be achieved through the efforts of an effective and constantly learning organization, with the right skill sets to deliver on existing and new business lines.

Hydro Ottawa employed approximately 750 people at the end of 2018 across the enterprise, with Hydro Ottawa Limited accounting for 87 percent of this workforce.

Like many other utilities, Hydro Ottawa continues to face challenging workforce demographics that require a concerted response. The Company has put in place a comprehensive and integrated talent management strategy. It is anticipating and meeting talent needs through planning, talent attraction and acquisition, effective deployment of resources, and performance management and development. More specifically this includes:

- ***Training:*** Our in-house apprenticeship and engineering internship programs continued to grow in 2018 with 15 new apprentices hired [bringing the total to 45, or 25 percent of our trades workforce]. Seven apprentices reached journeyperson status in 2018.
- ***Succession:*** Succession planning and management programs ensure that there are qualified employees in the talent pipeline for key positions.
- ***Knowledge Management & Transfer:*** A proactive approach for key positions includes an older worker and retiree engagement strategy to help seamlessly transition work from our veteran workforce to the next generation.
- ***Diversity & Inclusion:*** A plan fosters an inclusive culture that leverages diversity and enhances employee engagement and innovation.
- ***Partnerships:*** These include, most notably, collaborations with Algonquin College to deliver the College's Powerline Technician programs in the eastern Ontario region, and with Carleton University's Sustainable and Renewable Energy Engineering Department for the establishment of a smart grid laboratory. The latter fosters innovative research on electrical power systems and promotes the training of engineers in the smart grid environment.

Employee compensation programs continued to support a high-performance culture, and include market-driven and performance-based components to attract and retain key employees.

As our business changes, so too does the profile of our workforce. It is increasingly diverse in age, skills, background, belief, ethnicity, sexual orientation, and in many other ways. We aim to create a thriving and respectful workplace for all.

A fundamental component of Hydro Ottawa's commitment to operating efficiently and effectively is the very high priority we place on protecting the health and safety of our employees and our community. Hydro Ottawa has established an integrated health, safety and environment management system that has maintained certification to Occupational Health and Safety Assessment Series 18001, and to International Organization for Standardization 14001, since November 2007.

Systems and Processes

Hydro Ottawa has made significant investments in technology systems to enhance the Company's effectiveness. These include customer information and billing systems, advanced metering, and information and operational technologies such as geographic information systems, system control, outage management, and mobile workforce management systems. We take the security of our critical infrastructure against cyber threats seriously, and collaborate proactively with government, regulators and private sector partners across North America to manage this risk. And our technology decisions continue to be based on three basic criteria: enhancing service to our customers; creating efficiencies that will increase our competitiveness; and improving functionality to be more agile and resilient in the face of industry disruption.

Hydro Ottawa is also focused on maximizing the efficiency and effectiveness of our operations by optimizing productivity at every opportunity.

Examples of initiatives undertaken in 2018 include:

- implemented a new SCADA [Supervisory Control and Data Acquisition] System providing enhanced visibility for system control personnel, field crews and management into the state of the electrical grid;

- expanded outage reporting to enable customers to report a power outage via the Hydro Ottawa MyAccount [web portal] and our mobile app;
- continued to digitize processes and to reduce overall paper footprint by leveraging various technologies such as Blue Beam and DocuSign; and
- became the first utility in Canada to launch a smart audio skill to allow customer inquiries and conservation through Alexa and Google Home devices.

Capital Resources

Liquidity and Capital Resources

The Corporation's primary sources of liquidity and capital resources are operating activities, banking facilities, and proceeds from bond issuances as and when required. Liquidity and capital resource requirements are primarily for maintenance of the Hydro Ottawa Limited electricity distribution system; investments in generation assets; and cost of power, interest expense, and prudential requirements.

On August 10, 2018, the Corporation renewed its credit facility for $340 million. The Corporation may use up to $190 million of the facility for general operating requirements and annual capital expenditures. The remaining $150 million provides short-term bridge financing for large capital projects and acquisitions.

Capital expenditure requirements in excess of the credit facility, if any, will be funded through future bond issuances. The utility sector continues to be a very attractive investment in the capital markets with strong demand across all bond tenures. This provides the Corporation access to significant market capacity to support its ongoing investment requirements. The Corporation's existing corporate bond profile is very strong with a weighted average maturity of 19 years at an average weighted cost of 3.49 percent. A $204 million, 40-year non-recourse project bond was issued in 2016 for the hydroelectric generation expansion at Chaudière Falls at a rate of 4.08 percent. For additional details regarding the Corporation's sources of liquidity and capital resources, see Notes 13, 17 and 18 to the consolidated financial statements.

Credit Ratings

On July 31, 2018, Dominion Bond Rating Service Inc. ['DBRS'] reaffirmed Hydro Ottawa's rating at 'A' with a stable trend during the year. While Hydro Ottawa's portfolio of generation assets have long-term power purchase agreements with creditworthy counterparties, DBRS noted that Hydro Ottawa's business risk profile may be negatively affected if earnings from the non-regulated segment exceed 20 percent. On November 7, 2018, Standard & Poor's ['S&P'] confirmed its rating at 'BBB+' with a stable outlook. S&P noted that Hydro Ottawa continues to have an excellent business risk profile due to its operation under a transparent, consistent, and predictable regulatory framework for electricity distribution; its large and diverse customer base; and the quality of its government-backed power purchase agreements for the majority of the generation assets, which provide steady, predictable and stable cash flows.

RESULTS – PROGRESS AGAINST PLAN

To ensure Hydro Ottawa makes steady progress towards achieving the corporate strategy set out in our 2016–2020 Strategic Direction, the Company has set enterprise-wide strategic objectives in each of its four key areas of focus, and established Board-approved performance goals. The table below summarizes performance in relation to its goals for 2018.

KEY AREAS OF FOCUS	ENTERPRISE STRATEGIC OBJECTIVES	2018 PERFORMANCE GOALS	2018 PERFORMANCE HIGHLIGHTS
CUSTOMER VALUE	We will deliver value across the entire customer experience *by providing reliable, responsive and innovative services at competitive rates*	Assist customers in managing their energy consumption and electricity costs Deliver on customer expectations for service quality and responsiveness Maintain overall distribution system reliability	• Reliability remained strong excluding three major weather events – an ice storm [April], a wind storm [May] and tornadoes [September] that severely impacted our distribution system – the tornadoes more so than any other event in the last 20 years • Invested $84.7M to keep our distribution system safe and reliable • Achieved 94% customer satisfaction rate, and accolades for our response and customer service during the tornadoes • Ranked second for operating efficiency [lowest costs per customer] among large distributors in Ontario • Expanded outage reporting to include customer reporting via the web and our mobile App • Achieved highest e-billing participation rate among Ontario LDCs [48% of customers], saving $1.6M per year • Became the first utility in Canada to enable customer inquiries and conservation through Alexa and Google Home devices
FINANCIAL STRENGTH	We will create sustainable growth in our business and our earnings *by improving productivity and pursuing business growth opportunities that leverage our strengths – our core capabilities, our assets and our people*	Grow revenues from new sources Enhance / protect revenues from existing business lines	• Achieved consolidated net income of $42.1M, surpassing the 2016–2020 Strategic Direction commitment by $4.1M; attributable in large part to a mid-term incentive of $4.1M for successful Conservation and Demand Management efforts • On track for completion in 2020 of remaining refurbishments at our Chaudière Falls generating stations in Quebec. Once operational, these stations will sell power under 40-year agreements into the Ontario grid alleviating the forecast shortage in Ottawa's downtown core • Continued to diversify our revenue streams with the launch of the Envari brand in 2018 › Converted 14,260 City of Ottawa street lights to LED for a cumulative total of 35,787 – over 60% savings in kWh › Completed energy retrofit projects for industrial and commercial clients › Increased revenues and expanded customer base for Cable Q [a subsidiary of Envari that offers non-destructive cable testing]

KEY AREAS OF FOCUS	ENTERPRISE STRATEGIC OBJECTIVES	2018 PERFORMANCE GOALS	2018 PERFORMANCE HIGHLIGHTS
ORGANIZATIONAL EFFECTIVENESS	We will achieve performance excellence *by cultivating a culture of innovation and continuous improvement*	Continue to enhance operational performance and productivity Maintain leading health and safety record Enhance organizational and employee capability	• Maintained safety as our top priority, providing an average of 20 hours of safe work practices training for all employees, and reached one million hours worked with no new lost time injury • Continued our focus on productivity and continuous improvement • Invested $10.2M in next-generation technology to support customer service, operational efficiency, grid modernization, and cybersecurity • Maintained certifications for our Occupational Health, Safety and Environment Management System to internationally recognized standards • Advanced the final construction stages of the facilities renewal project and prepared for occupancy in 2019 • Continued to renew our workforce through apprentice and journeyperson hiring [without increasing total positions], and through implementation of comprehensive talent management programs
CORPORATE CITIZENSHIP	We will contribute to the well-being of the community *by acting at all times as a responsible and engaged corporate citizen*	Enhance our brand image in the community and the industry Continue to improve our environmental performance and reduce our impact on the environment	• Supported our communities though employee volunteer efforts, our Community Investment Program, and local delivery of provincial financial assistance programs • Raised over $370K as part of our 2018 Employee Charitable Fundraising campaign • Increased our engagement with the community: › Attended more than 400 community events › Educated almost 18,000 students [K–12] about electricity safety and conservation and renewable energy › Hosted nine Open Houses for planned work › Increased social media engagements by 344%, and grew followers across all platforms [Twitter, Facebook and LinkedIn] • Continued our participation in the North Atlantic Mutual Assistance Group [NAMAG], which facilitates not-for-profit assistance among utilities during times of crisis • Diverted more than 91% of our non-hazardous solid and liquid waste away from landfill • Received 13 awards for performance excellence, including: › Canada's Best Diversity Employers [1st year] › Canada's Top Employer's for Young People [5th year] › One of the National Capital Region's Top Employers [10th year] and › Chartwell Best Practices Award for Outage Communications

FINANCIAL RESULTS

The selected consolidated financial results of the Corporation presented below should be viewed in conjunction with the audited consolidated financial statements and accompanying notes for the year ended December 31, 2018.

Consolidated Statement of Income [Summary]

With the adoption of IFRS in 2015 – including the early adoption of IFRS 14 – several of the Corporation's line items in its audited consolidated statement of income are subject to high volatility. Specifically, IFRS 14 requires a one-line separate presentation of the net movement within the Corporation's regulatory deferral accounts related to income [i.e. the debit and credit balances, net of taxes] within its consolidated statement of income. This net movement of regulatory balances primarily arises when there is a timing difference between the cost of power purchased and the cost of power recovered. This difference is recorded as a settlement variance, representing future amounts to be recovered from or refunded to customers through future billing rates approved by the OEB. Consequently, the Corporation's power recovery and purchased power line items can be significantly impacted by these timing differences. For the purposes of the analysis and interpretation of financial variances presented below, management has identified and excluded impacts resulting from the adoption of IFRS 14, and used pre-IFRS 14 results as the basis for its discussion unless otherwise noted. Management believes this more accurately represents the true financial performance of the Corporation, given its rate-regulated environment as prescribed by the OEB.

[in thousands of Canadian dollars]

	2018	IFRS 14 Impact	2018 (Pre-IFRS 14)[(1)]	2017	IFRS 14 Impact	2017 (Pre-IFRS 14)[(1)]	Change (Pre-IFRS 14)[(1)]
Revenue and other income							
Power recovery	**857,383**	**(5,434)**	**851,949**	896,528	(10,849)	885,679	(33,730)
Distribution	**181,050**	**(834)**	**180,216**	171,400	(418)	170,982	9,234
Generation	**32,325**	**–**	**32,325**	22,898	–	22,898	9,427
Commercial services	**28,998**	**–**	**28,998**	26,960	–	26,960	2,038
Conservation and demand management	**24,865**	**–**	**24,865**	23,976	–	23,976	889
Net gain from insurance proceeds	**6,865**	**–**	**6,865**	2,939	–	2,939	3,926
Other	**7,076**	**–**	**7,076**	6,753	–	6,753	323
	1,138,562	**(6,268)**	**1,132,294**	1,151,454	(11,267)	1,140,187	(7,893)
Expenses							
Purchased power	**857,877**	**(12,493)**	**845,384**	908,649	(25,131)	883,518	(38,134)
Operating costs	**145,694**	**162**	**145,856**	139,797	(307)	139,490	6,366
Depreciation and amortization	**62,180**	**–**	**62,180**	54,800	–	54,800	7,380
	1,065,751	**(12,331)**	**1,053,420**	1,103,246	(25,438)	1,077,808	(24,388)
Income before undernoted items	**72,811**	**6,063**	**78,874**	48,208	14,171	62,379	16,495
Financing costs, interest income and taxes	**45,986**	**(8,629)**	**37,357**	36,838	(9,342)	27,496	9,861
Share of profit from joint ventures	**(621)**	**–**	**(621)**	(1,092)	–	(1,092)	471
	45,365	**(8,629)**	**36,736**	35,746	(9,342)	26,404	10,332
Net income	**27,446**	**14,692**	**42,138**	12,462	23,513	35,975	6,163
Net movements in regulatory balances, net of tax	**14,692**	**(14,692)**	**–**	23,513	(23,513)	–	–
Net income after net movements in regulatory balances	**42,138**	**–**	**42,138**	35,975	–	35,975	6,163

(1) Non-GAAP financial measure

Net Income

Net income increased by approximately $6.2 million or 17 percent in 2018. This increase was primarily due to a $9.2 million increase in distribution sales, an $11.5 million increase in generation and commercial services revenue, the realization of a $4.1 million CDM mid-term incentive, and continuing recognition of insurance proceeds for lost revenue of $3.9 million. The increase in net income is further supported by a $4.4 million decrease in purchased power costs [net of power recovery]. These positive variances were partially offset by increases in operating costs excluding CDM costs of $9.7 million, in depreciation and amortization of $7.4 million, and in financing costs [net of interest income] and taxes of $9.8 million.

Revenue and Other Income

Revenue and other income are earned from electricity distribution, renewable energy generation, energy management and utility services, as well as from CDM programs and sundry activities. In 2018, Hydro Ottawa's total revenue amounted to approximately $1.1 billion, which is on par with 2017.

The largest component of Hydro Ottawa's total revenue is the cost of power recovered from customers through provincially established rates. The cost of power is a flow-through amount, which poses limited risk to Hydro Ottawa's financial performance. However, variances arise between the cost of power purchased and the cost of power recovered, due to timing differences in invoicing from the IESO for the former, and receipt of payment from customers for the latter. This difference is recorded as a settlement variance. Hydro Ottawa Limited's power recovery revenue decreased by $33.7 million, mainly due to decreased global adjustment rates included in purchased power costs.

Distribution sales are recorded based on OEB-approved distribution rates, set at a level intended to recover the costs incurred by Hydro Ottawa Limited in delivering electricity to customers, and they include revenue related to the collection of OEB-approved rate riders. 2018 marks the third year of rates approved under Hydro Ottawa Limited's 2016–2020 custom incentive rate application. Distribution sales revenue increased $9.2 million or five percent from 2017 largely due to higher 2018 electricity distribution rates and higher electricity consumption resulting from warmer weather relative to 2017. The Ontario Fair Hydro Plan does not have any effect on Hydro Ottawa's distribution sales.

CABLEQ
NON-DESTRUCTIVE TESTING




Energy Ottawa's generation revenues grew by $9.4 million in 2018. The increase was largely due to the expanded Chaudière facility, which commenced commercial operations on August 18, 2017. Despite the fact that one of its four generating units was out-of-service throughout 2018 – due to a manufacturer's defect and resulting mechanical failure upon start up in 2017 – production exceeded budgeted expectations. The affected unit is expected to be in service in 2019. The Corporation continues to receive compensation from its insurers to mitigate lost revenues from this unit. In July 2018, the Corporation suspended operations at its two generating stations in Québec [acquired from Hydro Québec in 2016 and Domtar in 2012] in order to commence significant refurbishments. Once this is completed in 2020, the Corporation will sell its electricity from these stations to the Province of Ontario under a 40-year Hydroelectric Standard Offer Program [Municipal Steam] contract with the IESO.

In 2018, commercial services revenue increased by $2.0 million largely due to service work related to distribution operations. During the year, the Ontario government repealed the province's cap-and-trade program – which funded rebates for energy-efficient renovations and other initiatives – impacting the sales of energy services and infrastructure products to external clients, and limiting other commercial services revenue. The City of Ottawa street light conversion project, through which a cumulative total of 35,787 LED streetlights have been installed since 2016, progressed as planned. New endeavors gained momentum, including non-destructive cable testing services provided through an exclusive license with the National Research Council of Canada. The CDM program successfully achieved its mid-term conservation target triggering an incentive payment of $4.1 million to the Corporation from the IESO.

In 2018, the Corporation recognized a net gain of $6.9 million from insurance proceeds. The gain related to lost-revenue compensation resulting from the mechanical failure of a unit at the expanded Chaudière facility that occurred in August 2017. In 2017, the Corporation recognized $1.6 million in lost revenue compensation from the mechanical failure, and a further $1.3 million relating to business interruption and property damages arising from the shutdown of the facilities at Chaudière Falls, Rideau Falls and Kingston Mills due to a once-in-one-hundred-year flood event, for a total net gain from insurance proceeds of $2.9 million.

Expenses

Purchased Power and Operating Costs

Purchased power represents the cost of electricity delivered to customers within Hydro Ottawa Limited's distribution service territory. These costs consist of the commodity, wholesale market service charges, transmission charges and the global adjustment. The cost of purchased power decreased by $38.1 million in 2018, mainly due to decreased global adjustment rates.

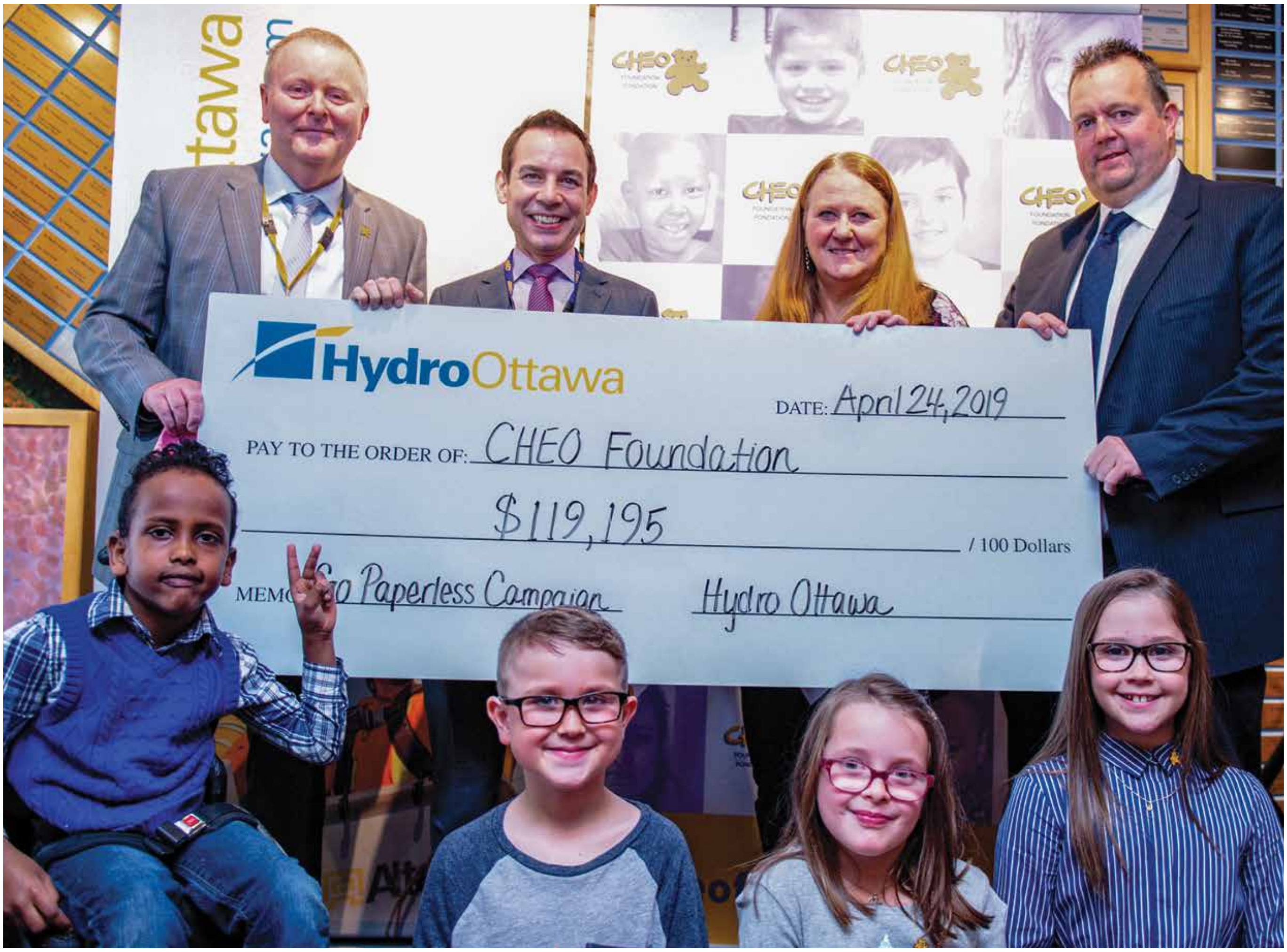
Operating costs in 2018 of $145.9 million were up by $6.4 million due in part to an increase in costs arising from a full year's operation at the newly expanded Chaudière facility. In addition, there were operating expenses related to emergency power restoration due to three major weather events in 2018, including most significantly the tornadoes that touched down in the City of Ottawa in September 2018.

Depreciation and Amortization

Depreciation and amortization on Hydro Ottawa's property, plant and equipment, and intangible assets increased in 2018 by $7.4 million primarily due to the ongoing investment in the Corporation's electricity distribution infrastructure and the expansion of its generation assets.

Share of Profit from Joint Ventures

Share of profit from joint ventures represents the Corporation's share of net income from the continuing operations of Moose Creek Energy LP [50.05 percent] and of PowerTrail Inc. [60.00 percent]. In 2018, the Corporation entered into a partnership with Windmill Dream Limited Partnership to form Zibi Community Utility LP [50.00 percent] – established to build, own and operate a utility for the Zibi development in downtown Ottawa and Gatineau. For more information regarding the Corporation's joint ventures, see Note 10 to the consolidated financial statements.



Financing Costs [net of Interest Income] and Taxes

Financing costs [net of interest income] increased by $6.8 million due to borrowings to finance general operating requirements and annual capital expenditures, and the recognition of interest costs related to the Chaudière Falls expansion project, which had been capitalized during the construction phase.

The Corporation's effective tax rate slightly decreased from 29.15 percent in 2017, to 28.92 percent in 2018, as a result of permanent and temporary differences between the accounting treatment and tax basis of assets and liabilities that arose during the year. The $3.1 million increase in income tax expense is largely the result of an increase in pre-tax income and taxable income. For more information regarding income taxes, see Note 24 to the consolidated financial statements.

Net Movement in Regulatory Balances [Net of Tax]

In accordance with IFRS 14, the Corporation has separately presented the net movement in regulatory balances in the consolidated statements of income and comprehensive income. The changes in the regulatory debit and credit balances for the year [$9.2 million and $4.8 million respectively] on the consolidated balance sheet, equal the net movement in regulatory balances, net of tax, on the consolidated statements of income and comprehensive income [increase of $14.7 million and a decrease of $0.7 million respectively]. The impact of the IFRS 14 adjustments of $14.7 million is shown on the Consolidated Statement of Income [Summary]. As Hydro Ottawa Limited passes on the benefit of deferred income taxes through annual distribution rate adjustments approved by the OEB, it records a regulatory deferral account credit [or debit] balance for the amounts of deferred income taxes expected to be refunded to [or recovered from] customers in future rates.

Consolidated Balance Sheet [Summary]

[in thousands of Canadian dollars]

	2018	2017	Change
Current assets	**208,337**	284,005	(75,668)
Non-current assets	**1,612,612**	1,422,863	189,749
Total assets	**1,820,949**	1,706,868	114,081
Regulatory account balances	**34,667**	25,466	9,201
Total assets and regulatory account balances	**1,855,616**	1,732,334	123,282
Current liabilities	**404,994**	328,462	76,532
Non-current liabilities	**968,048**	941,222	26,826
Total liabilities	**1,373,042**	1,269,684	103,358
Shareholder's equity	**462,882**	438,141	24,741
Total liabilities and shareholder's equity	**1,835,924**	1,707,825	128,099
Regulatory account balances	**19,692**	24,509	(4,817)
Total liabilities, shareholder's equity and regulatory account balances	**1,855,616**	1,732,334	123,282

Assets

Total assets increased by approximately $114 million in 2018. This increase is largely attributable to property, plant and equipment, and to intangible assets – which have collectively increased by $182 million. This collective increase is a result of the refurbishment of the Chaudiere Hydro North LP and Hull Energy LP generating stations, the facilities renewal project, and continuing investments in electrical distribution and generation infrastructure. The increase in assets was partially offset by a $64 million decrease in restricted cash arising out of the project financing arrangement for the Chaudière Falls expansion project. The restricted cash was released upon final completion as per the terms of the trust indenture. The proceeds from the distribution were ultimately used to fund the capital program and other growth initiatives.

Liabilities

Total liabilities increased by $103 million in 2018. The Corporation's current liabilities increased by $77 million largely because of an increase in bank indebtedness of $69 million, and an increase in accounts payable and accrued liabilities and income taxes payable of $8 million. The Corporation also saw a $20 million increase in deferred revenue due to capital contributions received in 2018, net of amortization and of an increase of $15 million in deferred income taxes, offset by a decrease of $5 million in customer deposits. The higher level of customer deposits in the prior year stems from the $14.6 million asset transfer with Public Services and Procurement Canada that occurred in December 2017.

Regulatory Account Balances

IFRS 14 defines a regulatory account balance as the balance of any expense or [income] account that would not be recognized as an asset or liability in accordance with other IFRS standards, but that qualifies for deferral because it is included, or is expected to be included, by the regulator in establishing the rate[s] that can be charged to customers. As at December 31, 2018, Hydro Ottawa Limited has recognized $34.7 million in regulatory account debit balances [assets] and $19.7 million in regulatory account credit balances [liabilities].

The $9.2 million increase in regulatory account debit balances is largely due to a $9.0 million increase in the regulatory asset for deferred income taxes; and to a $0.5 million increase in the Lost Revenue Adjustment Mechanism, which tracks and disposes of lost electricity distribution revenues that result from approved CDM programs.

The $4.8 million decrease in regulatory account credit balances is largely due to a $7.3 million decrease in the settlement of electricity and global adjustment pass-through-cost credit balances. Offsetting this decrease is a $2.0 million increase in the Earnings Sharing Mechanism variance account, which captures 50 percent of any regulated earnings above Hydro Ottawa's approved return on equity for years 2016 to 2020, and an increase of $0.5 million in other variances and deferred costs.

Consolidated Statement of Cash Flows [Summary]

[in thousands of Canadian dollars]

	2018	2017	Change
Bank indebtedness, beginning of year	**(144,490)**	(67,769)	**(76,721)**
Cash provided by Operating Activities	**138,979**	91,962	**47,017**
Cash used in Investing Activities	**(182,747)**	(148,074)	**(34,673)**
Cash provided by Financing Activities	**(21,900)**	(20,600)	**(1,300)**
Foreign exchange impact on cash held in US dollars	**52**	(9)	**61**
Bank indebtedness, end of year	**(210,106)**	(144,490)	**(65,616)**

Cash (bank indebtedness) consists of:			
Cash	**16,737**	13,570	**3,167**
Bank indebtedness	**(226,843)**	(158,060)	**(68,783)**
	(210,106)	(144,490)	**(65,616)**

Operating Activities

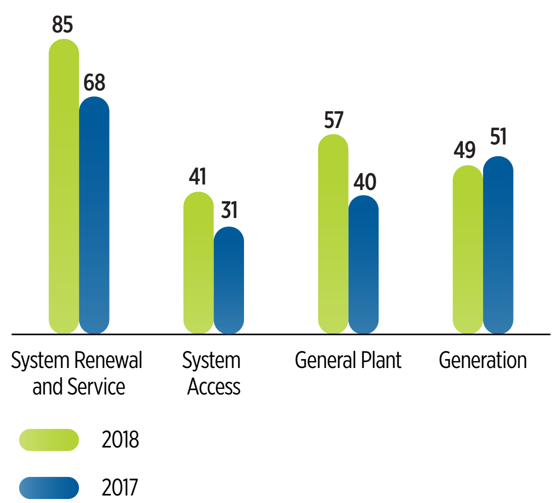
Cash generated by operating activities increased by $47.0 million in 2018. The majority of this increase relates to the change in customer deposits and the net movement in regulatory balances, which in turn is primarily due to changes impacting settlement variance balances. In addition, the Corporation saw an improvement in net income adjusted for non-cash charges, and a decrease in income taxes paid [net of refunds received].

Investing Activities

Cash used in investing activities increased by $34.7 million in 2018. The increase is due to the refurbishment of the Chaudiere Hydro North LP and Hull Energy LP generating stations, to the facilities renewal project, and to our continuing investment in electrical distribution and generation infrastructure. The increase was partially offset by the release of restricted cash held in-trust, in accordance with the Chaudière expansion project financing trust indenture. Total investment in property, plant and equipment and in intangible assets was $231.5 million in 2018. The chart to the right shows Hydro Ottawa's capital investments by category for both 2018 and 2017.

Capital investments in 2018 included: $85 million on system renewal and service capital to replace aging infrastructure and to modify the existing distribution system; $41 million on system access projects, including third-party-driven growth projects such as new residential or commercial installations, and municipal improvement projects such as the City of Ottawa's Light Rail Transit project; $57 million on general plant, including the facilities renewal project, information technology infrastructure, fleet, and other sundry items; and $49 million on generating plants, of which 75 percent relates to the refurbishment of the Chaudiere Hydro North LP and Hull Energy LP generating stations.

Gross Capital Expenditures [$ millions]



Financing Activities

Financing activities include dividends paid to the shareholder, the City of Ottawa, as well as proceeds from the issuance of long-term debt.

Dividends were paid to the Shareholder in 2018 in accordance with the approved dividend policy. The 2018 payment totaled $21.9 million based on 2017 results, and the 2017 payment totaled $20.6 million based on 2016 results. The policy sets dividends at the greater of 60 percent of Hydro Ottawa Limited's net income, or $20 million.

Accounting Matters

Significant Accounting Estimates and Judgments

The preparation of consolidated financial statements, in conformity with IFRS, requires management to make estimates, judgments and assumptions that affect the reported amounts of consolidated revenues, expenses, assets and liabilities; and requires disclosure of commitments and contingencies as of the date of the consolidated financial statements.

These estimates and judgments are based on historical experience, current conditions and various other assumptions believed to be reasonable under the circumstances. Because they involve varying degrees of uncertainty, the amounts currently reported in the consolidated financial statements could prove to be inaccurate in the future.

Significant areas where estimates and judgments are made in the application of IFRS are as follows [as discussed in note 2[d] to the consolidated financial statements]:

- Accounts receivable
- Regulatory balances
- Revenue recognition
- Useful lives of depreciable assets
- Impairment of non-financial assets
- Employee future benefits
- Capital contributions
- Deferred Income taxes
- Indicator of asset impairment

New Accounting Pronouncements

A number of new standards, amendments and interpretations have either been adopted for the year ended December 31, 2018, or, have been issued but are not yet effective and have therefore not been applied in preparing the accompanying consolidated financial statements.

Recently adopted accounting standards

- **Revenue from contracts with customers:** On January 1, 2018, the Corporation adopted IFRS 15 – *Revenue from Contracts with Customers* ['IFRS 15'] by applying the modified retrospective approach where prior periods are not restated. The Corporation elected a practical expedient, as allowed under IFRS 15, which permitted it to apply the new standard solely to contracts which were in-progress as of January 1, 2018, and all contracts initiated thereafter.

  IFRS 15 supersedes previous revenue recognition guidance including IAS 18 – Revenue, IAS 11 – *Construction Contracts* and related interpretations. IFRS 15 provides a standardized five-step model: identify contract, identify performance obligations, determine transaction price, allocate transaction price and recognize revenue. Depending on whether certain criteria are met revenue is recognized over time, in a manner that best reflects the Corporation's performance or at a point in time, when control of the goods or services is transferred to the customer. IFRS 15 applies to all contracts with customers, unless covered by another standard [i.e. leases, financial instruments, insurance contracts], or those out of scope of IFRS 15.

  The adoption of IFRS 15 did not have an impact on the Corporation's existing revenue recognition practices as reported in the comparative year. As a result, there have been no adjustments recognized upon the adoption of IFRS 15. The new standard did result in additional disclosures [see notes 15 and 21].

- **Financial instruments:** On January 1, 2018, the Corporation adopted IFRS 9 – *Financial Instruments* ['IFRS 9'] on a retrospective basis, which replaces IAS 39 – *Financial Instruments: Recognition and Measurement* ['IAS 39']. The Corporation has chosen not to restate comparative information with respect to classification and measurement requirements. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9, but rather those of IAS 39.

IFRS 9 includes revised guidance on the classification and measurement of financial assets, including basing the classification of financial assets on their contractual cash flow characteristics and the entity's business model for managing financial assets, whereas IAS 39 based the classifications on specific definitions for each category. Moreover, IFRS 9 simplifies the former IAS 39 classifications into three main categories – amortized cost, fair value through other comprehensive income, and fair value through profit or loss – and introduces a new expected credit loss model for measuring impairment of financial assets. In addition, IFRS 9 contains consequential amendments to IFRS 7 – *Financial Instruments: Disclosures*, which has also been adopted by the Corporation.

On January 1, 2018, management assessed which business models apply to the financial assets held by the Corporation and has classified its financial instruments into the appropriate IFRS 9 categories. In addition, the Corporation revised its impairment methodology under IFRS 9 for each of its classes of financial assets. The Corporation's financial instruments will continue to be subsequently measured at amortized cost [previously classified as loans and receivables for financial assets under IAS 39], and furthermore the new impairment methodology results in the same expected credit loss [allowance for doubtful accounts] as under the previous method used. The adoption of IFRS 9 by the Corporation did not result in any quantitative adjustments being recognized as at January 1, 2018.

The adoption of IFRS 9 has not had an effect on the Corporation's accounting policies related to financial liabilities.

Recently issued accounting guidance not yet adopted

- **Leases:** In January 2016, the IASB issued a new standard, *IFRS 16 – Leases* ['IFRS 16'] which will replace *IAS 17 – Leases*. IFRS 16 eliminates the current dual model [on and off balance sheet] and aims to provide greater comparability between companies who lease assets and companies who purchase assets, with a single on-balance sheet approach. Under IFRS 16, lessees will have to recognize all leases on the balance sheet, with related lease liabilities, subject to exemptions for short-term [< one year] and low-value leases.

  The new standard becomes effective for reporting periods beginning on or after January 1, 2019. The Corporation plans to adopt IFRS 16 using the modified retrospective application method, as a result of which the 2018 comparatives will not be restated. In addition, the Corporation will apply the recognition exemptions in IFRS 16 for low-value leases, and for leases that end within 12 months of the date of initial application [which will be accounted for as short-term leases]. The Corporation continues to analyze IFRS 16 and the potential impact on its consolidated financial statements.
- **Uncertain tax positions:** On June 7, 2017, the IASB, through the International Financial Reporting Interpretations Committee, issued *Interpretation 23 Uncertainty over Income Tax Treatments* ['IFRIC 23']. IFRIC 23 requires an entity to contemplate whether uncertain tax treatments should be considered separately or together as a group, to determine if it is probable that the tax authorities will accept the uncertain tax treatment, and to measure the tax uncertainty based on the most likely amount or expected value. IFRIC 23 is applicable for annual periods beginning on or after January 1, 2019. The Corporation is currently evaluating IFRIC 23, however management does not expect it to have a material impact on the Corporation's consolidated financial statements.

RISKS AND UNCERTAINTIES

Hydro Ottawa has adopted a systematic approach to the management of risks and uncertainties, integrated into business processes and the periodic reporting of organizational performance. Capabilities and processes have been built organization-wide for the effective identification of, and timely responses to, events likely to impede the achievement of corporate objectives.

The Corporation's Enterprise Risk Management [ERM] framework, established by the Board in 2006 and renewed annually, consolidates quarterly risk reporting to the President and Chief Executive Officer, and to the Board. Reporting highlights potential risk factors that may have an impact upon Hydro Ottawa's near-term business objectives and strategic direction. The ERM framework supports and complements the Corporation's strategic planning and annual business planning cycles, through updated environment scans and periodic review of planning assumptions.

Hydro Ottawa monitors sources of risk that are structural to the industry and to the Corporation's lines of business. These include, but are not restricted to: the weather; the policy and regulatory environment; the state of the economy and macro-economic trends; the state of financial markets and of investment in the utilities space; government policies relating to the production and procurement of renewable and clean energy, as well as carbon emissions and conservation; the convergence of information technology and operational technology; cybersecurity; labour force demographics, with a particular emphasis on the renewal of human resources in the trades; and the impact of fiscal policies on customers. In combination, these sources of risk will shape the evolution of the industry, which could in turn present new and emerging risks that need to be managed effectively.

Policy and Regulatory Environment

Long-term policy direction for the electricity sector

Since assuming office in June 2018, Ontario's new provincial government has made a number of policy announcements that could significantly affect the long-term evolution of the province's electricity sector. These include the cancellation of numerous contracts for procurement of renewable energy, followed by the repeal of the *Green Energy Act of 2009*; the repeal of Ontario's Climate Change Action Plan, including the cap-and-trade program; and the discontinuation of CDM programs in their current form.

The Independent Electricity System Operator [IESO], through its Market Renewal initiative, proposes to move away from long-term purchase agreements and adopt instead a competitive auction mechanism for procuring additional electricity. Slated to start in the mid-2020s, this change has the potential to introduce additional complexity into the marketplace.

Collectively, these policy initiatives create considerable uncertainty with respect to future investment in renewable energy generation, emerging grid technologies, refurbishment of energy infrastructure, and energy management services – all key pillars of growth identified by the Corporation in its Strategic Direction.

The Government's stated commitment to make electricity "more affordable" could result in significant changes in the business environment for rate-regulated LDCs such as Hydro Ottawa Limited. Regulatory support for investment in the renewal of aging distribution infrastructure could be materially lower than in previous rate cycles. Policy and regulatory guidance and support may also be less forthcoming for LDCs seeking to adapt their assets and operations to the requirements of a distributed energy-resources environment.

Actual performance versus forecasts in electricity distribution

Hydro Ottawa Limited expects to be able to carry out its planned capital programs, provide safe and reliable electricity to its customers, and earn the allowed rate of return, in accordance with the approval it has obtained from the OEB for a re-basing of its distribution rates for 2016–2020. However, results may be affected if actual loads and energy consumption vary substantially from forecast; or if actual costs of operations, maintenance, administration, capital and financing materially exceed projections included in the approved revenue requirements.

Market Prices for Electricity

Market prices for electricity fluctuate due to a number of factors, including: the amount of excess generating capacity relative to load in the market; the structure of the market; weather conditions that impact electrical load; growth in demand for electricity; absolute and relative prices for energy; and developments in CDM and government policy direction.

Approximately 18 percent of the Corporation's installed generation capacity is directly linked to the market price for electricity in the state of New York. In the absence of a fixed rate power purchase agreement, the Corporation may explore a number of options to reduce its exposure to market fluctuations.

Major Project Execution

The successful and timely completion of major projects is critical to the Corporation's long-term strategic direction, in particular its projected growth in generation revenue.

There are inherent risk factors in such projects, including: construction delays; cost overruns; equipment performance not in accordance with expectations; delays in permissions and clearances from all levels of government and their agencies; and technical issues in connecting to the grid.

Distribution & Generation Infrastructure

Hydro Ottawa has developed a long-term Distribution System Plan to phase in the investments required to replace its aging distribution infrastructure, and to maintain high standards of reliability and operability, while keeping pace with the growth of its service territory. The plan also takes climate change impacts into account, such as changes in the frequency, severity and pattern of occurrence of extreme weather events.

Aging electricity assets pose a dual risk to LDCs. In addition to being more prone to failure – during extreme weather events, for example – they make restoration of the distribution system more complex and financially onerous.

Equipment failure could also adversely impact electricity generation at any of the Company's various facilities.

Exchange Rate Fluctuations

The Corporation's functional currency is the Canadian dollar. A significant depreciation of the value of the U.S. dollar relative to the Canadian dollar may adversely affect the value of the Corporation's U.S.-based assets and related revenues. Conversely, a significant depreciation of the Canadian dollar relative to the U.S. dollar may affect the Corporation's capacity to finance additional growth in the U.S. market.

Economy

The state of the local, national and international economies could have a significant impact on the Corporation's business performance through factors such as inflation, customer credit risk, weakening demand for electricity and/or value-added services, and availability of market capital to fund growth. The economic climate could also have an effect on the stability and performance of some of Hydro Ottawa's key business partners.

Credit Ratings and Interest Rates

The Corporation continues to maintain strong investment grade credit ratings, however the Corporation's continued growth in unregulated businesses may negatively affect future ratings.

Around 80 percent of the Corporation's debt is subject to a fixed rate of interest, and is accordingly insulated from the impact of upward revision of interest rates. A rise in interest rates would affect the Corporation's credit facility, though its impact is not expected to be material.

Technology Infrastructure

The Corporation's business performance is dependent upon complex information systems, covering frontline operations [e.g. geographic information system, outage management system, electricity system supervisory control and data acquisition system] as well as back office processes [e.g. customer information and billing systems, and ERP system]. The failure of one or more of these key systems, or a failure of the Corporation to either plan effectively for future technology needs or to transition effectively to new technology systems, could adversely impact business operations.

Many of these key systems also draw upon data and signals from several hundred thousand smart devices [chiefly smart meters], as well as the related systems and web interfaces. The processing of data in many cases entails a number of automated interfaces, as well as multiple internal and external dependencies, including Ontario's Smart Metering Entity. Risks arising from the reliability and performance of any single component of this integrated network, or of the system as a whole, could lead to a disruption of key business processes.

There is growing convergence of core operational systems with enterprise information systems, along with increasing automation, and extensive use of common technology in facilitating such integration and connectivity. The complexity of this technology infrastructure, together with its interconnected nature, has the potential to heighten existing risks as well as to create new ones.

Cybersecurity

The Corporation's reliance on information systems and expanded data transmission and exchange networks, in conjunction with the growing extent of systems and data integration within the electricity sector, increases its exposure to information security threats, including cybersecurity risks. Hydro Ottawa's information systems and information assets could be put at risk by a security breach, data corruption or system failure at a shared resource or common service provider.

Customer and Media Perceptions

Electrical utilities across Ontario are confronted with risks arising from negative customer and media perceptions, typically owing to high commodity prices, which are outside of the Company's control.

Pension Plans

The Corporation provides a defined benefit pension plan for the majority of its employees through the Ontario Municipal Employees Retirement System ['OMERS']. As OMERS is a multi-employer, contributory, defined benefit pension plan, it is not practicable to determine the Corporation's portion of pension obligations or the fair value of plan assets. Future funding shortfalls and net losses at OMERS, if any, are subject to the OMERS Sponsors Corporation Funding Management Strategy, which outlines how benefits and contributions will be modified as the OMERS Primary Plan cycles through periods of funding deficit and surplus.

Hydro Ottawa has also established a separate defined benefit pension plan and a separate defined contribution pension plan for a small number of employees, with appropriate financial and investment procedures and oversight, as required by law. Pension benefit obligations and related net pension cost can be affected by volatility in the global financial and capital markets. There is no assurance that pension plan assets will earn the assumed long-term rates of return. Market-driven changes impacting the performance of the pension plan assets may result in material variations in actual returns on pension plan assets.

Labour Force Demographics

Across the electricity sector, retirements are outpacing new entrants to the workforce, which could have an adverse impact on the ability of the Corporation to build a sustainable workforce and achieve its business objectives. Hydro Ottawa's investments in apprenticeships, internships, diversity, knowledge management, succession planning and retiree and older worker engagement programs are designed to manage risks relating to workforce demographics.

Consolidation of Labour Bargaining Power

Following structural changes in the ownership of several of Ontario's electrical utilities, there has been a degree of consolidation of labour bargaining power within the province's electricity sector. Whether and how this consolidation might grow is difficult to determine at this stage, as is its potential impact on labour relations and service delivery.

Weather and Hydrology

Severe weather can significantly impact financial results, in part through increased capital and maintenance costs to repair or replace damaged equipment and infrastructure and through reduced revenue. Distribution revenues in turn tend to increase with severe weather and decrease with moderate weather.

Weather is also of potential direct relevance to Energy Ottawa's renewables generation portfolio, in particular its solar and hydroelectric assets. Hydroelectric generation depends on weather-sensitive water flows, which have both seasonal and annual variations, and which may be further impacted by either natural disaster or government policy and controls.

OUTLOOK

In 2019, Hydro Ottawa expects to continue to earn stable returns and to pursue significant capital expenditures as set out in its current five-year rate structure and capital investment plan. This will be the penultimate year in the period covered by that plan, and by the current corporate Strategic Direction. These frameworks will continue to help ensure Hydro Ottawa can provide safe, reliable and competitively priced electricity throughout its service territory, despite what may be a sustained increase in extreme weather events. Hydro Ottawa will continue to leverage the commercial advantages associated with its extensive non-regulated business, while applying innovation to future-proof the competitiveness of all business lines during a period of ongoing industry transformation.

As is typical following a change in government, wide-reaching electricity policy reform is underway in Ontario, and the implications for Hydro Ottawa's business lines cannot yet be precisely foreseen as evidenced by the government's announcements with respect to CDM and OEB reform in March 2019. Hydro Ottawa will proceed in 2019 with preparation of its 2021–25 rate application, which it expects to publicly file at year-end. Hydro Ottawa – while incorporating sufficient capital investment and responsiveness to customer needs into its application – will at the same time take due account of the heightened importance of affordability among provincial government priorities. Electricity procurement policy is also undergoing significant transformation, although Hydro Ottawa has the benefit of long-term power purchase agreements for all of its generated electricity sold onto the Ontario grid.

The Corporation will maintain the resiliency of the local distribution grid in 2019, and continue to expand it [and its connectivity with the provincial transmission network] in tandem with local demand. Productivity and cost efficiency will be further advanced in 2019 by – among other initiatives – relocation to modern and purpose-designed operational and administrative facilities. Beyond these foundational focal points, Hydro Ottawa will continue to carefully select investments in response to emerging needs and opportunities in areas such as electric vehicle use and demand response; and will continuously refine its risk-management readiness relative to cybersecurity threats.

Acquisitions and expansions in recent years have increased the scope of revenues derived from electricity generation, and further momentum is foreseen in 2019. The expanded Chaudière facility performed well even at a reduced capacity in 2018 and in 2019 is expected to achieve full-capacity operation when a fourth generating unit is brought online. Progress towards 2020 completion of the refurbishment of two generating stations located in Québec will continue. In energy and utility services, Envari will move forward with a strategy to significantly expand its scope of business across diverse client segments, service offerings and geographies. Hydro Ottawa will also advance partnerships such as the one entered into in 2018 for development of a community utility at the Zibi development in central Ottawa-Gatineau – a project representative of the highly tailored, collaborative and sustainable approaches that are likely to increasingly characterize its business in 2019 and beyond.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Hydro Ottawa Holding Inc.

Consolidated Financial Statements

December 31, 2018

Report of Management

Management is responsible for the integrity of the financial data reported by Hydro Ottawa Holding Inc. [the 'Corporation']. Fulfilling this responsibility requires the preparation and presentation of consolidated financial statements and other data using management's best judgment and estimates, as well as International Financial Reporting Standards as issued by the International Accounting Standards Board.

Management maintains appropriate systems of internal control and corporate-wide policies and procedures, which provide reasonable assurance that the Corporation's assets are safeguarded and that financial records are relevant and reliable.

The Board of Directors, through the Audit Committee, ensures that management fulfills its responsibility for financial reporting and internal control. The Audit Committee consists of outside directors and, at regular meetings, reviews audit, internal control and financial reporting matters with management and external auditors. The Audit Committee has reviewed the consolidated financial statements and submitted its report to the Board of Directors.

On behalf of Management,

Bryce Conrad
President and Chief Executive Officer

Geoff Simpson
Chief Financial Officer

KPMG LLP
150 Elgin Street, Suite 1800
Ottawa ON K2P 2P8
Canada
Telephone 613-212-5764
Fax 613-212-2896

INDEPENDENT AUDITORS' REPORT

To the Shareholder of Hydro Ottawa Holding Inc.

Opinion

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

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

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

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

Basis for Opinion

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

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

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

Other Information

Management is responsible for the other information. Other information comprises the information in Management's Discussion and Analysis.

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

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

We obtained the Management's Discussion and Analysis as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

We also:

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Ottawa, Canada

April 16, 2019

Hydro Ottawa Holding Inc.

Consolidated Statement of Income
Year ended December 31, 2018
[in thousands of Canadian dollars]

	2018	2017
	$	$
Revenue and other income		
Power recovery revenue	**857,383**	896,528
Distribution revenue [Note 21]	**181,050**	171,400
Generation revenue	**32,325**	22,898
Commercial services revenue [Note 21]	**28,998**	26,960
Other revenue [Note 21]	**7,076**	6,753
Conservation and demand management income	**24,865**	23,976
Net gain from insurance proceeds [Note 11]	**6,865**	2,939
	1,138,562	1,151,454
Expenses		
Purchased power	**857,877**	908,649
Operating costs [Note 22]	**145,694**	139,797
Depreciation [Notes 7 and 9]	**50,273**	45,234
Amortization [Note 8]	**11,907**	9,566
	1,065,751	1,103,246
Income before the undernoted items	**72,811**	48,208
Financing costs [Note 23]	**30,372**	22,683
Interest income	**(1,530)**	(648)
Share of profit from joint ventures [Note 10(a)]	**(577)**	(1,063)
Income before income taxes	**44,546**	27,236
Income tax expense [Note 24]	**17,144**	14,803
Net income	**27,402**	12,433
Net movements in regulatory balances, net of tax [Note 6]	**14,692**	23,513
Net income after net movements in regulatory balances	**42,094**	35,946
Attributable to non-controlling interest	**(44)**	(29)
Net income after net movements in regulatory balances attributable to equity shareholder	**42,138**	35,975

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

Hydro Ottawa Holding Inc.

Consolidated Statement of Comprehensive Income
Year ended December 31, 2018
[in thousands of Canadian dollars]

	2018 $	2017 $
Net income after net movements in regulatory balances attributable to equity shareholder	**42,138**	35,975
Other comprehensive income		
Items that may be subsequently reclassified to net income		
Exchange differences on translation of foreign operations, net of tax	**4,415**	(3,722)
Items that will not be subsequently reclassified to net income		
Actuarial gain (loss) on post-employment benefits, net of tax	**806**	(663)
Net movement in regulatory balances related to other comprehensive income, net of tax	**(674)**	405
Total comprehensive income	**46,685**	31,995

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

Hydro Ottawa Holding Inc.

Consolidated Balance Sheet
As at December 31, 2018
[in thousands of Canadian dollars]

	2018	2017
	$	$
Assets		
Current assets		
Cash	**16,737**	13,570
Accounts receivable [Note 5]	**179,049**	192,696
Income taxes receivable	**147**	1,448
Prepaid expenses	**4,394**	3,690
Inventory [Note 12(c)]	**1,435**	2,162
Current portion of notes receivable from related parties [Note 12]	**6,575**	4,641
Restricted cash [Note 17(b)]	**-**	65,798
	208,337	284,005
Non-current assets		
Property, plant and equipment [Note 7]	**1,449,791**	1,261,191
Intangible assets [Note 8]	**123,870**	130,165
Investment properties [Note 9]	**2,482**	2,602
Investments in joint ventures [Note 10(a)]	**11,690**	8,869
Other asset [Note 11(a)]	**5,771**	5,771
Notes receivable from related parties [Note 12]	**9,386**	8,767
Restricted cash [Note 17(b)]	**1,350**	-
Deferred income tax asset [Note 24]	**8,272**	5,498
Total assets	**1,820,949**	1,706,868
Regulatory balances [Note 6]	**34,667**	25,466
Total assets and regulatory balances	**1,855,616**	1,732,334
Liabilities and equity		
Current liabilities		
Bank indebtedness [Note 13]	**226,843**	158,060
Accounts payable and accrued liabilities [Note 14]	**173,727**	170,286
Income taxes payable	**4,424**	116
	404,994	328,462
Non-current liabilities		
Deferred revenue [Note 15]	**108,395**	88,570
Employee future benefits [Note 16]	**13,412**	14,439
Customer deposits	**26,503**	31,423
Long-term debt [Notes 17 and 26]	**773,390**	773,168
Deferred income tax liability [Note 24]	**45,213**	30,133
Other liabilities	**1,135**	3,489
Total liabilities	**1,373,042**	1,269,684
Equity		
Share capital [Note 19]	**228,453**	228,453
Accumulated other comprehensive income	**5,204**	657
Retained earnings	**229,318**	209,080
Non-controlling interest	**(93)**	(49)
Total liabilities and equity	**1,835,924**	1,707,825
Regulatory balances [Note 6]	**19,692**	24,509
Total liabilities, equity and regulatory balances	**1,855,616**	1,732,334

Contingent liabilities and commitments [Notes 27 and 28]

On behalf of the Board:

Director　　　　Director

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

Hydro Ottawa Holding Inc.

Consolidated Statement of Changes in Equity
Year ended December 31, 2018
[in thousands of Canadian dollars]

	Share capital $	Accumulated other comprehensive income $	Non-controlling interest $	Retained earnings $	Total $
Balance at December 31, 2016	228,453	4,637	(20)	193,705	426,775
Net income after net movements in regulatory balances	-	-	(29)	35,975	35,946
Other comprehensive income	-	(3,980)	-	-	(3,980)
Dividends [Note 19(b)]	-	-	-	(20,600)	(20,600)
Balance at December 31, 2017	228,453	657	(49)	209,080	438,141
Net income after net movements in regulatory balances	-	-	(44)	42,138	42,094
Other comprehensive income	-	4,547	-	-	4,547
Dividends [Note 19(b)]	-	-	-	(21,900)	(21,900)
Balance at December 31, 2018	**228,453**	**5,204**	**(93)**	**229,318**	**462,882**

Hydro Ottawa Holding Inc.

Consolidated Statement of Cash Flows
Year ended December 31, 2018
[in thousands of Canadian dollars]

	2018	2017
	$	$
Net inflow (outflow) of cash related to the following activities:		
Operating		
Net income after net movements in regulatory balances	**42,094**	35,946
Adjustments for:		
Depreciation	**50,273**	45,234
Amortization	**11,907**	9,566
Loss on disposal of non-financial assets	**131**	581
Amortization of debt-issuance costs	**222**	165
Share of profit from joint ventures	**(577)**	(1,063)
Amortization of deferred revenue [Note 21]	**(2,811)**	(2,180)
Employee future benefits	**205**	280
Financing costs, net of interest income	**28,842**	22,035
Income tax expense	**17,144**	14,803
Other	**(563)**	(53)
Changes in non-cash working capital and other operating balances [Note 25]	**2,000**	(2,169)
Income taxes paid, net of refunds received	**(2,929)**	(6,045)
Financing costs paid, net of interest income received	**(28,654)**	(21,122)
Capital contributions from customers	**10,985**	10,964
Capital contributions from developers	**11,651**	8,578
Change in customer deposits	**13,751**	(45)
Net movements in regulatory balances	**(14,692)**	(23,513)
	138,979	91,962
Investing		
Acquisition of property, plant and equipment	**(239,993)**	(167,992)
Acquisition of intangible assets	**(4,190)**	(19,830)
Proceeds from disposal of property, plant and equipment	**573**	1,183
Payments relating to the acquisition of subsidiaries	**-**	(10,000)
Investment in joint venture [Note 10(a)]	**(2,276)**	-
Financing costs paid	**(2,639)**	(10,109)
Restricted cash held in-trust	**64,448**	58,288
Repayment of notes receivable from joint ventures	**1,330**	386
	(182,747)	(148,074)
Financing		
Dividends paid [Note 19(c)]	**(21,900)**	(20,600)
Effects of exchange rate changes on cash held in U.S. dollars	**52**	(9)
Net change in cash	**(65,616)**	(76,721)
Bank indebtedness, net of cash, beginning of year	**(144,490)**	(67,769)
Bank indebtedness, net of cash, end of year	**(210,106)**	(144,490)

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

Hydro Ottawa Holding Inc.

Notes to the Consolidated Financial Statements
Year ended December 31, 2018
[in thousands of Canadian dollars]

1. DESCRIPTION OF BUSINESS AND CORPORATE INFORMATION

Hydro Ottawa Holding Inc. ['HOHI' or the 'Corporation'] is a holding company incorporated on October 3, 2000 whose sole shareholder is the City of Ottawa. The Corporation's primary operations, as carried out by its subsidiaries and joint ventures below, are the distribution of electricity within the City of Ottawa, the generation of renewable energy, and the provision of distribution and energy related commercial services. The Corporation is domiciled in Canada with its registered head office located at 3025 Albion Road North, Ottawa, Ontario, K1G 3S4.

Significant subsidiaries, each of which is wholly-owned by the Corporation as at December 31, 2018, are as follows:

Subsidiary	Principal activity
Hydro Ottawa Limited ['Hydro Ottawa']	An electricity distribution company regulated by the Ontario Energy Board ['OEB'] that owns and operates electrical infrastructure in the City of Ottawa and the Village of Casselman. In additional to distribution services, Hydro Ottawa Limited invoices customers for amounts it is required to pay to other organizations in Ontario's electricity system for providing wholesale generation and transmission services.
Energy Ottawa Inc. ['Energy Ottawa']	Owns and operates 16 hydroelectric generating stations totalling 115MW located in Ontario and Québec [at Chaudière Falls] and New York state. Significant subsidiaries of Energy Ottawa include Chaudiere Hydro L.P. ['CHLP'], Hull Energy L.P. ['Hull Energy LP'], EONY Generation Limited ['EONY'], Chaudiere Hydro North L.P. ['CHLP North'], and EO Generation LP ['EO Gen'].
Envari Holding Inc. ['Envari']	Incorporated on November 29, 2018, Envari provides expert energy management and infrastructure services previously delivered by Energy Ottawa. These services primarily include energy turnkey solutions, streetlight design, conversion and maintenance services and proprietary non-destructive cable testing. Significant subsidiaries of Envari include Envari Energy Solutions Inc. and Energy Ottawa Cable Testing Services Inc. ['Cable Q']

Joint ventures the Corporation is a party of as at December 31, 2018, are as follows:

Joint venture	Principal activity
PowerTrail Inc. ['PowerTrail'] [60% owned]	Owns and operates a 6MW landfill gas-to-energy plant at the Trail Road landfill site in Ottawa, Ontario.
Moose Creek Energy LP ['Moose Creek LP'] [50.05% owned]	Owns and operates a 4MW landfill gas-to-energy plant at the Laflèche landfill site in Moose Creek, Ontario.
Zibi Community Utility LP ['ZCU'] [50% owned]	Currently in the development stage to build, own and operate a utility for the Zibi development in downtown Ottawa and Gatineau.

Hydro Ottawa Holding Inc.

Notes to the Consolidated Financial Statements
Year ended December 31, 2018
[in thousands of Canadian dollars]

2. BASIS OF PRESENTATION

(a) Statement of compliance

These consolidated financial statements have been prepared by management on a going-concern basis in accordance with International Financial Reporting Standards ['IFRS'] and have been approved and authorized by the Corporation's Board of Directors for issue on April 16, 2019.

(b) Basis of measurement

The Corporation's consolidated financial statements are prepared on a historical cost basis, except for employee future benefits as disclosed in Note 3(p).

(c) Functional and presentation currency

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

(d) Use of estimates and judgments

The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates, judgments and assumptions that affect the reported amounts of revenues, expenses, assets, liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements.

Due to the inherent uncertainty involved in making estimates, actual results could differ from estimates recorded in preparing these consolidated financial statements, including changes as a result of future decisions made by regulators and governments. Management reviews its estimates and judgments on an ongoing basis using the most current information available. These consolidated financial statements have, in management's opinion, been properly prepared using careful judgment and reasonable limits of materiality within the framework of the significant accounting policies. Significant areas where estimates and judgments are made in the application of IFRS are as follows:

(i) Accounts receivable

Accounts receivable, which include unbilled revenue, are reported based on the amounts expected to be recovered less a loss allowance for expected credit losses. Management utilizes historical loss experience and forward-looking information in conjunction with the aging and arrears status of accounts receivable at year-end in the determination of the allowance.

(ii) Regulatory balances

The recognition and measurement of regulatory balances is subject to certain estimates, judgements and assumptions, including assumptions made in the interpretation of the OEB's regulations and decisions.

(iii) Revenue recognition

The Corporation uses the percentage-of-completion method in accounting for its fixed-price contracts to deliver certain products and services. The use of the percentage-of-completion method requires the Corporation to estimate the work performed to date as a proportion of the total work to be performed. Management conducts periodic reviews of its estimated costs to complete, percentage-of-completion estimates and revenues and margins recognized, on a contract-by-contract basis. The impact of any revisions in cost and earnings estimates is reflected in the period in which the need for a revision becomes known.

2. BASIS OF PRESENTATION [CONTINUED]

(d) Use of estimates and judgments [continued]

(iv) Useful lives of depreciable assets

Depreciation and amortization expense is calculated based on estimates of the useful lives of property, plant and equipment, intangible assets and investment properties. Management estimates the useful lives of the various types of assets using assumptions and estimates of life characteristics of similar assets based on a long history of electricity distribution and generation industry experience.

(v) Impairment of non-financial assets

Non-financial assets are reviewed by management for impairment using the future cash flows method as outlined in Note 3(o). By their nature, estimates of future cash flows, including estimates of future capital expenditures, revenue, operating expenses, discount rates, generation production, inflation, terminal capitalization rates and forecasted market pricing are subject to measurement uncertainty. Management factors in current economic conditions, past experience and obtains third party consultations to support its estimates when necessary.

(vi) Employee future benefits

The measurement of employee future benefits involves the use of numerous estimates and assumptions. Actuaries make assumptions for items such as discount rates, future salary increases and mortality rates in the determination of benefits expenses and defined benefit obligations.

(vii) Capital contributions

The timing of the satisfaction of performance obligations for capital contributions from customers is subject to certain estimates and assumptions.

(viii) Deferred income taxes

Tax interpretations, regulations and legislation in the various jurisdictions in which the Corporation and its subsidiaries operate are subject to change. Deferred income tax assets are assessed by management at the end of each reporting period to determine the likelihood that they will be realized from future taxable income. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax assets and unused tax losses can be utilized.

(ix) Indicator of asset impairment

At the end of each reporting period, or earlier if required, management uses its judgment to assess whether there is an indication that the carrying amount of a non-financial asset [or cash-generating unit, 'CGU'] exceeds its recoverable amount. This assessment involves the consideration of whether any events or changes in circumstances could have affected the recoverability of the carrying amount of a non-financial asset or CGU. Management considers various indicators including, but not limited to, adverse changes in the industry or economic conditions, changes in the degree or method of use of an asset, a lower-than-expected economic performance of an asset or a significant change in market or interest rates.

Hydro Ottawa Holding Inc.

Notes to the Consolidated Financial Statements
Year ended December 31, 2018
[in thousands of Canadian dollars]

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2. BASIS OF PRESENTATION [CONTINUED]

(d) Use of estimates and judgments [continued]

(ix) Indicator of asset impairment [continued]

Based on management's judgment, an indicator of impairment [under International Accounting Standards 36 Impairment of Assets ['IAS 36']] existed within EONY at December 31, 2018 pertaining to the energy market prices in New York State. However, management's discounted cash flow analysis under the value-in-use method [as prescribed by IAS 36] resulted in no impairment to be recognized in the 2018 fiscal year. Assumptions with respect to these cash flows are sensitive to the various inputs into the value-in-use calculation, and thus are subject to measurement uncertainty [Note 2(d)(v)].

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of consolidation

The consolidated financial statements include the accounts of the Corporation and its subsidiaries including those described in Note 1 of these consolidated financial statements. Subsidiaries are entities controlled by the Corporation. The Corporation controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns by directing and controlling the activities of the entity. Subsidiaries are fully consolidated from the date on which the Corporation obtains control, and continue to be consolidated until the date that control ceases to exist. All intercompany balances and transactions have been eliminated in these consolidated financial statements. The financial statements of the subsidiaries are prepared for the same reporting period as the Corporation using consistent accounting policies.

One subsidiary has a non-controlling interest which is presented as part of equity.

(b) Joint ventures

All joint arrangements are either classified as joint ventures or joint operations in accordance with *IFRS 11 – Joint Arrangements*. The Corporation is party to three joint ventures as described in Note 1 of these consolidated financial statements whereby control is shared with third parties via a contractual agreement. Joint ventures are accounted for using the equity method. Under this method, the Corporation’s interests in joint ventures are initially recorded at cost, and subsequently adjusted to recognize the Corporation’s share of post-acquisition profits or losses, movements in other comprehensive income ['OCI'] and dividends or distributions received.

(c) Foreign currency translation

Transactions denominated in foreign currencies are translated at exchange rates in effect at the transaction date. At each reporting date, monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rate in effect at the end of the reporting period. Non-monetary assets and liabilities carried at historical cost are not re-translated; they remain at the exchange rate in effect at the date of the original transaction. Non-monetary assets and liabilities carried at fair value are translated at the exchange rate in effect at the date the fair value was measured. Any resulting exchange gains or losses are included in net income for the year.

The assets and liabilities of EONY are translated into Canadian dollars at the exchange rate in effect at the end of the reporting period. Revenue and expenses are translated into Canadian dollars at the average exchange rate in effect during the reporting period. Any resulting exchange gains and losses arising from the translation are included in OCI for the year.

Fair value adjustments to identifiable assets acquired and liabilities assumed through acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences are recognized in OCI.

Hydro Ottawa Holding Inc.

Notes to the Consolidated Financial Statements
Year ended December 31, 2018
[in thousands of Canadian dollars]

3. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

(d) Regulation – Hydro Ottawa

Hydro Ottawa is regulated by the OEB under the authority of the *Ontario Energy Board Act, 1998*. The OEB is charged with the responsibilities of approving or setting rates for the transmission and distribution of electricity, and ensuring that distribution companies fulfill obligations to connect and service customers.

For fiscal year ended December 31, 2018, Hydro Ottawa continued to operate under a custom incentive rate-setting application ['Custom IR'] prescribed by the OEB. The Custom IR is one of the rate setting options contained in the *Renewed Regulatory Framework for Electricity Distributors: A Performance-Based Approach* policy. Hydro Ottawa filed a custom incentive rate-setting application with the OEB on April 29, 2015 seeking approval to change the rates that Hydro Ottawa charges for electricity delivery, retail services, allowances, loss factor and specific services charges for a period of five years, to be effective January 1, 2016 to December 31, 2020. This application requested a revenue requirement to recover costs, and provide a rate of return on a deemed capital structure applied to rate base assets. The key components of Hydro Ottawa's Custom IR framework included the establishment of several regulatory accounts, namely: an asymmetrical earnings sharing mechanism variance account, revenue requirement differential variance account related to capital additions, new facilities deferral account, connection cost recovery agreement deferral account, and the efficiency adjustment mechanism deferral account. An annual IR application is required to set rates each year for 2017 to 2020. 2018 rates were set based on Hydro Ottawa's Year 3 IR annual update.

Hydro Ottawa applies for distribution rates based on estimated costs. Once rates are approved, they are not adjusted as a result of actual costs being different from those that were estimated, other than for certain prescribed costs that are eligible for deferral treatment and are either collected or refunded in future rates. The OEB has the general power to include or exclude costs and revenue in the rates of a specific period.

In January 2014, the International Accounting Standards Board ['IASB'] issued IFRS 14 – *Regulatory Deferral Accounts* ['IFRS 14'], which permits rate-regulated entities to use its existing rate-regulated activities practices if and only if, in its first IFRS financial statements, it recognized regulatory deferral account balances by electing to apply the requirements of IFRS 14.

Hydro Ottawa has determined that certain debit and credit balances arising from rate-regulated activities qualify for the application of regulatory accounting treatment in accordance with IFRS 14 and the accounting principles prescribed by the OEB in the *Accounting Procedures Handbook for Electricity Distributors*. Regulatory debit and credit balances primarily represent costs that have been deferred because it is probable that they will be recovered in future rates, revenues that are required to be returned or collected to/from customers or balances that arise from differences in amounts billed to customers for electricity services and the costs that Hydro Ottawa incurs to purchase these services.

Regulatory balances principally comprise of the following:

- Regulatory asset/liability refund account ['RARA'/'RLRA'] consists of balances of regulatory assets or regulatory liabilities approved for disposition by the OEB through temporary additional rates referred to as rate riders.
- Settlement variances relate primarily to the charges Hydro Ottawa incurred for transmission services, commodity, wholesale market operations and global adjustment in comparison to those settled with customers during the year. The nature of the settlement variances is such that the balance can fluctuate between assets and liabilities over time, and they are reported at year-end dates in accordance with rules prescribed by the OEB.
- Lost Revenue Adjustment Mechanism ['LRAM'] account tracks and disposes of lost electricity distribution revenues that result from Conservation and Demand Management ['CDM'] programs.
- Earnings Sharing Mechanism ['ESM'] variance account captures 50% of any regulated earnings above Hydro Ottawa's approved return on equity for years 2016 to 2020.
- Other Post-employment Benefits deferral account ['OPEB deferral account'] was authorized by the OEB in 2011 to record the adjustment to employee future benefits other than pension relating to the cumulative actuarial gains or losses. This account is adjusted annually to record any changes in the cumulative actuarial gains or losses. No interest charges are recorded on this account as instructed by the OEB.

Hydro Ottawa Holding Inc.

Notes to the Consolidated Financial Statements
Year ended December 31, 2018
[in thousands of Canadian dollars]

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3. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

(d) Regulation – Hydro Ottawa [continued]

Other variances and deferred costs include the following:

- the difference between low voltage charges paid to Hydro One Networks Inc. ['HONI'] and those charged to customers.
- the difference between actual amount of gain/loss from disposal of fixed assets and the forecasted gain/loss.
- the difference between the 2014 starting point and current year ending point stretch factor as multiplied by the rate year plan revenue requirement for the relevant rate year, referred to as the Efficiency Adjustment Mechanism ['EAM'].

Hydro Ottawa accrues interest on the regulatory balances as directed by the OEB.

Hydro Ottawa continues to assess the likelihood of recovery of all regulatory debit balances subject to recovery through a future rate filing. The absence of OEB approval is a consideration in this evaluation. If the requirement for a provision becomes more likely than not, Hydro Ottawa will recognize the provision in operating costs for the year.

(e) Revenue recognition

Effective January 1, 2018, the Corporation has adopted *IFRS 15 - Revenue from Contracts with Customers* ['IFRS 15'] as described in Note 4(a)(i) of these consolidated financial statements.

Depending on whether certain criteria are met, the Corporation recognizes revenue from contracts with customers when it transfers control over a product or service to a customer either over time or at a point in time. For revenue from other sources, the Corporation recognizes revenue over time taking into consideration the facts and circumstances of the arrangement.

Revenue is measured at the consideration received or receivable, excluding any discounts, rebates and sales taxes and other amounts collected on behalf of third parties in the following revenue arrangements.

(i) Power recovery

Power recovery revenue represents the flow-through of the cost of power to the consumer as purchased by the Corporation and is recognized over time as electricity is delivered to the customer, as measured by meter readings or usage estimates. Power recovery revenue is regulated by the OEB and includes charges to customers for the electricity commodity, the transmission of electricity and the administration of the wholesale electricity system. The Corporation has determined that it acts as a principal in this revenue arrangement and therefore has presented it on a gross basis.

(ii) Distribution

The Corporation charges customers for the delivery of electricity, based on rates established by the OEB. The rates are intended to allow the Corporation to recover its prudently-incurred costs and earn a fair return on invested capital. Distribution revenue is recognized over time as electricity is delivered to the customer, as measured by meter readings or usage estimates.

(iii) Generation

Generation revenue is recognized over time upon the delivery of generated electricity to the customer, as measured by meter readings in accordance with the applicable contractual arrangement.

3. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

(e) Revenue recognition [continued]

(iv) Commercial services

Commercial services revenue comprise revenue earned under contracts for service work related to distribution operations, energy-related turnkey projects, the provision of streetlight installation and maintenance services, pole attachment and duct rental services and non-destructive cable testing.

Certain commercial services [distribution projects, turnkey projects and street light installation services] are accounted for using the percentage-of-completion method, whereby revenue and the corresponding costs are recognized over time proportionately with the degree of completion of the services under contract. Losses on such contracts are fully recognized when they become evident. Other commercial service revenues are recognized over time as services are rendered, or on a straight-line basis over the period of the contract if the services performed consist of an indeterminate number of acts over a specified period of time.

(v) Other

Other revenue consists primarily of investment property rentals, capital contributions received from customers amortized to revenue, and other account-related charges such as account set-up and late payment fees.

Investment property rentals are recognized over time as services are rendered, while other account-related charges are recognized at a point in time. In certain situations, capital contributions are required from customers to finance additions to property, plant and equipment when the estimated revenue resulting from the addition to property, plant and equipment is less than the cost of providing the service or where special equipment is needed to supply the customers' specific requirements. Since the contributions will provide current and future customers with ongoing access to the supply of electricity, these contributions are classified as deferred revenue and amortized into revenue on a straight-line basis over time [the period a customer will receive services], which is typically equivalent to the rate used for the depreciation of the related property, plant and equipment [service life of the related assets].

Capital contributions received from developers to construct or acquire property, plant and equipment for the purpose of connecting future customers to the Corporation's distribution network are considered out of scope of IFRS 15. Capital contributions received from developers are recognized as deferred revenue and amortized into revenue from other sources at an equivalent rate to that used for the depreciation of the related property, plant and equipment.

Revenue from investment property is considered out of scope of IFRS 15, and accordingly classified as revenue from other sources. Rental income from investment property is recognized as revenue on a straight-line basis over the term of the lease.

(f) Interest income and financing costs

Interest income is recognized as it accrues under the effective interest method and comprises interest earned on cash and notes receivable from related parties.

Financing costs are calculated using the effective interest rate method and are recognized as an expense unless they are capitalized as part of the cost of a qualifying asset.

Hydro Ottawa Holding Inc.

Notes to the Consolidated Financial Statements
Year ended December 31, 2018
[in thousands of Canadian dollars]

3. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

(g) Government grant income

CDM income stems from the delivery of provincial government programs that promote conservation. Government grants under CDM programs are recognized when there is reasonable assurance that the grant will be received and all related conditions have been met. Grants under full cost recovery funding are recognized as income on a systematic basis over the period to match the costs they are intended to compensate. CDM performance incentives are recognized when it is probable that future economic benefits will flow to the Corporation, and the amount can be measured reliably.

(h) Income taxes

The Corporation, Hydro Ottawa, Energy Ottawa and Envari are considered to be a Municipal Electric Utility ['MEU'] and are required to make payments in lieu of corporate income taxes ['PILS'] as contained in the *Electricity Act, 1998*, as all of their share capital is indirectly owned by the City of Ottawa and not more than 10% of its income is derived from activities carried on outside the municipal boundaries of the City of Ottawa. The *Electricity Act, 1998* provides that a MEU that is exempt from tax under the *Income Tax Act* (Canada) ['ITA'] and the *Taxation Act,* Ontario ['TAO'] is required to make, for each taxation year, a PILs payment to the Ontario Electricity Financial Corporation in an amount equal to the tax that it would be liable to pay under the ITA and the TAO if it were not exempt from tax.

The Corporation, Hydro Ottawa and Energy Ottawa follow the liability method for recording income taxes. Under the liability method, current income taxes payable are recorded based on taxable income. Deferred income taxes arising from temporary differences in the accounting and tax basis of assets and liabilities are provided based on substantively enacted tax rates that will be in effect when the differences are expected to reverse.

Hydro Ottawa recognizes regulatory balances for the amounts of future income taxes expected to be refunded to or recovered from customers in future electricity rates as prescribed by the OEB.

EONY is subject to the income tax regime in the United States [the 'Internal Revenue Service'], as more than 10% of its income is derived from activities carried on outside the municipal boundaries of the City of Ottawa. PowerTrail is taxable under the ITA and TAO as less than 90% of each company's capital is owned by the City of Ottawa through Energy Ottawa and the Corporation. Corporate income taxes are accounted for using the liability method as described above.

Moose Creek LP, CHLP, EO Gen, CHLP North and Hull Energy LP are not taxable entities for federal and provincial income tax purposes. Tax on the net income (loss) is borne by the individual partners through the allocation of taxable income.

(i) Restricted cash

Cash and cash equivalents [highly-liquid temporary investments with a maturity date between three months and one year] that are restricted as to withdrawal or use under the terms of certain contractual agreements are classified as restricted cash.

(j) Bank indebtedness

Bank indebtedness includes short-term advances and/or bankers' acceptances drawn on the Corporation's credit facility with a maturity date of three months or less, and outstanding cheques. Cash and bank indebtedness are offset and the net amount is presented on the consolidated balance sheet when, and only when, the Corporation has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously. At December 31, 2017, $12,637 of cash previously netted against bank indebtedness has been reclassified to cash as there is no legal right to offset against the Corporation's credit facility.

3. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

(k) Financial instruments

Effective January 1, 2018, the Corporation has adopted *IFRS 9 - Financial Instruments* ['IFRS 9'] as described in Note 4(a)(ii) of these consolidated financial statements.

Financial instruments are initially measured at the fair value of the consideration given or received plus transaction costs that are directly attributable to the acquisition or issue of the financial instrument.

The Corporation's financial assets, upon initial recognition, are classified as amortized cost or fair value [whereby subsequent changes in fair value are recognized either through OCI ['FVOCI'] or through profit and loss ['FVTPL'] as unrealized market adjustments]. Financial assets are classified based on the Corporation’s business model for managing such assets and the contractual terms of the related cash flows.

The Corporation's financial liabilities, upon initial recognition, are classified as amortized cost or FVTPL. A financial liability is classified as FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition.

The Corporation classifies and subsequently measures its financial instruments as follows:

- Cash, restricted cash, accounts receivable and notes receivable from related parties are financial assets classified and measured at amortized cost using the effective interest method, less any impairment if applicable.
- Bank indebtedness, accounts payable and accrued liabilities, customer deposits and long-term debt are financial liabilities classified and measured at amortized cost using the effective interest rate method.

The fair value of a financial instrument is the amount of consideration that would be agreed upon in an arm's-length transaction between willing parties. The Corporation's own credit risk and the credit risk of the counterparty are taken into account in determining the fair value of financial assets and liabilities. Financial instruments are classified using a three level hierarchy. The levels reflect the inputs used to measure the fair values of financial assets and financial liabilities, and are as follows:

- Level 1: inputs are unadjusted quoted prices of identical instruments in active markets;
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3: inputs for the liabilities that are not based on observable market data [unobservable inputs].

All financial assets except for those classified as FVTPL or FVOCI are subject to review for impairment at least at each reporting date. Impairment losses, if any, are recognized in net income. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized.

As of January 1, 2018, the Corporation recognizes loss allowances for expected credit losses ['ECL's] on financial assets measured at amortized cost. The Corporation measures loss allowances for electricity receivables, unbilled revenue and trade receivables via a simplified approach as permitted by IFRS 9, at an amount equal to lifetime ECL.

When determining whether the credit risk of a financial asset has increased, the Corporation performs a quantitative and qualitative analysis based on the Corporation’s historical experience and forward-looking information. The Corporation assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due. The Corporation considers a financial asset to be in default when the borrower is unlikely to pay its credit obligations to the Corporation in full, without recourse by the Corporation to actions such as realizing security.

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets. The gross carrying amount of a financial asset is written off to the extent that there is no realistic prospect of recovery.

Hydro Ottawa Holding Inc.

Notes to the Consolidated Financial Statements
Year ended December 31, 2018
[in thousands of Canadian dollars]

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3. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

(l) Property, plant and equipment

Property, plant and equipment consist principally of land, buildings and fixtures, electricity distribution and infrastructure, furniture and equipment, rolling stock, generating equipment, reservoirs, dams and waterways, civil structures and assets under construction.

Property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses, if any. Self-constructed asset costs comprise all directly attributable expenditures to bring the asset into operation including labour, materials, employee benefits, transportation, contracted services and borrowing costs. Where parts of an item in property, plant and equipment are significant and have different estimated economic useful lives, they are accounted for as separate items [major components] of property, plant and equipment. Certain assets may be acquired or constructed with financial assistance in the form of contributions from customers and developers. Such contributions are treated as deferred revenue.

The cost of major inspections and maintenance is recognized in the carrying value of an asset provided that the Corporation will derive future economic benefits from the expenditure. The carrying amount of a replaced part is derecognized. The costs of day-to-day servicing, repairs, and maintenance, are expensed as incurred.

Depreciation is recorded on a straight-line basis over the estimated service life of each component of property, plant and equipment. Emergency capital spare parts that are expected to be used for more than one year are considered to be assets under construction and are depreciated only once they are put into service.

Gains and losses on disposal of retired, sold or otherwise derecognized property, plant and equipment are recognized in income and are calculated as the difference between net proceeds from disposal and the carrying amount of the asset. Compensation from third parties for property, plant and equipment lost, impaired or given up is measured at fair value and recognized when the compensation becomes receivable.

The estimated useful lives, residual values and depreciation methods are reviewed at each year-end with the effect of any changes in estimate being accounted for on a prospective basis.

Estimated service lives for property, plant and equipment classes are as follows:

Land, buildings and structures	
Land	Indefinite
Buildings and fixtures	20 to 100 years
Civil structures	100 years
Electricity distribution infrastructure	10 to 60 years
Generation and other	
Generating equipment	10 to 50 years
Reservoirs, dams and waterways	100 to 125 years
Furniture and equipment	5 to 10 years
Rolling stock	7 to 15 years

Assets under construction and land are not subject to depreciation.

Borrowing costs are capitalized as a component of the cost of self-constructed property, plant and equipment assets that take a substantial period of time to get ready for their intended use. The capitalization rate is the Corporation’s weighted average cost of borrowing.

Hydro Ottawa Holding Inc.

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3. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

(m) Intangible assets

Intangible assets include land and water rights, computer software, capital contributions, power purchase agreements, deferred contract costs and assets under development. Water rights represent the inherent value of the right to draw water from government-owned rivers and lakes for purposes of generating electricity.

Intangible assets with finite lives are measured at cost less accumulated amortization and accumulated impairment losses, if any. Intangible assets with finite lives are amortized on a straight-line basis over the estimated service lives of the related assets while those with indefinite lives are not amortized.

Intangible assets are derecognized on disposal or when no further future economic benefits are expected from their use. Gains or losses on disposal of intangible assets are recognized in income and are calculated as the difference between net proceeds from disposal and the carrying amount of the asset.

The estimated useful lives and amortization methods are reviewed at each year-end with the effect of any changes in estimate being accounted for on a prospective basis.

Estimated service lives for intangible assets with finite lives are as follows:

Land rights	50 years
Water rights with a definite useful life	7 to 100 years
Computer software	5 to 10 years
Other contractual rights	
Capital contribution agreements	45 years
Power purchase agreements ['PPA']	15 years
Deferred contract costs	15 years

(n) Investment properties

Investment property is land and/or buildings held for purposes other than for use in the Corporation’s operating activities. The Corporation holds investment properties either for potential expansion of the service delivery network or as excess administrative property. Investment properties are measured at cost plus transaction costs, and have estimated service lives ranging between 25 and 50 years. Any gain or loss arising from the sale of an investment property is immediately recognized in the consolidated statement of income.

(o) Impairment of non-financial assets

At the end of each reporting period, or earlier if required, the Corporation assesses whether there is an indication that a non-financial asset [or CGU] may be impaired. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. If any indication exists, the Corporation estimates the asset's recoverable amount, which is the higher of an asset or CGU's fair value less costs of disposal and its value in use. If the carrying value of a non-financial asset exceeds its recoverable amount, the difference is immediately recognized as an impairment loss in the consolidated statement of income.

Intangible assets with indefinite useful lives [i.e. certain water rights] and assets under development are tested for impairment [within their respective CGUs] at least annually, and whenever there is an indication that the asset may be impaired.

Hydro Ottawa Holding Inc.

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3. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

(o) Impairment of non-financial assets [continued]

When determining the recoverable amount, the Corporation determines its value-in-use by discounting estimated future cash flows to their present value using a discount rate that reflects changes in the time value of money and the risks specific to the asset of the CGU. The discount rate estimated and used by management represents the weighted average cost of capital determined for the CGU being tested. Terminal values are included in the determination of management's value-in-use calculations and are based on an earnings multiple approach via a terminal capitalization rate.

Where the assets and liabilities of a CGU containing water rights with indefinite useful lives have not changed significantly; the CGU is not impacted by events or circumstances that would cause its value in use ['VIU'] calculation to significantly change; and the most recent VIU calculation resulted in an amount that exceeded the CGUs' carrying amount by a substantial margin; the most recently performed VIU calculation will continue to be used in the Corporation's evaluation of impairment in the current year.

At the end of a reporting period, if there is any indication that an impairment loss recognized in a prior period no longer exists or has decreased, the loss is reversed up to its recoverable amount. The carrying amount following the reversal must not be higher than the carrying amount that would have prevailed [net of amortization] had the original impairment not been recognized in prior periods.

Compensation for impairment of non-financial assets, such as insurance recoveries, is included in determining profit or loss when it becomes receivable and is not offset against the cost of restoring, purchasing or constructing replacement assets.

(p) Employee future benefits

(i) Pension plans

The Corporation provides pension benefits for its employees through the Ontario Municipal Employees Retirement System ['OMERS'] Fund [the 'Fund']. OMERS is a multi-employer pension plan that provides pensions for employees of Ontario municipalities, local boards, public utilities and school boards. The Fund is a defined benefit pension plan, which is financed by equal contributions from participating employers and employees and by the investment earnings of the Fund.

Although the plan is a defined benefit plan, sufficient information is not available to the Corporation to account for it as such because it is not possible to attribute the fund assets and liabilities between the various employers who contribute to the Fund. As a result, the Corporation accounts for the plan as a defined contribution plan, and contributions payable as a result of employee service are expensed as incurred as part of operating costs. The Corporation shares in the actuarial risks of the other participating entities in the plan, and its future contributions may therefore be increased due to actuarial losses relating to the other participating entities. In addition, the Corporation’s contributions could be increased if other entities withdraw from the plan.

CHLP is the sponsoring employer of the Pension Plan for Employees of Chaudiere Hydro L.P. and Participating Employers ['Chaudiere Hydro Pension Plan' or 'CHPP'] which provides pension benefits for certain of the Corporation's employees and is accounted for as follows:

– CHPP assets are held by an insurance corporation and are measured at fair value, which are determined as follows: bond, equity and other investment funds are valued using the unit values supplied by the fund manager, which reflects the fund's proportionate share of underlying net assets at fair values determined using closing quotations from Canadian investment dealers, and short-term investments are valued at cost, including accrued interest, which due to their short-term maturity approximates fair value.

Hydro Ottawa Holding Inc.

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3. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

(p) Employee future benefits [continued]

(i) Pension plans [continued]

- Defined benefit obligations of the CHPP are determined based on the expected future benefit payments discounted using market interest rates on high-quality debt instruments that match the timing and amount of expected benefit payments.

- The cost of pension earned by employees is actuarially determined using the projected benefit method prorated on services, and management's best estimate of salary escalation, retirement ages and life expectancy.

- The defined benefit expense is presented in employee benefits in net income on the consolidated statement of income and includes, as applicable, the estimated cost of employee benefits for the current year service, interest cost, interest income on CHPP's assets, plan amendments, curtailments, other administration costs of the pension plans and any gain or loss on settlement. Current service cost, interest income on CHPP's assets and interest costs are computed by applying the discount rate used to measure the plan obligation at the beginning of the annual period.

- Remeasurements arising on CHPP's assets and defined benefit obligation are presented in OCI on the consolidated statement of comprehensive income and arise from actuarial gains and losses on defined benefit obligations, the difference between the actual return [net of costs of managing CHPP's assets] and interest income on plan assets, if applicable. CHPP's significant assumptions are assessed and revised, as appropriate.

- Past service costs are included in the cost of the CHPP for the year when they arise.

The fair value of the CHPP assets is offset against the defined benefit obligation. The net amount is recognized as a retirement benefit asset or retirement benefit liability.

(ii) Other post-employment benefits

Other post-employment benefits provided by the Corporation include life insurance, a retirement grant and other benefits. These plans provide benefits to certain employees when they are no longer providing active service.

Employee future benefits expense is recognized in the period during which the employees render services.

Employee future benefits are recorded on an accrual basis. The defined benefit obligation and current service costs are calculated using the projected benefit method prorated on service and based on assumptions that reflect management's best estimates. The current service cost for a period is equal to the actuarial present value of benefits attributed to employees' services rendered in the period. Actuarial gains and losses resulting from experience different from that assumed or from changes in actuarial assumptions are recognized in OCI. However, for Hydro Ottawa, these amounts are reclassified to a regulatory debit balance as prescribed by the OEB.

3. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

(p) Employee future benefits [continued]

(iii) Employee benefits

The Corporation provides short-term employee benefits such as salaries, employment insurance, short-term compensated absences, sick leave and health and dental care. These benefits are recognized as the related service is rendered and are measured on an undiscounted basis. Short-term employee benefits are recognized as an expense unless they qualify for capitalization as part of the cost of an item of property, plant and equipment or intangible assets. A liability is recognized in respect of any unpaid short-term employee benefits for services rendered in the reporting period.

The Corporation recognizes a liability for the expected cost of accumulated non-vested sick leave benefits at the end of the reporting period. The Corporation presents its non-vested sick leave obligation as a non-current liability since it does not expect to settle all of its sick leave benefits within twelve months from the balance sheet date.

(q) Customer deposits

Customer deposits are cash collections from non-residential customers to guarantee the payment of future energy bills and fulfillment of construction obligations. Deposits from customers to guarantee the payment of energy bills includes related interest amounts owed to the customers. Deposits estimated to be refundable to customers within the next fiscal year are classified as current liabilities and included in accounts payable and accrued liabilities.

(r) Provisions and contingencies

The Corporation recognizes provisions when there is a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

The evaluation of the likelihood of the contingent events requires judgment by management as to the probability of exposure to potential loss. Actual results could differ from these estimates.

A contingent asset is not recognized in the consolidated financial statements. However, a contingent asset is disclosed where an inflow of economic benefits is probable.

(s) Deferred revenue

In certain situations, financial assistance in the form of contributions is required from customers and developers to finance additions to property, plant and equipment. This occurs when the estimated revenue resulting from the addition to property, plant and equipment is less than the cost of providing the service or where special equipment is needed to supply the customers’ specific requirements. Since the contributions will provide customers with ongoing access to the supply of electricity, these contributions are classified as deferred revenue, and recognized in revenue in accordance with Note 3(f)(v).

(t) Debt-issuance costs

The Corporation incurs debt-issuance costs that are external, direct and incremental in nature arising from its debenture and bond offerings. Debt-issuance costs associated with its debenture and bond offerings are netted against the proceeds of the debt and amortized using the effective interest method.

3. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

(u) Leases

Leases in which the Corporation assumes all of the risks and rewards of ownership are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to the asset. Payments under finance leases are apportioned between interest expense and a reduction of the outstanding liability.

All other leases are classified as operating leases and the leased assets are not recognized on the Corporation's consolidated balance sheets. Payments made under operating leases are recognized in the consolidated statement of income on a straight-line basis over the term of the lease.

(v) Inventory

Inventory consists of work-in-process and finished goods used in the installation and maintenance of streetlights as part of the Corporation's commercial services. Inventory is measured at the lower of weighted average variable costs and net realizable value. The cost of inventory is based on the first-in, first-out cost formula based on standard costs. Net realizable value is the estimated selling price in the ordinary course of business less any applicable selling expenses.

4. NEW ACCOUNTING PRONOUNCEMENTS

A number of new standards, amendments and interpretations relevant to the Corporation have either been adopted for the year ended December 31, 2018, or, are not yet effective and have not been applied in preparing these consolidated financial statements.

(a) Recently adopted accounting standards

(i) Revenue from contracts with customers

On January 1, 2018, the Corporation adopted IFRS 15 – *Revenue from Contracts with Customers* ['IFRS 15'] by applying the modified retrospective approach where prior periods are not restated. The Corporation elected a practical expedient, as allowed under IFRS 15, which permitted it to apply the new standard solely to contracts which were in-progress as of January 1, 2018, and all contracts initiated thereafter.

IFRS 15 supersedes previous revenue recognition guidance including IAS 18 – *Revenue*, IAS 11 – *Construction Contracts* and related interpretations. IFRS 15 provides a standardized five step model [identify contract, identify performance obligations, determine transaction price, allocate transaction price and recognize revenue] to recognize revenue. Depending on whether certain criteria are met revenue is recognized over time, in a manner that best reflects the Corporation's performance or at a point in time, when control of the goods or services is transferred to the customer. IFRS 15 applies to nearly all contracts with customers, unless covered by another standard [i.e. leases, financial instruments, insurance contracts], or those out of scope of IFRS 15.

The adoption of IFRS 15 did not have an impact on the Corporation's existing revenue recognition practices as reported in the comparative year. As a result, there have been no adjustments recognized upon the adoption of IFRS 15. The new standard did result in additional disclosures, see Notes 15 and 21.

4. NEW ACCOUNTING PRONOUNCEMENTS [CONTINUED]

(a) Recently adopted accounting standards [continued]

(ii) Financial instruments

On January 1, 2018, the Corporation adopted IFRS 9 – *Financial Instruments* ['IFRS 9'] on a retrospective basis, which replaces International Accounting Standard 39 – *Financial Instruments: Recognition and Measurement* ['IAS 39']. The Corporation has chosen not to restate comparative information with respect to classification and measurement requirements. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9, but rather those of IAS 39.

IFRS 9 includes revised guidance on the classification and measurement of financial assets, including basing the classification of financial assets on their contractual cash flow characteristics and the entity's business model for managing financial assets, whereas IAS 39 based the classifications on specific definitions for each category. Moreover, IFRS 9 simplifies the former IAS 39 classifications into three main categories [amortized cost, fair value through other comprehensive income and fair value through profit or loss], and introduces a new expected credit loss model for measuring impairment of financial assets. In addition, IFRS 9 contains consequential amendments to IFRS 7 – Financial Instruments: Disclosures which has also been adopted by the Corporation.

On January 1, 2018, management assessed which business models apply to the financial assets held by the Corporation and has classified its financial instruments into the appropriate IFRS 9 categories. In addition, the Corporation revised its impairment methodology under IFRS 9 for each of its classes of financial assets. The Corporation's financial instruments will continue to be subsequently measured at amortized cost [previously classified as loans and receivables for financial assets under IAS 39], and furthermore the new impairment methodology results in the same expected credit loss [allowance for doubtful accounts] as under the previous method used. The adoption of IFRS 9 by the Corporation did not result in any quantitative adjustments being recognized as at January 1, 2018.

The adoption of IFRS 9 has not had an effect on the Corporation's accounting policies related to financial liabilities.

(b) Recently issued accounting guidance not yet adopted

(i) Leases

In January 2016, the IASB issued a new standard, IFRS 16 – *Leases* ['IFRS 16'] which will replace IAS 17 – Leases. IFRS 16 eliminates the current dual model [on and off balance sheet] and aims to provide greater comparability between companies who lease assets and those who purchase assets with a single on-balance sheet approach. Under IFRS 16, all leases from the lessee's perspective will have to be recognized on the balance sheet, with related lease liabilities, with exemptions for short-term [< 1 year] and low value leases.

The new standard becomes effective for reporting periods beginning on or after January 1, 2019. The Corporation plans on adopting IFRS 16 using the modified retrospective application method, where the 2018 comparatives will not be restated. In addition, the Corporation will apply the recognition exemptions in IFRS 16 for 'low value' leases and leases that end within 12 months of the date of initial application and account for them as short-term leases. The Corporation continues to analyze IFRS 16 and the potential impact on its consolidated financial statements.

Hydro Ottawa Holding Inc.

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4. NEW ACCOUNTING PRONOUNCEMENTS [CONTINUED]

(b) Recently issued accounting guidance not yet adopted [continued]

(ii) Uncertain tax positions

On June 7, 2017, the IASB issued International Financial Reporting Interpretations Committee 23 – Uncertainty over Income Tax Treatments ['IFRIC 23']. IFRIC 23 requires an entity to contemplate whether uncertain tax treatments should be considered separately or together as a group, to determine if it is probable that the tax authorities will accept the uncertain tax treatment, and to measure the tax uncertainty based on the most likely amount or expected value. IFRIC 23 is applicable for annual periods beginning on or after January 1, 2019. The Corporation continues to evaluate IFRIC 23 and the potential impact on its consolidated financial statements.

5. ACCOUNTS RECEIVABLE

	2018	2017
	$	$
Receivables from contracts with customers		
Electricity receivable	**59,933**	54,056
Unbilled revenue related to electricity	**80,180**	84,963
Trade and other receivables	**18,801**	44,124
Amounts due from related parties [Note 29]	**15,009**	9,031
Less: loss allowance [Note 20(c)]	**(2,541)**	(2,512)
	171,382	189,662
Receivables from other sources		
Conservation and demand management	**1,503**	1,813
Sales tax receivable	**6,164**	1,221
	179,049	192,696

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6. REGULATORY BALANCES

Information about the Corporation's regulatory balances is as follows:

	Remaining recovery/ reversal [years]	2017 $	Balances arising in the year $	Recovery/ reversal $	Other movements(1) $	**2018 $**
Regulatory debit balances						
RARA	1	438	196	(241)	-	**393**
Settlement variances	1 - 5	2,508	(505)	-	-	**2,003**
OPEB deferral account	1 - 5	782	-	-	(782)	**-**
LRAM	1 - 5	2,571	529	-	-	**3,100**
Regulatory asset for deferred income taxes	(2)	16,797	9,009	-	-	**25,806**
Other variances and deferred costs	1 - 5	2,370	995	-	-	**3,365**
		25,466	10,224	(241)	(782)	**34,667**
Regulatory credit balances						
RLRA	1	1,464	13,214	(13,056)	-	**1,622**
Settlement variances	1 - 5	20,761	(7,325)	-	-	**13,436**
ESM	1 - 5	1,385	2,002	-	-	**3,387**
OPEB deferral account	1 - 5	-	1,054	-	(782)	**272**
Other variances and deferred costs	1 - 5	899	76	-	-	**975**
		24,509	9,021	(13,056)	(782)	**19,692**

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6. REGULATORY BALANCES [CONTINUED]

	Remaining recovery/ reversal [years]	2016 $	Balances arising in the year $	Recovery/ reversal $	Other movements[1] $	2017 $
Regulatory debit balances						
RARA	1	274	(5,679)	4,868	975	438
Settlement variances	1 - 5	2,496	(805)	-	817	2,508
OPEB deferral account	1 - 5	147	635	-	-	782
LRAM	1 - 5	1,469	1,102	-	-	2,571
Regulatory asset for deferred income taxes	[2]	7,684	9,113	-	-	16,797
Other variances and deferred costs	1 - 5	1,674	682	13	1	2,370
		13,744	5,048	4,881	1,793	25,466
Regulatory credit balances						
RLRA	1	409	15,162	(15,083)	976	1,464
Settlement variances	1 - 5	36,137	(16,193)	-	817	20,761
ESM	1 - 5	-	1,385	-	-	1,385
Other variances and deferred costs	1 - 5	159	740	-	-	899
		36,705	1,094	(15,083)	1,793	24,509

[1] Other movements represent reclassifications of balances.
[2] The balance is being reversed through timing differences in the recognition of deferred income tax assets.

The following regulatory balances include accrued interest which is presented in net movements in regulatory balances:

- The RARA/RLRA includes accrued interest costs of $145 [2017 – $129].
- Settlement variances include accrued interest costs of $52 [2017 – $137].
- Other variance and deferred costs include accrued interest earned of $36 [2017 – $37].

Details and descriptions pertaining to the above regulatory debit and credit accounts are disclosed in Note 3(d)(i) and 3(d)(ii) of these consolidated financial statements.

[in thousands of Canadian dollars]

7. PROPERTY, PLANT AND EQUIPMENT

	Land, buildings and structures $	Distribution $	Generation and other $	Assets under construction $	Total $
Cost					
Balance as at December 31, 2016	126,127	803,916	161,759	163,073	1,254,875
Additions, net of transfers	71,053	97,518	85,471	(82,835)	171,207
Disposals	-	(2,602)	(8,762)	-	(11,364)
Exchange differences	(1,186)	-	(2,443)	(102)	(3,731)
Balance as at December 31, 2017	195,994	898,832	236,025	80,136	1,410,987
Additions, net of transfers	8,662	110,378	13,666	102,560	235,266
Disposals	-	(563)	(617)	(290)	(1,470)
Exchange differences	1,476	-	3,186	76	4,738
Balance as at December 31, 2018	**206,132**	**1,008,647**	**252,260**	**182,482**	**1,649,521**
Accumulated depreciation					
Balance as at December 31, 2016	(9,415)	(75,550)	(23,740)	-	(108,705)
Depreciation	(3,962)	(30,277)	(10,883)	-	(45,122)
Disposals	-	1,206	2,619	-	3,825
Exchange differences	55	-	151	-	206
Balance as at December 31, 2017	(13,322)	(104,621)	(31,853)	-	(149,796)
Depreciation	(4,878)	(33,221)	(12,054)	-	(50,153)
Disposals	-	383	230	-	613
Exchange differences	(19)	-	(375)	-	(394)
Balance as at December 31, 2018	**(18,219)**	**(137,459)**	**(44,052)**	**-**	**(199,730)**
Net book value					
As at December 31, 2017	182,672	794,211	204,172	80,136	1,261,191
As at December 31, 2018	**187,913**	**871,188**	**208,208**	**182,482**	**1,449,791**

At December 31, 2018, assets under construction include expenditures towards the ongoing construction of the Corporation's new administration and operational facilities, and towards significant refurbishments of the generation facilities held by Hull Energy LP and CHLP North [the 'refurbishment projects']. Upon completion of the refurbishment projects, Hull Energy LP and CHLP North will sell electricity to the Province of Ontario under two separate forty-year Hydroelectric Standard Offer Program – Municipal Steam Contracts with the Independent Electrical System Operator ['IESO'].

On October 20, 2017, the Corporation substantially completed a significant expansion of a generating facility at Chaudière Falls. This resulted in the componentization of significant assets previously under construction; the commencement of depreciation thereon; and the ceasing of borrowing cost capitalization. Amounts componentized to land, buildings and structures in 2017 included $56,514 in civil structures pertaining to this expansion.

During the year, the Corporation capitalized borrowing costs of $2,639 [2017 – $6,676] to property, plant and equipment. The average annual interest rate for 2018 was 3.4% [2017 – 4.0%].

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8. INTANGIBLE ASSETS

	Land rights and water rights $	Computer software $	Other contractual rights $	Assets under development $	Total $
Cost					
Balance as at December 31, 2016	62,039	52,451	22,228	9,909	146,627
Additions, net of transfers	11	14,202	2,218	3,102	19,533
Exchange differences	(1,704)	(26)	-	-	(1,730)
Disposals	-	(1,063)	-	-	(1,063)
Balance as at December 31, 2017	60,346	65,564	24,446	13,011	163,367
Additions, net of transfers	(5)	1,743	1,851	613	4,202
Exchange differences	2,119	33	-	12	2,164
Disposals	-	-	-	(252)	(252)
Balance as at December 31, 2018	**62,460**	**67,340**	**26,297**	**13,384**	**169,481**
Accumulated amortization					
Balance as at December 31, 2016	(3,432)	(20,650)	(877)	-	(24,959)
Amortization	(2,258)	(6,763)	(545)	-	(9,566)
Exchange differences	250	10	-	-	260
Disposals	-	1,063	-	-	1,063
Balance as at December 31, 2017	(5,440)	(26,340)	(1,422)	-	(33,202)
Amortization	(2,136)	(9,104)	(667)	-	(11,907)
Exchange differences	(482)	(20)	-	-	(502)
Disposals	-	-	-	-	-
Balance as at December 31, 2018	**(8,058)**	**(35,464)**	**(2,089)**	**-**	**(45,611)**
Net book value					
As at December 31, 2017	54,906	39,224	23,024	13,011	130,165
As at December 31, 2018	**54,402**	**31,876**	**24,208**	**13,384**	**123,870**

During the year, the Corporation capitalized borrowing costs of $79 [2017 – $900] to intangible assets. The average annual interest rate for 2018 was 3.4% [2017 – 3.9%].

Other contractual rights largely includes connection and cost recovery agreements ['capital contribution agreements'] that govern the construction by HONI of new or modified transformer stations for the purpose of serving Hydro Ottawa's customers. Each of Hydro Ottawa's capital contribution agreements has a term of 25 years.

[in thousands of Canadian dollars]

8. INTANGIBLE ASSETS [CONTINUED]

A significant portion of the Corporation's water rights with indefinite lives [70% or $16,941] stems from a historical 1889 lease agreement with Public Services and Procurement Canada. This contract provides rights to waters on the Ottawa River at Chaudière Falls for two of the Corporation's CGUs – the CHLP CGU [water rights carrying value of $9,575] and the CHLP North CGU [water rights carrying value of $7,366] – and renews every 21 years into perpetuity. The Corporation also retains water rights with indefinite lives [30% or $7,092 translated US to CAD] at two of its EONY generating stations which stem from historical agreements with the U.S. Federal Energy Regulatory Commission ['FERC']. These FERC licenses have an indefinite life as the Corporation is granted a legal exemption from re-qualifying for these licenses due to the size of the stations.

The Corporation's annual impairment tests with respect to the CHLP and CHLP North CGUs were based on value-in-use calculations and resulted in no impairment for the 2018 fiscal year [2017 – $nil]. Management's VIU calculations – subject to certain estimates as described in Note 2(d)(v) – are based on discounted future cash inflows to be earned under each CGUs' 40-year HESOP contract, while the cash outflows are based on management's industry experience and third party input; taking into account the estimated cost of the refurbishment projects in the case of CHLP North. The key assumption in each VIU calculation was a weighted average cost of capital ['WACC'] of 4.6% [2017 – 4.6%].

The Corporation's impairment test performed in light of the circumstances disclosed in Note 2(d)(ix) was based on a value-in-use calculation and resulted in no impairment for the 2018 fiscal year. Management's VIU calculation involved third-party consultation in the forecasting of New York energy prices specific to its operating zone over a 20-year timeframe [a typical period in the electricity industry]. Other key assumptions in the value-in-use calculation was a WACC of 6.9%, a US inflation rate of 2.2%, and a terminal capitalization rate of 6.7%.

9. INVESTMENT PROPERTIES

	2018 **$**	2017 $
Net book value, beginning of year	**2,602**	2,297
Additions	**-**	417
Depreciation	**(120)**	(112)
Net book value, end of year	**2,482**	2,602

The fair value of investment properties is $5,220, which is based on the latest Municipal Property Assessment Corporation valuation dated May 17, 2018.

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10. INVESTMENTS IN JOINT VENTURES

(a) Investment in joint ventures summary

	2018	2017
	$	$
Moose Creek LP [50.05%]		
Investment in joint venture, beginning of year	**4,503**	4,055
Share of profit	**231**	448
Investment in joint venture, end of year	**4,734**	4,503
PowerTrail [60%]		
Investment in joint venture, beginning of year	**4,366**	3,820
Share of profit, net of tax	**382**	594
Other adjusting items related to profit	**21**	21
Non-cash (distribution) contribution	**(32)**	(69)
Investment in joint venture, end of year	**4,737**	4,366
Zibi Community Utility LP [50%]		
Investment in joint venture, beginning of year	**-**	-
Capital investments	**2,276**	-
Share of loss	**(57)**	-
Investment in joint venture, end of year	**2,219**	-
Total investments in joint ventures	**11,690**	8,869

Hydro Ottawa Holding Inc.

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10. INVESTMENTS IN JOINT VENTURES [CONTINUED]

(b) Balance sheet and statement of income summary

	2018	2017
	$	$
Moose Creek LP		
Current assets	**946**	1,306
Non-current assets	**12,625**	13,269
Total assets	**13,571**	14,575
Current liabilities	**2,271**	2,016
Non-current liabilities	**1,600**	3,320
Total liabilities	**3,871**	5,336
Revenue	**3,590**	2,739
Net income	**461**	895
PowerTrail		
Current assets	**1,192**	1,182
Non-current assets	**11,134**	11,167
Total assets	**12,326**	12,349
Current liabilities	**1,557**	859
Non-current liabilities	**2,523**	3,826
Total liabilities	**4,080**	4,685
Revenue	**3,638**	3,682
Net income	**636**	990

Assets, liabilities, revenues and net income pertaining to the Zibi Community Utility LP joint venture are not considered to be significant to the Corporation as at December 31, 2018.

(c) Credit facility

PowerTrail maintains an operating revolving line of credit of $1,000 for general business purposes that bears annual interest at the prime rate. PowerTrail continues to also maintain a credit facility of $200 [2017 – $200] to provide standby letters of credit to the IESO. As at December 31, 2018, PowerTrail had drawn an amount of $133 [December 31, 2017 – $133] in standby letters of credit and had no outstanding balances drawn against its operating revolving line of credit [December 31, 2017 – $nil]. Both facilities contain customary covenants and events of default, including a covenant to maintain a tangible net worth of $1,000.

Hydro Ottawa Holding Inc.

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11. NET GAIN FROM INSURANCE PROCEEDS

	2018	2017
	$	$
Unit 1 Event	**6,865**	1,600
Flood Event	**-**	1,339
	6,865	2,939

(a) Unit 1 Event and other long-term asset

On August 19, 2017, the Unit 1 turbine-generator [of 4 Units] of CHLP experienced a mechanical failure while in operation due to a manufacturer defect and sustained significant damage, requiring a complete overhaul [the 'Unit 1 Event']. Pursuant to the contractual warranty provisions, the subcontractor is responsible for, and has agreed to, reconstruct Unit 1. As a result, the various asset components relating to Unit 1, totaling $5,771, were derecognized in the previous year from property, plant and equipment and the Corporation recognized an asset under warranty of the same amount on its consolidated balance sheet at December 31, 2017 and 2018. Construction with respect to Unit 1 is expected to be fully complete in 2019, at which point the warranty asset shall be reclassified to property, plant and equipment.

The Corporation's contract with said subcontractor and its insurance policy relating to the construction of the new generating facility at CHLP provides business interruption compensation in circumstances such as the Unit 1 Event. Consequently, the Corporation has recognized a gain on insurance proceeds of $6,865 [2017 – $1,600] which compensates the Corporation for lost generation revenues. The Corporation has received $8,000 in cash proceeds pertaining to the Unit 1 Event claims through December 31, 2018. The Corporation will continue to make claims for lost revenues going forward to the maximum allowable amount under this contract and its insurance policy until such time Unit 1 is back in service in 2019.

(b) Flood Event

In May 2017, spring melt and heavy rain led to a flooding of the Ottawa River system [the 'Flood Event'] – resulting in a shut-down of several of the Corporation's generating stations, predominately at Chaudière Falls. Remediation efforts commenced as soon as water levels permitted and the affected stations came back into operation between October and November 2017. As a result, the Corporation recorded a net gain on insurance proceeds of $1,339 in 2017 and the insurance proceeds were received by the Corporation in the current year.

12. NOTES RECEIVABLE FROM RELATED PARTIES

	2018	2017
	$	$
Moose Creek LP promissory note, 6.0%, due January 1, 2025	**1,653**	2,324
PowerTrail promissory notes, non-interest bearing	**798**	1,338
City of Ottawa note, 3.0%	**13,510**	9,746
	15,961	13,408
Less: current portion	**(6,575)**	(4,641)
	9,386	8,767

12. NOTES RECEIVABLE FROM RELATED PARTIES [CONTINUED]

(a) Moose Creek LP

The note receivable is an unsecured ten-year promissory note with quarterly blended repayments. As approved by the Board of Directors of Moose Creek LP in 2018, accelerated principal payments in the aggregate of $500 are to be made to the Corporation in addition to the regular quarterly blended payments in 2019. Future principal and interest payments on the notes receivable are therefore as follows: 2019 – $943, 2020 – $442, and 2021 – $405.

(b) PowerTrail

To fund the construction of its gas generation plant at the Trail Road landfill site, between 2005 and 2007, the Corporation provided unsecured, non-interest bearing grid promissory notes to PowerTrail totaling $4,860. Pursuant to the Shareholder Agreement, loans from the Corporation to PowerTrail are made on a pro rata basis – based upon its share of contributions of capital in the Corporation [60%]. Repayments on the grid promissory notes are made when possible as agreed to by the shareholders. The initial fair value of each advance was calculated using discount rates ranging between 7.6% and 8.0%. Future cash repayments on the notes receivable are estimated to be as follows: 2019 – $660 and 2020 – $180 while the remaining imputed interest to be earned by the Corporation over the next two years is $42.

(c) City of Ottawa

The Corporation is party to two agreements with the City of Ottawa [the 'City']. Over a span of an estimated six years from the contract signing date in February 2016, the Corporation is engaged to convert legacy street lights to LED [S/L conversion contract] and to provide maintenance services to all legacy and converted LED street lights [S/L maintenance contract].

While payment terms under the S/L maintenance contract are in accordance with the Corporation's usual credit terms, the Corporation and the City have negotiated a 3% interest bearing note, calculated on a quarterly basis with open repayment terms, for the S/L conversion contract. Under such terms, the City is to pay the Corporation on a quarterly basis an amount calculated based on the City's electricity, maintenance and capital expenditure savings resulting from the LED street light conversions. Of the total $13,510 outstanding at December 31, 2018, $2,412 represents accrued work billed in early 2019. The Corporation estimates that $5,064 will be repaid in 2019.

The Corporation carries inventory of $1,435 [December 31, 2017 – $2,162] relating to City of Ottawa street light conversion and maintenance endeavours at December 31, 2018. During the year, the Corporation expensed $5,423 of inventory as cost of goods sold which is included in operating costs [2017 – $4,826].

13. CREDIT FACILITY

The Corporation maintains a credit facility for an amount of $340,750 and US$200 [December 31, 2017 – $340,750 and US$200]. The facility consists of a $190,000 [2017 – $190,000] revolving operating line maturing on August 1, 2021, a $150,000 [2017 – $150,000] 364 day revolving operating term line which may be used to assist with refinancing debt and support day to day operations and a $750 and US$200 [2017 – $750 and US$200] commercial card facility – all of which matures on August 1, 2021. The revolving operating lines can be used by way of direct advances, bankers' acceptances, and/or by way of letters of credit and other guarantees.

The credit facility is unsecured and has customary covenants including a maximum debt to total capitalization of 75% and a negative pledge not to encumber the assets of the Corporation, Hydro Ottawa, or Energy Ottawa Inc., other than those permitted in the credit facility.

[in thousands of Canadian dollars]

Hydro Ottawa Holding Inc.

13. CREDIT FACILITY [CONTINUED]

At December 31, 2018, the Corporation had drawn $33,400 in direct advances against the revolving operating line of credit [2017 – $28,400], $42,000 in bankers' acceptances against the $190,000 revolving operating line [2017 – $nil] and $150,000 in bankers' acceptances against the $150,000 revolving operating term line [2017 – $129,000].

At December 31, 2018, the Corporation has drawn $14,738 [2017 – $24,771] against its facilities in standby letters of credit. Drawings include a $10,000 [December 31, 2017 – $10,000] letter of credit to cover its prudential support obligation as described in Note 27; a letter of credit to the Receiver General of Canada on behalf of Fisheries and Oceans Canada of $538 [December 31, 2017 – $538] in connection with its completed expansion of a generating facility at Chaudiere Falls; and a letter of credit to BNY Trust Company of Canada of $4,200 [December 31, 2017 – $12,900] in connection with the Trust Indenture dated September 7, 2016 as described in Note 17. No amounts have been drawn on any of these letters of credit.

14. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2018 **$**	2017 $
Purchased power payable	**74,747**	79,120
Trade accounts payable and accrued liabilities	**60,061**	56,081
Customer deposits	**20,092**	16,017
Customer credit balances	**10,964**	11,203
Accrued interest on long-term debt	**7,809**	7,812
Due to related parties [Note 29]	**54**	53
	173,727	170,286

15. DEFERRED REVENUE

	2018 **$**	2017 $
Capital contributions from customers	**53,771**	44,202
Capital contributions from developers	**54,624**	44,368
	108,395	88,570

16. EMPLOYEE FUTURE BENEFITS

(a) Pension plans

The Corporation contributes to two defined benefit plans covering substantially all of its employees.

The Corporation's participating employer contributions under OMERS for the year ended December 31, 2018 amounted to $6,726 [2017 – $6,434]. The Corporation also provides retirement benefits to certain employees through the Chaudiere Hydro Pension Plan. As at December 31, 2018, CWPI and Chaudiere Hydro North L.P. are the only two entities with employees who are part of the CHPP.

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16. EMPLOYEE FUTURE BENEFITS [CONTINUED]

(a) Pension plans [continued]

(i) Defined benefit obligation

	2018 $	2017 $
Balance, beginning of year	**6,549**	5,753
Current service cost	**222**	196
Interest cost	**222**	221
Benefits paid	**(279)**	(111)
Employee contributions	**59**	75
Actuarial (gain) loss	**(480)**	415
Balance, end of year	**6,293**	6,549

(ii) Plan assets

	2018 $	2017 $
Fair value, beginning of year	**6,432**	5,914
Interest credit	**221**	231
Employer contributions	**209**	199
Benefits paid	**(279)**	(111)
Non-investment expenses	**(40)**	(40)
Employee contributions	**59**	75
Actuarial (loss) gain	**(382)**	164
Fair value, end of year	**6,220**	6,432

(iii) Funded status

	2018 $	2017 $
Retirement benefit asset, beginning of year	**(117)**	161
Change in retirement benefit asset	**44**	(278)
Retirement benefit (liability) asset, end of year	**(73)**	(117)

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16. EMPLOYEE FUTURE BENEFITS [CONTINUED]

(a) Pension plans [continued]

The assets of the Chaudiere Hydro Pension Plan are held and managed by an independent custodian and accounted for separately in the Corporation's pension plan. The asset allocation structure is subject to diversification requirements and constraints which reduce risk by limiting exposure to individual equity investments, credit rating categories and foreign currency exposures. Based on the fair value of assets held as at December 31, 2018, the Chaudiere Hydro Pension Plan's assets were comprised of 90.5% [2017 – 89.8%] fixed income Canadian bonds, 5.9% [2017 – 6.9%] Canadian and international equities and 3.6% [2017 – 3.3%] in alternative investments. The Chaudiere Hydro Pension Plan's investments are primarily held and managed in pooled funds, and thus do not have a quoted market price in an active market.

Employee future benefits under the Chaudiere Hydro Pension Plan are calculated using an annual compensation rate of 2.0% [2017 – 2.0%], an inflation rate of 2.0% [2017 – 2.0%] and a discount rate of 3.9% [2017 – 3.4%]. The valuations also include several other economic and demographic assumptions including mortality rates, which are based on the Canadian Pensioners' Mortality report published by the Canadian Institute of Actuaries in February 2014.

An actuarial extrapolation was performed at December 31, 2018 and no valuation allowance has been recorded by the Corporation as at December 31, 2018 and December 31, 2017 with respect to the retirement benefit liability [December 31, 2017 – actuarial extrapolation]. The last actuarial valuation was performed at January 1, 2018.

Significant actuarial assumptions for defined benefit obligation measurement purposes are discount rate and salary scale. The following sensitivities are based on reasonable changes of the assumptions, in isolation of one another, occurring at the end of the reporting period. A 1.0% decrease in discount rate would increase the defined benefit obligation by $1,067 or 34.6% [2017 – $1,216 or 37.7%], while a 1.0% increase in salary scale would increase the defined benefit obligation by $187 or 6.6% [2017 – $172 or 5.7%].

(b) Other post-employment and short-term employee benefits

The Corporation provides life, health and dental benefits to certain employees. Employee future benefits are calculated using an annual compensation rate increase of 2.0% [2017 – 2.0%] and a discount rate of 3.9% [2017 – 3.4%]. Cost trends for health are estimated to increase [at a declining rate from 7.5% to 5.0%] and dental benefits are estimated to increase by 5.0% per annum. The valuations also include several other economic and demographic assumptions including mortality rates, which are based on the Canadian Pensioners' Mortality report published by the Canadian Institute of Actuaries in February 2014.

Information about the Corporation's other post-employment benefits is as follows:

	2018 **$**	2017 $
Defined benefit obligation, beginning of year	**14,322**	13,335
Current service costs	**392**	341
Interest on defined benefit obligation	**434**	516
Benefits paid	**(672)**	(661)
Actuarial (gain) loss	**(1,137)**	791
Defined benefit obligation, end of year	**13,339**	14,322

An actuarial extrapolation was performed as at December 31, 2018 and December 31, 2017 and an actuarial valuation was last performed as at December 31, 2016.

Significant changes in actuarial assumptions related to discount rates, future health and dental costs, mortality rates and retirement age may affect the valuation of the defined benefit obligation.

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17. LONG-TERM DEBT

	2018	2017
	$	$
Senior unsecured debentures		
Series 2006-1, 4.97%, due December 19, 2036	**50,000**	50,000
Series 2013-1, 3.99%, due May 14, 2043	**150,000**	150,000
Series 2015-1, 2.61%, due February 3, 2025	**200,000**	200,000
Series 2015-2, 3.64%, due February 2, 2045	**175,000**	175,000
Senior secured amortizing bonds		
Series 2016-1, 4.08%, due March 31, 2057	**203,802**	203,802
	778,802	778,802
Less: unamortized debt-issuance costs	**(5,412)**	(5,634)
	773,390	773,168

(a) Senior unsecured debentures

Interest payments on each of the above debentures are payable semi-annually in arrears in equal installments. Each debenture contains customary covenants and events of default, including a covenant to ensure that the aggregate principal amount of the consolidated funded obligations does not exceed 75% of the total consolidated capitalization. Interest payments on these debentures over the next five years will be $20,067 per year.

(b) Senior secured amortizing bonds

The Corporation's senior secured amortizing bonds [the 'bonds'] carry an interest rate of 4.08% and are due on March 31, 2057 [the 'maturity date']. Equal semi-annual interest-only payments are due and payable on March 31 and September 30 each year until and including March 31, 2022. Thereafter, semi-annual blended payments of principal and interest will be due and payable on March 31 and September 30 in each year commencing on September 30, 2022 until and including the maturity date. In addition, a balloon payment of $30,570 [15% of the principal] will be due and payable on the maturity date. The bonds are secured by a first-charge interest on the assets of CHLP, and the Corporation is required to maintain a minimum debt-coverage service ratio ['DCSR']. The DCSR divides the sum of CHLP's net operating and investing cash flows [as defined by the Trust Indenture] by the current interest and principal repayments due within the next calendar year. The Corporation was in compliance with all financial covenants associated with the bonds at December 31, 2018 and 2017.

During the year, Final Completion [i.e. the approval of final non-generation construction costs and the expiration of all holdback periods under the *Lien Act* relating to construction] with respect to the Corporation's new generation facility at Chaudière Falls was achieved. This allowed the release of cash proceeds from the bonds to the Corporation that were previously restricted and held in-trust during the construction phase in accordance with the Trust Indenture. As required by the Trust Indenture, the Corporation must maintain, in a reserve account, an amount equal to the next six months of interest and principal; and in a major maintenance account, an amount that covers projected major maintenance in the coming three years.

Annual interest payments on the bonds over the next five years are expected to be $8,315 from 2019 to 2022 and $8,244 in 2023.

[in thousands of Canadian dollars]

Hydro Ottawa Holding Inc.

18. CAPITAL DISCLOSURES

The Corporation's main objectives when managing capital are to:

- Ensure continued access to funding to maintain and improve the operations and infrastructure of the Corporation;
- Ensure compliance with covenants related to the credit facilities and its long-term debt; and
- Align the capital structure of the Corporation's regulated subsidiary, Hydro Ottawa, with the debt to equity structure recommended by the OEB.

The Corporation's capital consists of the following:

	2018 **$**	2017 $
Bank indebtedness, net of cash	**210,106**	144,490
Long-term debt	**773,390**	773,168
Total debt	**983,496**	917,658
Equity	**462,882**	438,141
Total capital	**1,446,378**	1,355,799

A subsidiary of the Corporation, Hydro Ottawa is deemed by the OEB to have a capital structure that is funded by 56% long-term debt, 4% short-term debt and 40% equity. The OEB uses this deemed structure only as a basis for setting distribution rates. As such, the Corporation's actual capital structure may differ from the OEB deemed structure.

At December 31, 2018, the Corporation's debt capitalization ratio, the calculation of which takes into account outstanding letters of credit, was 68.3% [December 31, 2017 – 68.3%]. The Corporation is in compliance with all financial covenants and limitations associated with its credit facilities and its long-term debt.

The Corporation met its capital management objectives, which have not changed during the year.

19. SHARE CAPITAL

(a) Authorized

Unlimited number of voting first preferred shares, redeemable at one dollar per share
Unlimited number of non-voting second preferred shares, redeemable at ten dollars per share
Unlimited number of non-voting third preferred shares, redeemable at one hundred dollars per share
Unlimited number of voting fourth preferred shares [ten votes per share], redeemable at one hundred dollars per share
Unlimited number of voting Class A common shares
Unlimited number of non-voting Class B common shares
Unlimited number of non-voting Class C common shares, redeemable at the price at which such shares are issued

[in thousands of Canadian dollars]

19. SHARE CAPITAL [CONTINUED]

(a) Authorized [continued]

The above shares are without nominal or par value.

Holders of second preferred shares, fourth preferred shares and common shares are entitled to receive dividends as and when declared by the Board of Directors at their discretion.

(b) Issued

	2018	2017
	$	$
214,901,003 Class A common shares	**228,453**	228,453

Any invitation to the public to subscribe for shares of the Corporation is prohibited by shareholder resolution.

A shareholder's resolution directs the Corporation to target dividends at the greater of 60% of its subsidiary, Hydro Ottawa's net income or $20,000, provided that the Corporation is in compliance with the *Business Corporations Act (Ontario)* and relevant OEB Guidelines; is not in breach of any covenants on its senior unsecured debentures or credit facility obligations; and the payment thereof does not negatively impact the Corporation's credit rating.

On April 19, 2018, the Board of Directors declared a $21,900 dividend to the City of Ottawa, which was paid on April 26, 2018 [April 20, 2017 the Board of Directors declared a $20,600 dividend to the City of Ottawa, which was paid on April 28, 2017].

20. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

(a) Fair value disclosures

The carrying value of the Corporation's financial instruments, except for the instruments described below, approximate fair value because of the short maturity and nature of the instruments. The fair value measurement of the financial instrument for which the fair value has been disclosed is included in Level 2 of the fair value hierarchy [Note 3(k)].

The Corporation has estimated the fair value of notes receivable from joint ventures as at December 31, 2018 as amounting to $2,488 [December 31, 2017 – $3,745]. The fair value has been determined based on discounting all estimated future repayments of principal and imputed interest required to fully repay the loans at the estimated interest rate of 5.7% [December 31, 2017 – 5.7%] that would be available to PowerTrail and Moose Creek LP on December 31, 2018.

The Corporation has estimated the fair value of the senior unsecured debentures as at December 31, 2018 as amounting to $575,912 [December 31, 2017 – $574,693]. The fair value has been determined based on discounting all future repayments of principal and interest between February 3, 2025 and March 31, 2057 at the estimated interest rate of 3.7% [December 31, 2017 – 3.7%] that would be available to the Corporation on December 31, 2018.

The Corporation has estimated the fair value of its senior secured amortizing bonds as at December 31, 2018 as amounting to $203,802 [December 31, 2017 – $203,802]. The fair value has been determined based on discounting all estimated future repayments of principal and interest required to fully repay the loan at the estimated interest rate of 4.0% [December 31, 2017 – 4.0%] that would be available to the Corporation at December 31, 2018.

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20. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT [CONTINUED]

(b) Market risk

The Corporation is exposed to market risk, which is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices are comprised of three types of risks: interest rate risk, foreign exchange risk and commodity price risk. As the Corporation has not entered into significant hedging transactions or derivative contracts, there is no exposure to commodity price risk.

(i) Interest rate risk

The Corporation is exposed to interest rate risk on its borrowings. The Corporation mitigates exposure to interest rate risk by issuing long-term fixed-interest-rate debt. Under the Corporation's credit facility, advances on its credit lines expose it to fluctuations in short-term interest rates related to prime rate loans and bankers' acceptances. Given the fact that the borrowing requirements on the credit lines are typically for a short duration [i.e., to bridge gaps between the cash outflows related to the Corporation's monthly power bill and the inflows related to settlements with customers, or the cash outflows related to significant capital acquisitions and the inflows related to the issuance of additional long-term fixed-interest-rate debt], there is limited exposure to interest rate risk.

(ii) Foreign exchange risk

The Corporation's earnings from, and net investment in, its foreign operating subsidiary, EONY, are exposed to fluctuations in the U.S. dollar to Canadian dollar exchange rate. Also, the Corporation purchases a small proportion of goods and services that are denominated in foreign currencies, predominately the U.S. dollar. The Corporation monitors its exposure to foreign currency fluctuations on a regular basis, and has not used derivative instruments to hedge against these exposures to date. On an annual basis, it is estimated that a 5% increase or decrease in the U.S. dollar relative to the Canadian dollar exchange rate of U.S. $1 = CDN $0.73 as at December 31, 2018 would increase or decrease the equity of the Corporation by approximately $2,979.

(c) Credit risk

Credit risk is the risk that a counterpart will default on its obligations, causing a financial loss to the Corporation. Concentration of credit risk associated with accounts receivable is limited due to the large number of customers the Corporation services. The Corporation has approximately 335,000 customers served by Hydro Ottawa, the majority of which are residential. As a result, the Corporation does not earn a significant amount of revenue and does not have a significant receivable from any individual customer.

The Corporation performs ongoing credit evaluations of customers serviced by Hydro Ottawa and requires collateral to support non-residential customer accounts receivable on specific accounts to mitigate significant losses in accordance with OEB legislation. As at December 31, 2018, the Corporation held security deposits related to power recovery and distribution revenue in the amount of $16,009 [December 31, 2017 – $15,121] with respect to these customers. The Corporation's other subsidiaries limit credit risk by dealing with customers that are considered to be of high credit quality. These customers include government agencies, utilities, municipalities, universities, school boards, hospitals, and customers with investment grade credit ratings.

The Corporation monitors and limits its exposure to credit risk on a continuous basis.

The Corporation applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade and other receivables. The expected loss rates for trade receivables are based on the payment profiles of sales over a period of 12 months before December 31, 2018 or January 1, 2018 respectively and the corresponding historical credit losses experienced within this period and other information. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

On that basis, the loss allowance as at December 31, 2018 and January 1, 2018 [on adoption of IFRS 9] was determined as follows for trade and other receivables.

[in thousands of Canadian dollars]

20. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT [CONTINUED]

(c) Credit risk [continued]

	Gross carrying amount $	Weighted average loss rate	Loss allowance $	Net carrying amount $
December 31, 2018				
Outstanding for 30 days or less	**88,565**	0.00 %	-	88,565
Outstanding for more than 30 days but no more than 120 days	**8,319**	8.80 %	736	7,583
Outstanding for more than 120 days	**4,526**	36.50 %	1,654	2,872
Unbilled revenue relating to electricity	**80,180**	0.19 %	151	80,029
	181,590		2,541	179,049
January 1, 2018				
Outstanding for 30 days or less	**100,532**	0.00 %	-	100,532
Outstanding for more than 30 days but no more than 120 days	**6,881**	8.30 %	573	6,308
Outstanding for more than 120 days	**2,832**	66.30 %	1,879	953
Unbilled revenue relating to electricity	**84,963**	0.07 %	60	84,903
	195,208		2,512	192,696

The following table reconciles the opening and closing loss allowance for trade and other receivables:

	2018 $
Opening loss allowance at January 1, 2018 under IFRS 9	**2,512**
Net remeasurement of loss allowance	**1,726**
Write-offs	**(2,023)**
Recoveries of amounts previously written-off	**326**
Loss allowance at December 31, 2018	**2,541**

Impairment losses on trade and other receivables are presented as net impairment losses within the statement of income. When a receivable is deemed to be uncollectible, it is written off and the expected loss allowance is adjusted accordingly. Subsequent recoveries of receivables previously provisioned or written off result in a reduction of impairment losses included in operating costs in the statement of income.

As at December 31, 2018, there were no significant concentrations of credit risk with respect to any class of financial assets or counterparties and the Corporation's maximum exposure to credit risk is equal to the carrying value of accounts receivable less customer deposits held.

[in thousands of Canadian dollars]

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20. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT [CONTINUED]

(d) Liquidity risk

Liquidity risk is the risk that the Corporation will not meet its financial obligations as they come due. The Corporation regularly monitors and manages its liquidity risk to ensure access to sufficient funds to meet operational and capital investment requirements. The Corporation achieves this objective by ensuring that sufficient facilities, as described in Note 13, are maintained to meet obligations as they come due while minimizing standby fees and interest.

Liquidity risks associated with financial commitments are as follows:

	2018		
	Due within one year $	**Due between one and five years $**	**Due after five years $**
Accounts payable and accrued liabilities	**165,918**	-	-
Senior unsecured debentures			
Series 2006-1, 4.968%, due December 19, 2036	-	-	**50,000**
Series 2013-1, 3.991%, due May 14, 2043	-	-	**150,000**
Series 2015-1, 2.614% due February 3, 2025	-	-	**200,000**
Series 2015-2, 3.639%, due on February 2, 2045	-	-	**175,000**
Senior secured amortizing bonds			
Series 2016-1, 4.080%, due March 31, 2057	-	-	**203,802**
Interest to be paid on long-term debt	**28,382**	**113,457**	**471,492**
	194,300	**113,457**	**1,250,294**

Accounts payable and accrued liabilities in the above table exclude $7,809 of accrued interest which is included in interest to be paid on long-term debt.

[in thousands of Canadian dollars]

21. REVENUE FROM CONTRACTS WITH CUSTOMERS AND OTHER SOURCES

The Corporation's revenue breakdown is as follows:

	2018	2017
	$	$
Revenue from contracts with customers		
Power recovery	**857,383**	896,528
Distribution revenue		
Residential service (1)	**101,632**	94,757
General service (2)	**72,847**	70,531
Large users (3)	**6,571**	6,112
Generation revenue	**32,325**	22,898
Commercial services revenue		
Streetlight installation and maintenance	**12,565**	12,632
Turnkey and energy management services	**5,822**	6,400
Service work related to distribution operations	**6,171**	3,612
Pole attachment and duct rental	**4,440**	4,316
Other		
Account-related charges	**3,332**	3,359
Capital contributions from customers amortized to revenue	**1,416**	1,053
	1,104,504	1,122,198
Revenue from other sources		
Other		
Investment property rentals	**933**	1,214
Capital contributions from developers amortized to revenue	**1,395**	1,127
	1,106,832	1,124,539

(1) Residential service means a service that is for domestic or household purposes, including single family or individually metered multifamily units and seasonal occupancy.

(2) General service means a service supplied to premises other than those receiving Residential Service and Large Users and typically includes small businesses and bulk-metered multi-unit residential establishments. This service is provided to customers with a monthly peak demand of less than 5,000 kW averaged over a twelve-month period.

(3) Large users means a service provided to a customer with a monthly peak demand of 5,000 kW or greater averaged over a twelve-month period.

Hydro Ottawa Holding Inc.

Notes to the Consolidated Financial Statements
Year ended December 31, 2018
[in thousands of Canadian dollars]

22. OPERATING COSTS

	2018 **$**	2017 $
Salaries, wages and benefits	**88,756**	84,993
Contracted services - electricity distribution maintenance	**10,828**	10,115
Contracted services - customer owned plant	**19,340**	21,662
Contracted services - other	**10,292**	9,942
General and administrative	**34,777**	32,896
Other electricity distribution costs	**8,331**	7,945
Inventory expensed as cost of goods sold and other	**5,504**	5,252
Capital recovery	**(32,134)**	(33,008)
	145,694	139,797

23. FINANCING COSTS

	2018 **$**	2017 $
Interest on long-term debt	**28,470**	27,725
Short-term interest and fees relating to credit facility	**4,541**	2,534
Less: capitalized borrowing costs	**(2,639)**	(7,576)
	30,372	22,683

24. INCOME TAXES

Income tax expense recognized in net income comprises the following:

	2018 **$**	2017 $
Current tax expense		
Current income tax expense	**6,102**	4,120
Deferred tax expense		
Origination and reversal of temporary differences	**11,042**	10,683
Income tax expense recognized in net income	**17,144**	14,803

Hydro Ottawa Holding Inc.

Notes to the Consolidated Financial Statements
Year ended December 31, 2018
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24. INCOME TAXES [CONTINUED]

Income tax expense (recovery) recognized in OCI comprises the following:

	2018 **$**	2017 $
Income tax effect on exchange differences on translation of foreign subsidiary	**1,983**	(1,536)

The provision for income taxes differs from the amount that would have been recorded using the combined Canadian federal and Ontario statutory income tax rates. A reconciliation between the statutory and effective tax rates is provided as follows:

	2018 **$**	2017 $
Federal and Ontario statutory income tax rate	**26.50 %**	26.50 %
Income attributable to equity shareholder before income taxes	**59,282**	50,778
Income taxes at statutory rate	**15,710**	13,457
Increase (decrease) in income taxes resulting from:		
Permanent differences	**4,603**	30
Tax rate differential	**(928)**	-
Reverse tax reserve	**(2,168)**	-
Impact on foreign exchange translation on subsidiary	**492**	(407)
Impact from change in future U.S. tax rate	**-**	1,676
Foreign tax rate differential	**14**	14
Corporate minimum tax, net of tax credit	**-**	79
Unrecognized tax benefit	**-**	189
Tax impact on joint venture	**(168)**	(282)
Adjustment	**-**	(126)
Other	**(411)**	173
	17,144	14,803
Effective income tax rate	**28.92 %**	29.15 %

The Corporation's subsidiary Hydro Ottawa, as a rate-regulated enterprise, is required to recognize deferred income tax assets and liabilities and related regulatory deferral account credit and debit balances for the amount of deferred income taxes expected to be refunded to, or recovered from, customers in future electricity rates.

Significant components of the Corporation's net deferred income tax asset are as follows:

	2018 **$**	2017 $
Property, plant and equipment and intangible assets	**2,009**	(812)
Employee future benefits	**95**	-
Non-capital loss carryforwards	**6,350**	6,620
Other temporary differences	**(182)**	(310)
	8,272	5,498

Hydro Ottawa Holding Inc.

Notes to the Consolidated Financial Statements
Year ended December 31, 2018
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24. INCOME TAXES [CONTINUED]

Significant components of the Corporation's net deferred income tax liability are as follows:

	2018	2017
	$	$
Property, plant and equipment and intangible assets	**(47,306)**	(34,988)
Tax recognized in OCI related to foreign subsidiary translation	**(2,073)**	(479)
Exchange differences and other	**(586)**	63
Non-capital loss carryforwards	**183**	-
Employee future benefits	**4,561**	4,934
Other	**8**	337
	(45,213)	(30,133)

Movements in the net deferred tax asset balances during the year were as follows:

	2018	2017
	$	$
Deferred tax asset, beginning of year	**5,498**	5,645
Impact of foreign exchange rate change on opening deferred tax asset balance	**1,859**	(321)
Recognized in net income	**466**	260
Recognized in OCI	**(9)**	11
Other	**458**	(97)
Deferred tax asset, end of year	**8,272**	5,498

Movements in the net deferred tax liability balances during the year were as follows:

	2018	2017
	$	$
Deferred tax liability, beginning of year	**(30,133)**	(20,936)
Recognized in net income	**(13,106)**	(10,819)
Recognized in OCI	**(1,974)**	1,525
Other	**-**	97
Deferred tax liability, end of year	**(45,213)**	(30,133)

The Corporation's regulatory deferral account credit balance for the amounts of deferred income taxes expected to be collected/ refunded to customers in future electricity rates is $25,806 [2017 – $16,798].

Hydro Ottawa Holding Inc.

Notes to the Consolidated Financial Statements
Year ended December 31, 2018
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24. INCOME TAXES [CONTINUED]

As at December 31, 2018, the Corporation had capital losses of $708 [December 31, 2017 – $708] and non-capital losses of $1,052 [December 31, 2017 – $1,069] for tax purposes, for which the tax benefit has not been recognized in the consolidated financial statements. The Corporation has U.S. losses carried forward of $21,763, of which $16,514 expires between 2035 and 2037. The remaining losses of $5,249 can be carried forward indefinitely. All are considered more likely than not to be realized, resulting in a recognized deferred tax asset of $5,688.

As at December 31, 2018, the Corporation's joint venture PowerTrail had corporate minimum tax credit carryforwards of $nil [December 31, 2017 – $19].

Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax assets and unused tax losses can be utilized. Net deferred tax assets of $5,686 have been recognized in EONY as there is sufficient positive evidence to demonstrate that it is probable that a deferred tax asset will be realized. Factors considered include: historic and expected future taxable income and the nature, amount and expected timing of reversal of taxable temporary differences.

A deferred tax liability for all taxable temporary differences associated with investments in subsidiaries and investments in joint ventures has not been recognized as the Corporation is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

25. CHANGES IN NON-CASH WORKING CAPITAL AND OTHER OPERATING BALANCES

	2018 **$**	2017 $
Accounts receivable	**13,658**	128
Prepaid expenses	**(698)**	732
Note receivable from parent	**(3,764)**	(6,125)
Accounts payable and accrued liabilities	**3,175**	(29,227)
Inventory	**727**	(585)
Customer deposits in accounts receivable	**(18,671)**	14,586
Net change in accruals related to property, plant and equipment	**7,030**	8,331
Net change in accruals related to intangible assets	**543**	(9)
Net change in accruals related to business combinations	**-**	10,000
	2,000	(2,169)

26. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

	2018 **$**	2017 $
Long-term debt, beginning of year	**773,168**	772,960
Amortization of debt-issuance costs expensed	**222**	165
Amortization of debt-issuance costs capitalized	**-**	43
Long-term debt, end of year	**773,390**	773,168

27. CONTINGENT LIABILITIES

Purchasers of electricity from the IESO are required to provide security to mitigate the risk of their default based on their expected activity in the market. The IESO could draw on these guarantees if the Corporation fails to make a payment required by a default notice issued by the IESO. A prudential support obligation is calculated based upon a default protection amount and the distributor's trading limit less a reduction for the distributor's credit rating. As at December 31, 2018, the Corporation had drawn standby letters of credit in the amount of $10,000 [December 31, 2017 – $10,000] against its credit facility to cover its prudential support obligation.

The Corporation participates with other electrical utilities in Ontario in an agreement to exchange reciprocal contracts of indemnity through the Municipal Electrical Association Reciprocal Insurance Exchange. The Corporation is liable for additional assessments to the extent premiums collected and reserves established are not sufficient to cover the cost of claims and costs incurred. If any additional assessments were required in the future, their cost would be charged to income in the year during which they occur.

The Corporation is party to connection and cost recovery agreements with HONI as described in Note 8 of these consolidated financial statements. To the extent that the cost of a project is not recoverable from future transformation connection revenues, the Corporation is obligated to pay a capital contribution equal to the difference between these revenues and the construction costs allocated to the Corporation.

Various lawsuits have been filed against the Corporation for incidents that arose in the ordinary course of business. In the opinion of management, the outcomes of the lawsuits, now pending, are neither determinable nor material. Should any loss result from the resolution of these claims, such losses would be claimed through the Corporation’s insurance carrier, with any unrecoverable amounts charged to income in the year of resolution.

28. COMMITMENTS

As at December 31, 2018, the Corporation has $141,435 in total open commitments spanning between 2019 and 2025. These include commitments relating to a call centre services agreement, distribution-related construction projects, facilities, overhead and underground services and other services relating to the Corporation's operations. In addition, the Corporation has $59,109 in outstanding purchase commitments relating to the refurbishment projects at Chaudière Falls as described in Note 7 of these consolidated financial statements.

Energy Ottawa maintains leases with various entities for the rights to certain lands, waterways, buildings and other generating assets at its generating stations in Ontario, Québec and New York. These leases are in place through various dates, ranging between August 19, 2019 and December 13, 2116. Certain leases have annual payments which have a fixed and contingent portion, the latter of which is based on either annual gross revenues or power generation levels. During the 2018 fiscal year, the Corporation expensed lease payments of $471 [2017 – $400], which included $110 [2017 – $136] of contingent lease payments. The Corporation's future minimum lease payments, including those of a contingent nature, are expected to be: 2019 – $168, 2020 to 2023 – $1,134 and $38,692 thereafter.

29. RELATED PARTY TRANSACTIONS

Transactions with related parties occur in the normal course of business, and are transacted at the amount of consideration determined and agreed to by the related parties. Trade amounts due from and to related parties are non-interest bearing, result from normal operations and are due within one year.

Hydro Ottawa Holding Inc.

Notes to the Consolidated Financial Statements
Year ended December 31, 2018
[in thousands of Canadian dollars]

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29. RELATED PARTY TRANSACTIONS [CONTINUED]

(a) Transactions and balances outstanding with parent

During the year, the Corporation earned power recovery and distribution revenue from the City of Ottawa and its other subsidiaries, which was billed at prices and terms approved by the OEB. In addition, the Corporation earned commercial services revenue from the City of Ottawa and its other subsidiaries totaling $387 [2017 – $744] via its regulated subsidiary, Hydro Ottawa, and $15,997 [2017 – $16,314] via Energy Ottawa. During the year, the Corporation also received $3,580 [2017 – $2,028] in contributions relating to the upgrade and/or expansion of the Corporation's existing electricity distribution infrastructure and earned $310 [2017 – $152] in interest revenue with respect to the note receivable from the City of Ottawa.

The Corporation incurred $3,067 [2017 – $2,875] of operating costs to the City of Ottawa. The Corporation also incurred $269 [2017 – $2,872] in building permit costs and development charges, which are included in property, plant and equipment.

As at December 31, 2018, the Corporation's accounts receivable and customer deposits include $14,980 [December 31, 2017 – $8,872] and $652 [December 31, 2017 – $2,129], respectively, while the Corporation's accounts payable and accrued liabilities include $54 [December 31, 2017 – $53] due to the City of Ottawa and its subsidiaries in respect of the transactions described above. In addition, the Corporation's note receivable from the City of Ottawa is disclosed in Note 12 of these consolidated financial statements.

(b) Transactions and balances outstanding with joint ventures

(i) Moose Creek LP

During the year, the Corporation earned interest income in the amount of $112 [2017 – $147] on its note receivable from the Moose Creek LP joint venture, as well as $25 [2017 – $34] in other revenue for the provision of administrative services. As at December 31, 2018, the Corporation's accounts receivable include $27 [December 31, 2017 – $142] due in respect of the transactions described for balances paid on behalf of Moose Creek LP.

The Corporation's note receivable from Moose Creek LP is disclosed in Note 12 of these consolidated financial statements.

(ii) PowerTrail

During the year, the Corporation earned imputed interest income in the amount of $87 [2017 – $90] on its note receivable from the PowerTrail joint venture, as well as $25 [2017 – $37] in other revenue for the provision of administrative services. As at December 31, 2018, the Corporation's accounts receivable include $2 [December 31, 2017 – $17] due in respect of the transactions described.

The Corporation's note receivable from PowerTrail is disclosed in Note 12 of these consolidated financial statements.

Hydro Ottawa Holding Inc.

Notes to the Consolidated Financial Statements
Year ended December 31, 2018
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29. RELATED PARTY TRANSACTIONS [CONTINUED]

(c) Compensation of key management personnel

	2018	2017
	$	$
Salaries, director fees and other short-term benefits	**1,545**	1,401
Employee future benefits	**181**	160
Other long-term benefits	**15**	12
	1,741	1,573

30. COMPARATIVE INFORMATION

In certain instances, the 2017 information presented for comparative purposes has been reclassified to conform to the consolidated financial statement presentation adopted for the current year.

Carol Anne Meehan @MeehanCarolAnne Following

Met a local hero while campaigning today. Brad works for Ottawa Hydro. He worked 32 hours over two days to help restore the power after the tornadoes. No, I didn't wake him. He was up and getting ready to to back to work. What a nice young man. Thanks @hydroottawa crews!!

Ms. Casey @MsKCasey Follow

This morning we talked about all the people who showed us what it truly means to be a Good Samaritan over the weekend. We want to say THANK YOU from the bottom of our ❤'s @StAnneOCSB @hydroottawa @OttFire @OttawaPolice @OttawaParamedic

art in jest @artinjest Follow

I first made this during the #icestorm2018 and it feels more appropriate than ever now. Thank you @hydroottawa for working like crazy at one heck of a tough job. I so appreciate it. #ONStorm #MyOttawa

Hydro Ottawa Retweeted

Mme Longchamps @MmeLongchamps · 4h

Giving up their recess time to make thank you cards for all of the first responders and Hydro workers who helped our community this past week! THANK YOU #thankyouottawa @ctvottawa @OttawaPolice @OttFire @OttawaParamedic @hydroottawa @PATocsb

10 43

Mark Taylor @Go_Taylor Follow

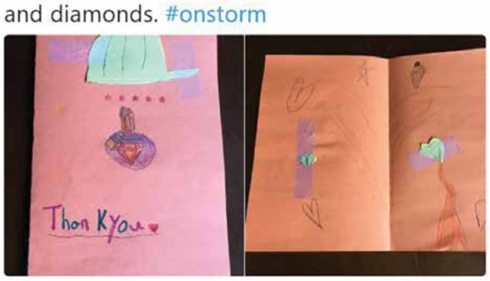
Not sure who created this image.Saw it on the @CarlingwoodSCTR Instagram,but if it was ever appropriate it's today.Thank You @hydroottawa @ottawahealth @ottawacity @OttawaPolice @OttFire @OttawaParamedic & ALL the amazing residents of this city pulling together #WeAreOne #Ottawa

Lola Design @LolaDesignOtt Follow

I think the folks at @hydroottawa deserve a big "THANK YOU" for working tirelessly to restore power. #OttawaOutage

Rob Thomas @languagEngineer Follow

@hydroottawa Thank you card from a 6YO for the crews who spent the night away from their families. Wishing you ice cream, love and diamonds. #onstorm



Stu Schwartz @StuntmanStu Follow

How do you say thanks to the many @hydroottawa workers? You do it with candy baskets from @MAJIC100Ottawa cc: @AngiePoirier #thankyouOttawa

1:14 PM - 25 Sep 2018

Hydro Ottawa Retweeted

Beverly Wong @MsBWong · 23h

We really wanted to show how thankful we are for @hydroottawa @OttawaParamedic @OttawaPolice @OttFire. Without you keeping us safe, we wouldn't be able to come to school and learn! Thank you for all your hard work 💙💚 @StAnneOCSB

Statement of Executive Compensation

The Governance and Management Resources Committee of the Board is responsible for developing and recommending the approval of the compensation framework for the Corporation and each of its subsidiaries.

In developing the compensation framework, the Governance and Management Resources Committee is guided by two principles: the need to provide a total compensation package that will attract and retain qualified and experienced executives, and linking compensation to performance.

Executive compensation is reviewed by the Governance and Management Resources Committee and approved by the Board of Directors. In making its recommendations to the Board, the Committee examines the responsibilities and performance of individual executives, and considers the recommendations of the President and Chief Executive Officer.

In an effort to attract and retain qualified and experienced executives, the Corporation aims to offer a total compensation package that is competitive with other organizations of a similar size and scope. Executive compensation is reviewed on an annual basis and compared to market data, with the assistance of independent consultants, on an ad hoc basis to ensure competitiveness. In line with best practices for the sector, as identified by the Ontario Minister of Energy's Agency Review Panel in 2007, Hydro Ottawa applies a 50/50 weighting of market data from public and private comparators. The industry component of the market comparator group has a strong sector affiliation [e.g., Transportation and Utilities sector], and is assessed by revenue levels to ensure comparability.

Total cash compensation for Executives consists of two components*: base salary and an at risk performance incentive.

The at risk performance incentive component is paid on an annual basis, and is expressed as a percentage of base salary. It is designed to retain and motivate executives, to reward them for their performance during the preceding year, and to ensure alignment with shareholder objectives. Payments are based on the achievement of corporate and division objectives, both financial and non-financial, which are established each year by the Board of Directors. Non-financial targets are designed to achieve continuous improvement in relation to a number of strategic objectives including, but not limited to, customer service, operational and organizational efficiency and effectiveness, and service reliability.

Executives participate in a benefits program, which includes extended health care, dental care, basic and optional life insurance, and short-term and long-term disability insurance. This same program is available to all management group employees of the Corporation.

Executives also participate in the OMERS pension plan. This plan is a multi-employer, contributory, defined benefit pension plan established by the Province for employees of municipalities, local boards and school boards in Ontario. Pension benefits are determined by a formula based on the highest consecutive five-year average of contributory earnings and years of service. Pension benefits are indexed to increases in the Consumer Price Index subject to an annual maximum of 6 percent. Both participating employers and participating employees are required to make equal contributions to the plan based on the participating employees' contributory earnings. Earnings for pension purposes are capped by the plan.

* The total cash compensation for the President and Chief Executive Officer consists of a base salary only.

COMPENSATION OF OFFICERS AND BOARD MEMBERS

Officers

NAME AND PRINCIPAL POSITION[1]	YEAR	BASE SALARY ($)	AT RISK PERFORMANCE INCENTIVE ($)[2]	OTHER COMPENSATION ($)[3]
Bryce Conrad	2018	387,037	N/A	44,843
President and Chief Executive Officer	2017	380,957	N/A	43,797
	2016	375,711	N/A	22,398
Geoff Simpson	2018	186,783	61,790	8,548
Chief Financial Officer	2017	183,839	61,842	8,491
	2016	180,783	67,711	8,479
Lance Jefferies	2018	165,273	53,698	9,387
Chief Electricity Distribution Officer	2017	162,668	54,720	8,412
	2016	159,830	34,798[4]	8,401
Gregory Clarke	2018	189,616	62,727	9,267
Chief Electricity Generation Officer	2017	186,627	62,780	8,501
	2016	183,525	66,484	8,798
Adnan Khokhar	2018	121,211[5]	N/A	15,550
Chief Energy and Infrastructure Services Officer				

1 Officers whose earnings are reported are those who occupied the position at December 31, 2018.

2 Amounts shown in this column reflect the at risk performance incentive for the executive in respect of the achievement of the performance objectives for the previous financial year, paid in the reporting year. These amounts have been rounded to the nearest dollar.

3 Amounts in this column include Board approved discretionary payments such as payments of earned and unused vacation credits, car allowance, computer allowance and employer's share of basic life insurance premiums. These amounts have been rounded to the nearest dollar.

4 Given that Mr. Jefferies assumed the position on January 1, 2016, the at risk performance incentive for 2015, paid in 2016, is based on his previous position with the Corporation.

5 Mr. Khokhar assumed the position of Chief Energy and Infrastructure Services Officer on May 7, 2018. Had Mr. Khokhar been employed in this position for the entire year, his base salary would have been $191,000.

Board Members

The remuneration of the members of the Boards of Directors of Hydro Ottawa Holding Inc. and Hydro Ottawa Limited is as determined by the City of Ottawa and the Hydro Ottawa Holding Inc. Board respectively. In addition to reimbursement for reasonable out-of-pocket expenses incurred while performing their duties, directors receive an annual stipend and meeting fees for service:

- The Board Chair receives an annual stipend of $40,000;
- All other Board members receive an annual stipend of $7,000;
- The Board Chair receives $600 for each Board or committee meeting chaired or attended;
- Committee Chairs receive $800 for each meeting of the committee chaired; and
- All other Board members receive $600 for each Board or committee meeting attended.

Only one annual stipend is paid where an individual is a director of both the Hydro Ottawa Holding Inc. and Hydro Ottawa Limited Boards of Directors. Members of the Council of the City of Ottawa, as well as the President and Chief Executive Officer, and the one member of management on the Hydro Ottawa Limited Board receive no remuneration in their capacity as directors of the boards.

Corporate Governance

Hydro Ottawa is committed to establishing and maintaining leading governance practices for a company of its size and mandate. Because governance standards and best practices are always evolving, the company seeks to continuously improve its governance practices.

Hydro Ottawa Holding Inc. is a private, for-profit company, incorporated under the *Business Corporations Act* [Ontario]. At the same time, the company is wholly owned by the City of Ottawa and fulfills a public mandate, and is therefore mindful of its responsibility to be accountable both to its shareholder and the public. The company's governance practices are guided not simply by legal obligations, but by best business practices and standards established by independent agencies.

While Hydro Ottawa is not a reporting issuer under the *Securities Act* and is therefore not subject to governance standards that apply to publicly-traded companies, the company is guided by these standards and seeks to meet or exceed them. In addition, Hydro Ottawa regularly compares its governance practices to those of private and public sector organizations, and to standards set by agencies such as the Canadian Securities Administrators and the Ontario Securities Commission.

GOVERNANCE STRUCTURE

Accountability for the effective oversight of the Corporation and its wholly-owned subsidiaries [Hydro Ottawa Limited, Energy Ottawa Inc. and Envari Holding Inc.] rests with an eleven-member Board of Directors, which provides direction to the Corporation on behalf of the shareholder, the City of Ottawa. The Board provides leadership within a framework of effective controls that enables risks to be assessed and managed, and is responsible for supervising the management of the business and affairs of the Corporation and its wholly-owned subsidiaries. In carrying out its oversight function, the Board of Directors is guided by a Shareholder Declaration issued by Ottawa City Council and revised from time to time. The Corporation's Code of Business Conduct, its Director Conflict of Interest and Conduct Guidelines and a Related Party Transaction Disclosure Policy and Process also govern the actions of the Board.

In 2006, a separate Board of Directors was established to oversee the operations of Hydro Ottawa Limited, in accordance with the Affiliate Relationships Code for Electricity Distributors and Transmitters issued by the Ontario Energy Board. The powers and functions of that Board are set out in a Shareholder Declaration issued by the Hydro Ottawa Holding Inc. Board of Directors. On a day-to-day basis, the Corporation is led by an Executive Management Team, comprising the Corporation's President and Chief Executive Officer, the Chief Financial Officer and the senior executives of the subsidiaries and critical functional areas. This team oversees the alignment of business practices and strategies with the goals of the Corporation, and drives performance by managing risks and opportunities. The Executive Management Team is accountable to the Corporation's Board of Directors through the President and Chief Executive Officer.

KEY GOVERNANCE PROCESSES AND CONTROLS

Hydro Ottawa has established a number of leading governance processes and controls to assist the Board and executive management in carrying out their oversight functions.

Risk Management: An extensive, corporate-wide risk management system has been established to track indicative and predictive measures of risk. Risk assessments are included with regular reporting to the Board on all areas of the Corporation's operations.

Internal Audit: Hydro Ottawa conducts a rigorous internal audit program to verify controls and maximize business efficiency and effectiveness. A number of business processes and functions are audited annually based on an audit plan approved by the Board. The use of experienced auditors both internal and external to the Corporation ensures rigour and objectivity.

Business Continuity Plans: Plans are in place to ensure the continuance of critical operations in the event of a major emergency such as a pandemic, and to return the Corporation to normal operations as quickly as possible after such an event. They include detailed strategies for the re-assignment of resources to critical processes, and redundant supply arrangements with critical external suppliers.

APPOINTMENTS TO THE BOARDS OF DIRECTORS

The governance structure for the Corporation [Hydro Ottawa Holding Inc.] and its wholly-owned subsidiaries [Hydro Ottawa Limited, Energy Ottawa Inc. and Envari Holding Inc.] includes two boards of directors – the Hydro Ottawa Holding Inc. Board and the Hydro Ottawa Limited Board.

In accordance with the terms of the Shareholder Declaration, the City of Ottawa appoints all Directors to the Boards except the President and Chief Executive Officer, and the one member of management on the Hydro Ottawa Limited Board. In doing so, the City considers candidates recommended by the Nominating Committee of the Board of Hydro Ottawa Holding Inc., but is not obliged to select these candidates. The Nominating Committee is assisted by outside consultants in its search for candidates for appointment to the Boards.

As set out in the Shareholder Declaration, all candidates for appointment to the Boards must meet certain requirements, including demonstrated integrity and high ethical standards, relevant career experience and expertise, and an understanding of the role of Hydro Ottawa both as a service to local ratepayers and an asset of taxpayers.

In addition, the nomination and selection process is designed to maintain a Board that includes the following overarching competencies among one or more directors: strong business background including competitive business experience and strategic planning; a strong financial background including financial accreditation and public or private market financing experience; industry sector experience in the areas of business of the subsidiary companies; board experience; and merger and acquisition experience.

COMMITTEES

The following committees were created to help the Boards of Directors carry out their duties. The committees meet regularly and provide feedback on their discussions to their respective Boards.

Hydro Ottawa Holding Inc.

Audit: The Audit Committee reviews financial statements, accounting practices and policies, auditing processes and the results of internal and external audits and related matters. It also oversees financial risk management and assesses internal controls.

Governance and Management Resources: The Governance and Management Resources Committee reviews the Corporation's governance structures and practices to ensure that the Board of Directors can fulfill its mandate. It reviews management resources and compensation practices to ensure systems are in place to attract, retain and motivate qualified management employees. It also reviews and assesses the performance of the President and Chief Executive Officer, oversees the Board Assessment process, and monitors compliance with codes of conduct.

Investment Review: The Investment Review Committee is responsible for assisting management and the Board of Directors in the review and pursuit of business development, acquisition and investment opportunities. In carrying out these functions, the Committee focuses on the consistency of opportunities with strategic plans and investment guidelines, the maximization of shareholder value and the management of risk.

Nominating: The Nominating Committee, with the assistance of outside consultants, identifies and evaluates potential candidates for appointment as Directors. The Nominating Committee makes recommendations to the shareholder [represented by Ottawa City Council] for the appointment of directors.

Strategic Initiatives Oversight: The Strategic Initiatives Oversight Committee is responsible for assisting the Board of Directors in guiding management and providing support and focus for large-scale capital project efforts as identified by the Board from time to time.

BOARD AND COMMITTEE MEETING ATTENDANCE

The following tables illustrate the attendance of members at meetings of the Boards of Directors and their committees.

HYDRO OTTAWA HOLDING INC.

DIRECTOR	BOARD MEETINGS	COMMITTEE MEETINGS
Jim Durrell, C.M., ICD.D [Chair]	5/5	15/15
Bryce Conrad [President and CEO]	5/5	N/A
Yaprak Baltacioglu[2]	3/3	4/4
Kim Butler[2]	3/3	2/2
Dale Craig	3/5	7/7
Matt Davies[2]	3/3	2/2
Jan Harder	5/5	4/5
Andrea Johnson	5/5	6/6
Kalai Kalaichelvan[1]	2/2	5/5
Cyril Leeder	5/5	8/8
J. Douglas McLarty[1]	2/2	4/4
Philip Murray[1]	2/2	3/3
Lori O'Neill	5/5	7/7
Marianne Wilkinson	5/5	6/6

1 Depicts outgoing Board member whose term ended on June 30, 2018

2 Depicts incoming Board member whose term took effect July 1, 2018

HYDRO OTTAWA LIMITED

DIRECTOR	BOARD MEETINGS	COMMITTEE MEETINGS
Jim Durrell, C.M., ICD.D [Chair]	4/4	N/A
Bryce Conrad [President and CEO]	4/4	N/A
Lance Jefferies	4/4	N/A

Note: Kalai Kalaichelvan was first appointed to the Hydro Ottawa Holding Inc. Board of Directors effective December 1, 2014 and was previously a Director of the Hydro Ottawa Limited Board from July 1, 2013 to November 30, 2014. He was appointed to the Audit Committee on August 22, 2013 and the Investment Review Committee on September 18, 2015 and served on these Committees until the end of his term on June 30, 2018.

J. Douglas McLarty was first appointed to the Hydro Ottawa Holding Inc. Board of Directors effective July 1, 2012. He was appointed to the Audit Committee on July 17, 2012 and Strategic Initiatives Oversight Committee on November 14, 2013 and served on these Committees until the end of his term on June 30, 2018.

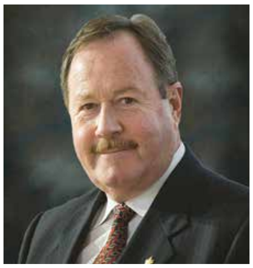
Philip Murray was first appointed to the Hydro Ottawa Holding Inc. Board of Directors effective December 1, 2014 and was previously a Director of the Hydro Ottawa Limited Board from July 1, 2012 to November 30, 2014. He was appointed to the Governance and Management Resources Committee on July 17, 2012 and Strategic Initiatives Oversight Committee on September 18, 2015 and served on these Committees until the end of his term on June 30, 2018.

We wish to convey our sincere appreciation to Kalai Kalaichelvan, J. Douglas McLarty and Philip Murray for their dedicated service.

Yaprak Baltacioglu, Kim Butler and Matt Davies were appointed to the Hydro Ottawa Holding Inc. Board of Directors effective July 1, 2018.

Members of the Boards of Directors

HYDRO OTTAWA HOLDING INC.


Jim Durrell, C.M., ICD.D [Chair]


Bryce Conrad


Yaprak Baltacioglu


Kim Butler


Dale Craig


Matt Davies


Jan Harder


Andrea Johnson


Kalai Kalaichelvan


Cyril Leeder


J. Douglas McLarty


Philip Murray


Lori O'Neill

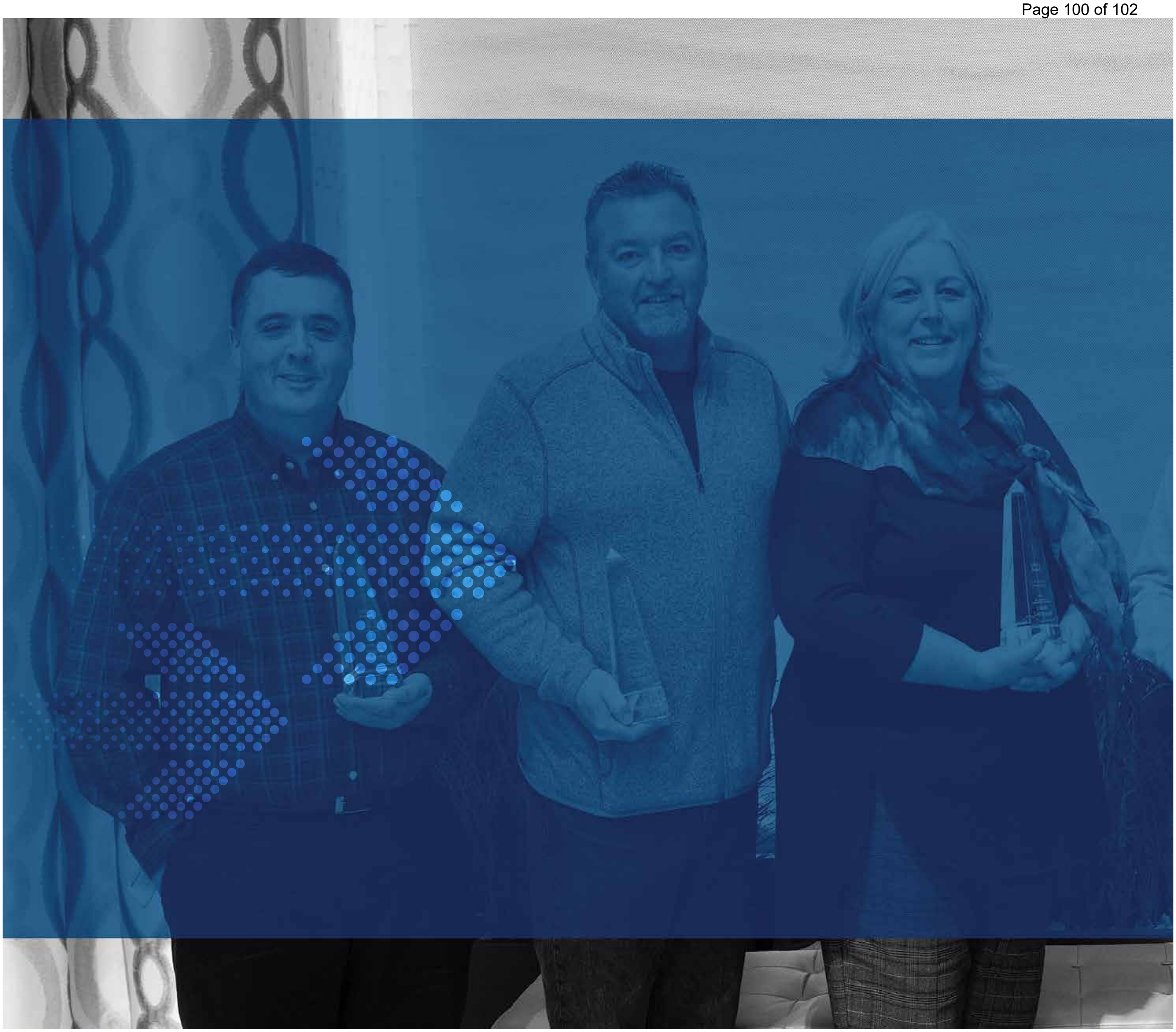

Marianne Wilkinson

HYDRO OTTAWA LIMITED


Jim Durrell, C.M., ICD.D [Chair]


Bryce Conrad


Lance Jefferies



Corporate Citizen Award

Outage Communications Award

Stewardship Award

Employer of the Year Award

Performance Achievement Milestone Award

Innovation and Excellence Award

Innovation in HR Practices Award

HydroOttawa
Holding Inc.

Hydro Ottawa wishes to thank all the employees whose photos appear in this Annual Report.

La version française du présent rapport annuel est affichée sur le site hydroottawa.com.

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RATING AGENCY REPORTS

Attached to this Schedule are the following Rating Agency Reports issued in 2019 for Hydro Ottawa's parent company, Hydro Ottawa Holding Inc.:

- Attachment 1-3-4(A): Ratings Report for Hydro Ottawa Holding Inc. issued by Dominion Bond Rating Service; and
- Attachment 1-3-4(B): Ratings Report for Hydro Ottawa Holding Inc. issued by Standard and Poor's.

Rating Report

Hydro Ottawa Holding Inc.

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Insight beyond the rating.

Ratings

Debt	Rating	Rating Action	Trend
Issuer Rating	A	Trend Change	Negative
Senior Unsecured Debt	A	Trend Change	Negative

Rating Update

On August 26, 2019, DBRS Limited (DBRS) changed the trends on the above-noted ratings of Hydro Ottawa Holding Inc. (Hydro Ottawa or the Company) to Negative from Stable; the ratings were also confirmed at "A." The confirmations reflect the continued strength of the Company's regulated electricity distribution operations. The Negative trends reflect Hydro Ottawa's growing non-regulated electricity generation business (25.7% of 2018 EBIT) which DBRS considers higher risk than the regulated business. As EBIT from investments in the non-regulated segment has significantly exceeded the previously stated 20% threshold, DBRS introduced the *Rating Companies in the Independent Power Producer Industry* methodology in its assessment of Hydro Ottawa.

Hydro Ottawa's business risk profile continues to benefit from its stable regulated electricity distribution business in the City of Ottawa (the City; 100% owner of Hydro Ottawa). However, this is partly offset by the Company's growing portfolio of non-regulated electricity generation assets. Earnings from the non-regulated business increased significantly in 2018 with of a full year's contribution from the 29-megawatt (MW) facility at Chaudière Falls (the Chaudière Falls Expansion; completed in August 2017). While non-regulated earnings are expected to decrease for 2019 during the Chaudière Hydro North and Hull Energy Refurbishments (the Refurbishments; total of 39 MW), DBRS estimates that following the Refurbishments, non-regulated operations will, on average, contribute around 30% to 35% of total annual EBIT. DBRS considers this to be a material and permanent shift in the business mix of the Company going forward, hence the introduction of the additional methodology. While Hydro Ottawa's generation assets are largely supported by long-term contracts with the Independent Electricity System Operator (IESO; rated A (high) with a Stable trend by DBRS), this business segment does involve higher volume and operational risk when compared with the incumbent regulated business and could potentially result in more volatile earnings and cash flows. DBRS will likely downgrade the ratings of Hydro Ottawa by one notch to A (low) and change the trends back to Stable from Negative following the completion of the Refurbishments in mid-2020 as non-regulated operations will then represent a significant portion of the Company's operations.

Hydro Ottawa's financial risk profile weakened in the last 12 months ending June 30, 2019 (LTM 2019), because of the large capex program for maintaining distribution infrastructure, connecting new customers and the Refurbishments. DBRS notes the Company issued around $290.5 million of project-level debt in July 2019 to finance the Refurbishments. This project-level debt will become non-recourse to Hydro Ottawa once it reaches the recourse release dates (expected by year-end 2020) after the completion of each refurbishment. DBRS then expects the Company's key credit metrics to strengthen. However, should the Company's key credit metrics deteriorate to a level no longer commensurate with the current rating category, considering the mix of the regulated and non-regulated businesses, further negative rating actions may occur.

Financial Information

	12 mos. to June 30	For the year ended December 31				
(CAD millions where applicable)	2019	2018	2017	2016	2015	2014
Consolidated external debt 1	881	800	731	642	573	430
Total debt in capital structure 1, 2	65.9%	63.3%	62.5%	60.1%	58.1%	52.3%
Cash flow/Total debt 1, 2	11.4%	13.8%	11.2%	14.2%	16.0%	19.0%
EBIT gross interest coverage (times) 1, 2	3.18	3.40	2.22	2.96	2.82	2.91

1 Excludes non-recourse debt. 2 Includes operating leases.

Issuer Description

Hydro Ottawa is a holding company (wholly owned by the City) that owns the following subsidiaries: (1) Hydro Ottawa Limited, a regulated electricity distributor (Hydro Ottawa's primary business); (2) Energy Ottawa Inc., a non-regulated power generation company; and (3) Envari Holding Inc., which is involved in energy management services.

Rating Considerations

Strengths

1. Stability from regulated business

Approximately 74% of the Company's EBIT in 2018 was contributed by its low-risk regulated distribution business, which operates under a reasonable regulatory framework. Earnings and cash flows have also been relatively stable, underpinned by a reasonable allowed return on equity (ROE; 8.98% for 2019 to 2020) and full and timely recovery of purchased power costs.

2. Strong franchise

Hydro Ottawa is one of the largest municipally owned local distribution companies in Ontario, serving the densely populated areas within the City and the Village of Casselman. The majority of the Company's electricity sales are to residential customers, the federal government and the municipalities, universities, schools and hospitals sector, which have relatively stable year-over-year demand as they are less sensitive to economic cycles.

3. Long-term contracts for non-regulated power generation

Although Hydro Ottawa's non-regulated power generation business provides opportunities for earnings growth, it also entails higher business risk than the regulated distribution business. However, commodity price risk is mitigated by long-term contracts with creditworthy counterparties, such as the IESO. Both the expansion at Chaudière Falls and the Chaudière Hydro North and Hull Energy Refurbishments have 40-year contracts with the IESO.

Challenges

1. Increasing exposure to higher-risk non-regulated business

DBRS considers the non-regulated business as higher risk than Hydro Ottawa's core regulated electricity distribution business. This is largely due to the greater volume risk associated with the generation business. Although commodity price risk has been mitigated through long-term contracts, increasing exposure to the non-regulated segment could result in greater volatility in the Company's earnings and cash flows. As EBIT contributed by the non-regulated business has breached the previously noted 20% threshold (25.7% in 2018, from 7.5% in 2017), DBRS has introduced the *Rating Companies in the Independent Power Producer Industry* methodology in addition to the *Rating Companies in the Regulated Electric, Natural Gas and Water Utilities Industry* methodology in its assessment of Hydro Ottawa. DBRS estimates non-regulated operations will contribute around 30% to 35% of EBIT following the completion of the Refurbishments in 2020.

2. Large capex placing pressure on key credit metrics

The Company is in the midst of major capex programs to (1) enhance the reliability of the system and meet growing demographic demands and (2) complete the Refurbishments. The Ontario Energy Board (OEB) approved Hydro Ottawa's Custom Incentive Rate-setting (IR) application in December 2015, pre-approving the Company's five-year capex plan, which includes spending average gross capex of approximately $83 million per year. This is expected to result in Hydro Ottawa continuing to generate free cash flow deficits over the medium term. As a result of the large capex program, cash flow-to-debt and debt-to-capital for the Company have been pressured.

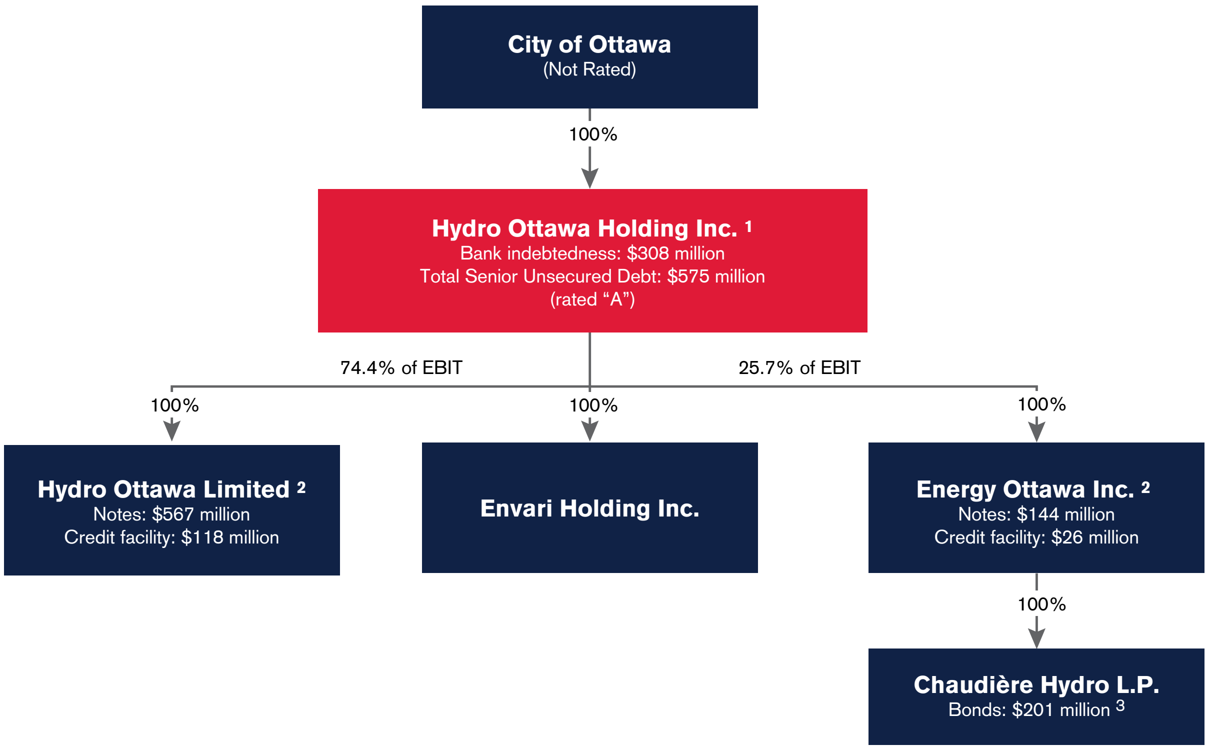
3. Operational risks

DBRS considers the non-regulated generation segment as having higher operational risk than the regulated distribution business. Examples of operational risks include mechanical failure of the turbines or flood events that could lead to a shutdown of the generation facilities. DBRS notes that unplanned outages could significantly reduce generation output and negatively affect the earnings and cash flows of the Company. Additionally, a prolonged outage could also result in a failure of the Company to meet its power purchase agreement (PPA) commitments. This risk is, however, partly mitigated by the maintenance of adequate insurance coverage.

4. No access to equity markets

Hydro Ottawa's ownership structure (100% owned by the City) limits its ability to directly access the equity markets. As a result, the Company's cash flow deficits are being financed largely through its revolving credit facilities and debt issuances.

Corporate Structure



As at June 30, 2019.
1 Total Senior Unsecured Debt is presented at face value.
2 The debt at these subsidiaries are owed to the Company, mostly in the form of promissory notes.
3 The senior secured amortizing bonds were issued for the Chaudière Falls Expansion and are non-recourse to the Company.

- Hydro Ottawa is wholly owned by the City. All outstanding notes and credit facility at the Hydro Ottawa Limited (HOL) and Energy Ottawa Inc. (EOI) level are in the form of inter-company debt owed to the Company.
- The Company incorporated Envari Holding Inc. in 2018 to separate energy management and infrastructure services previously delivered by EOI.
- In May 2019, the Company incorporated Chaudière Financial L.P., a wholly owned subsidiary of EOI, to issue Senior Secured Amortizing Green Bonds to fund the Refurbishments.
  - The bonds are guaranteed by Hydro Ottawa until the recourse release dates are met (expected in late 2019 and 2020) following the completion of each refurbishment.
- DBRS views the relationship between the Company and the City as strong.
  - While the City has acknowledged its commitment on retaining and supporting the Company in a situation of extraordinary financial distress, DBRS continues to view Hydro Ottawa on a stand-alone basis, separate from the City, and has not included any potential support from the City in its assessment of the Company's ratings.

Earnings and Outlook

	12 mos. to June 30	For the year ended December 31				
(CAD millions where applicable)	2019	2018	2017	2016	2015	2014
Total revenues	1,149	1,140	1,166	1,198	1,088	1,021
Net sales	281	282	257	231	223	212
EBITDA	134	137	118	107	100	93
EBIT	71	75	63	57	57	54
Gross interest expense [1]	20	20	26	20	20	19
Net income before non-recurring items	31	39	36	38	35	36
Reported net income	34	42	36	35	32	30
Return on equity	6.9%	8.7%	8.4%	8.9%	8.6%	9.0%
Regulated rate base	936	913	870	833	669	669
Approved regulated return on equity	N/A	9.19%	9.19%	9.19%	9.42%	9.42%
Actual regulated return on equity	N/A	9.14%	10.10%	9.80%	7.92%	8.06%

EBIT by Subsidiary (estimate)

(CAD millions)	LTM	2018	2017	2016	2015	2014
Hydro Ottawa Limited	56	57	59	55	53	49
Energy Ottawa Inc.	19	20	5	5	8	7
	75	**77**	**64**	**60**	**61**	**57**
Hydro Ottawa Holding Inc. (non-cons.)	(5)	(2)	(1)	(3)	(4)	(2)
Hydro Ottawa Holding Inc. (consolidated)	**71**	**75**	**63**	**57**	**57**	**54**

1 Excludes non-recourse debt.

2018 Summary

- EBITDA and EBIT increased in 2018 largely because of a full year's contribution from the Chaudière Falls Expansion, which began commercial operations in August 2017.
  - While one unit at the Chaudière Falls Expansion was out of service in 2018, Hydro Ottawa received insurance proceeds for lost generation revenues.
  - EBIT for HOL decreased modestly because of higher depreciation from the growing asset base.
- Interest expense decreased as DBRS excluded from gross interest expense interest on the non-recourse debt issued for the Chaudière Falls Expansion.
- Net income before non-recurring items increased largely because of stronger contributions from non-regulated operations.
  - Non-regulated operations accounted for 25.7% of EBIT in 2018, a significant increase from 7.5% in 2017.
- Reported net income included a $4.1 million one-time conservation and demand management payment received.

2019 Summary and Outlook

- Earnings decreased for LTM 2019 because of modestly lower earnings from both regulated and non-regulated operations, and higher income taxes.
  - Earnings from EOI was lower as two plants are out of service during the Refurbishment.
- DBRS expects earnings in 2019 to decrease as higher regulated earnings from the growing rate base will likely be offset by lower earnings from the non-regulated segment with the two plants out of service during the Refurbishments.
- While EBIT from regulated operations is expected to increase in 2019, DBRS expects non-regulated operations to contribute around 30% to 35% of EBIT beginning 2020 following the completion of Refurbishments.
  - The Negative trend reflects DBRS's expectation that Hydro Ottawa's earnings will be more volatile going forward as a result of the Company's greater exposure to non-regulated operations. Earnings from the non-regulated generation business are typically more volatile as this sector is subject to greater volume risk.

Financial Profile

(CAD millions where applicable)	12 mos. to June 30 2019	For the year ended December 31 2018	2017	2016	2015	2014
Net income before non-recurring items	31	39	36	38	35	36
Depreciation & amortization	63	62	55	50	43	39
Deferred income taxes and other	8	11	(3)	3	14	7
Cash flow from operations	**102**	**113**	**88**	**90**	**92**	**82**
Dividends paid	(22)	(22)	(21)	(19)	(18)	(19)
Capital expenditures	(240)	(222)	(168)	(164)	(124)	(103)
Free cash flow (bef. working cap. changes)	**(160)**	**(131)**	**(101)**	**(93)**	**(50)**	**(40)**
Changes in working capital	(36)	(20)	(34)	(6)	(23)	44
Net free cash flow	**(197)**	**(151)**	**(135)**	**(99)**	**(73)**	**4**
Acquisitions & long-term investments	(3)	(2)	(10)	(41)	(91)	(3)
Net equity change	0	0	0	0	0	0
Net debt change 1	194	66	77	269	173	20
Other financing	6	88	68	(133)	26	(21)
Change in cash 1	**0**	**0**	**(0)**	**(4)**	**35**	**0**
Consolidated external debt 2	881	800	731	642	573	430
Total debt in capital structure 2, 3	65.9%	63.3%	62.5%	60.1%	58.1%	52.3%
Cash flow/Total debt 2, 3	11.4%	13.8%	11.2%	14.2%	16.0%	19.0%
EBIT gross interest coverage (times) 2, 3	3.18	3.40	2.22	2.96	2.82	2.91
Dividend payout ratio	71.4%	55.9%	56.6%	51.7%	52.3%	54.1%

1 Adjusted for bank indebtedness. 2 Excludes non-recourse debt. 3 Includes operating leases.

2018 Summary

- Hydro Ottawa's cash flow-to-debt and EBIT gross interest coverage ratios improved because of the higher earnings and cash flows. However, the debt-to-capital ratio weakened as the Company funded the Refurbishments by drawing on its credit facilities.
  - While Hydro Ottawa's key credit metrics are in line with the "A" rating category under the Regulated Utilities methodology, they are in the BBB category under the *Rating Companies in the Independent Power Producer Industry* methodology. Overall, considering the mix of regulated and non-regulated businesses, credit metrics remain in line with the "A" rating category, albeit weaker for the current ratings.
- Cash flow from operations increased significantly because of a full year's contribution from the Chaudière Falls Expansion.
- Capex remained elevated because of continued high level of capex needed (1) in the regulated distribution business to sustain the reliability of the system and (2) for the Refurbishments.
- Dividends of $21.9 million were in line with the Company's dividend policy. Hydro Ottawa pays dividends equal to the greater of $20 million, or 60% of HOL's net income.
- The Company generated a significant negative net free cash flow because of the high level of capex. This was funded through the release of restricted cash from the Chaudière Falls Expansion bond issuance and by drawing on the credit facilities.

2019 Outlook

- Hydro Ottawa's key credit metrics weakened for LTM 2019 because of the higher debt load to finance the Refurbishments.
  - In July 2019, the Company issued $290.5 million of Senior Secured Amortizing Green Bonds to finance the Refurbishments. The bonds will be recourse to Hydro Ottawa until the recourse release date following completion of each refurbishment ($67 million expected to be released by the end of 2019 and $223 million by the end of 2020).
- Cash flow from operations decreased, tracking the lower net income for the period.
  - Going forward, DBRS expects cash flow from operations to be slightly more volatile as a result of the Company's greater exposure to non-regulated operations.
- DBRS also anticipates elevated capex to continue in 2019 (approximately $250 million), as Hydro Ottawa continues to invest in renewing the infrastructure of the distribution system and work on the Refurbishments.
  - DBRS expects the Company's key credit metrics to remain pressured in 2019 and 2020 during its large capex program.

Liquidity and Credit Facilities

Credit facilities

(CAD millions - as at December 31, 2018)	Amount	Drawn/LoC	Available	Expiry
Revolving operating credit line 1	190.0	90.1	99.9	1-Aug-21
Revolving operating credit line 2	150.0	150.0	0.0	1-Aug-21
Commercial card facility	0.75	0.0	0.8	1-Aug-21
Commercial card facilitiy (USD facility)	0.25	0.0	0.3	1-Aug-19
Total consolidated credit facilities	**341.0**	**240.1**	**100.9**	

- Hydro Ottawa's liquidity remained reasonable, reflecting stable cash flows and available credit facilities. As at March 31, 2019, the Company had $14.7 million in standby letters of credit outstanding.
- DBRS believes that the Company's liquidity is sufficient to finance its capex and working capital needs.
- Hydro Ottawa renewed its credit facility in 2018. The current facility is made up of the following five types of credit availability:
  - $190 million three-year revolving operating line with two years remaining;
  - $150 million revolving term line to fund operating activities and to refinance debt; and
  - $0.75 million and USD 0.2 million commercial card facility.
- The credit facility contains customary covenants and events of default, including a covenant to maintain the consolidated tangible net worth in excess of $175 million at all times. It also requires the debt-to-capitalization ratio to be at or below 75% on a consolidated basis. The Company was in compliance with its covenants as at March 31, 2019.

Long-Term Debt Maturities

Long-Term Debt Maturity

(CAD millions - as at December 31, 2018)	Amount	Rate	Maturity
Senior Unsecured Debentures, Series 2006-1	50.0	5.0%	Dec. 2036
Senior Unsecured Debentures, Series 2013-1	150.0	4.0%	May 2043
Senior Unsecured Debentures, Series 2015-1	200.0	2.6%	Feb. 2025
Senior Unsecured Debentures, Series 2015-2	175.0	3.6%	Feb. 2045
Total recourse debt	**575.0**		
Senior secured amortizing bond	203.8	4.1%	Mar. 2057
Total long-term debt	**778.8**		
Less: Unamortized debt-issuance costs	(5.4)		
Total	**773.4**		

- The trust indenture contains the following covenants for the Series 2006, Series 2013 and Series 2015 debentures:
  - Any additional indebtedness is subject to a 75% capitalization ratio test;
  - Negative pledge clause; and
  - Restrictions on asset sales and amalgamations.
- The Company was in compliance with its covenants as at March 31, 2018.
- In July 2019, Chaudière Financial L.P. (a wholly owned subsidiary of EOI), issued $290.5 million of 3.525% Senior Secured Amortizing Green Bonds due December 31, 2059. The bonds are secured by the assets of the Refurbishments, with a guarantee provided by Hydro Ottawa until the recourse release dates.
  - The Company expects the release recourse dates to be met for $67 million of the bonds by the end of 2019, and the remaining by the end of 2020.

Generation Facilities

(as at June 30, 2019) Fuel	Facility	Ownership	Capacity (MW)	% of Total Capacity	Contract Expiry
Hydro	Chaudiére #2 Station	100%	8	6%	2030
	Chaudiére #4 Station	100%	8	6%	2030
	Grinder Station	100%	1	1%	2027
	Chaudiére Hydro LP Plant	100%	29	23%	2057
	Chaudiére Hydro North LP Plant	100%	12	9%	2060
	Hull Energy	100%	27	21%	2060
	6 Eastern Ontario assets	100%	8	6%	2030
	4 New York state assets	100%	23	18%	
Total Hydro			**116**	**90%**	
Landfill Gas	Trail Road Landfill	60%	6	5%	2027
	Moose Creek Landfill	50%	4	3%	2033
Total Landfill Gas			**10**	**8%**	
Solar	Solar rooftop projects	100%	**2**	**2%**	2036
Total			**128**		

- Hydro Ottawa has PPAs with the IESO for all its generation facilities except for the four New York State assets.
- The Company is currently refurbishing the Chaudière Hydro North LP Plant and Hull Energy assets. Hydro Ottawa has signed a PPA with the IESO for the plants following the completion of the Refurbishments.
  - The Chaudière Hydro North LP Plant is expected to return to service by the end of 2019, with Hull Energy expected to be in service in 2020.

Regulation

- HOL (the local distribution company; a regulated subsidiary of Hydro Ottawa) is regulated by the OEB under the *Ontario Electricity Act, 1998*.
- As part of Ontario's Renewed Regulatory Framework for Electricity Distributions, HOL applied under Custom IR in April 2015 for rates from 2016 through 2020. In December 2015, the OEB approved a settlement agreement that included the following:
  - Final rates for 2016. The OEB was satisfied with the HOL's proposed 2017 to 2020 rates, but the Company will be required to confirm annually if an update is required, including for the items below:

(CAD millions)	2016	2017	2018	2019	2020
Revenue requirement	175.3	183.1	192.6	200.5	205.2
OM&A	83.1	84.7	86.3	88.0	89.6
Capex	73.8	81.9	89.2	63.6	108.7
Rate base	833.1	869.7	912.8	936.1	973.8

  - Operating, Maintenance and Administration (OM&A) for 2017 and beyond were calculated using an escalation factor of 1.91%, based on an inflation factor of 2.07%, plus a growth factor of 0.14% and less a productivity and stretch factor of 0.3%. The OM&A escalation factor was revised in 2018 for 2019 and 2020 at 1.55%, based on an inflation factor of 1.71%, plus a growth factor of 0.14% and less a productivity and stretch factor of 0.3%.
  - ROE of 9.19% for 2016 to 2018 was approved. ROE for 2019 and 2020 was updated in 2018 to 8.98%.
  - HOL will adopt an Efficiency Adjustment Mechanism deferral account to capture any changes in the revenue requirement if the Company is moved to a lower efficiency cohort (i.e., one with a higher productivity and stretch factor than Hydro Ottawa's 2014 cohort of 0.3%). Conversely, a move to a higher-efficiency cohort will have no impact on the Company's revenue requirement.
  - A deferral account to capture the revenue requirement impact of up to $66 million in capex of the proposed new operating centres and administrative facilities. A separate deferral account will also be set up to capture the revenue requirements impacts of capex that exceed the approved $66 million, with the recoverability subject to a prudence review following the Custom IR period.
  - A Capital Variance Account to track variances in actual and forecast in-service additions for three categories (system renewal and system service, system access and general plant). Any underspending or delayed capex will be captured in the account to be disposed of at the end of the Custom IR period. The Company will also not be able to charge back any overspending above the approved in-service additions plan to customers.
  - An Earnings Sharing Mechanism where any earnings above HOL's approved ROE will be shared on a 50/50 basis between the Company and its ratepayers.
- In August 2018, the Company filed its application with the OEB for approval of rates effective January 1, 2019. The OEB issued its decisions in December 2018, approving a 1.55% increase in base rates and the refund to customers of a $8 million balance in the Company's deferral and variance accounts.
- HOL is allowed to fully recover its purchased power costs (except doubtful accounts on power cost, which are manageable) in a timely fashion, eliminating its exposure to power price risk. DBRS views this as a positive factor in the current regulatory system in Ontario.
- The OEB announced in April 2015 its policy to implement revenue decoupling for all local distribution companies in Ontario. Beginning December 2016, HOL will phase in a fixed monthly rate for its residential customers. Over the four-year period, the fixed portion of the monthly rate will increase gradually, so by 2019 all residential customers will be charged a fixed monthly fee for distribution services.
  - This policy is expected to reduce volume risk faced by HOL, as revenues from residential customers will no longer fluctuate as a result of weather sensitivities.

Assessment of Hydro Ottawa's Regulatory Environment

The chart below reflects DBRS's assessment of the current regulatory environment for Hydro Ottawa based on DBRS's methodologies.

Criteria	Score	Analysis
1. Deemed Equity	Excellent Good **Satisfactory** Below Average Poor	The OEB allows HOL to have a deemed equity of 40%, which is consistent with the other electricity distribution companies in Ontario. As a result of the need to maintain the regulatory capital structure, Hydro Ottawa's leverage has been in line with the "A" rating range.
2. Allowed ROE	Excellent Good **Satisfactory** Below Average Poor	HOL has an allowed ROE of 8.98% for 2019 to 2020. The difference in ROE between HOL and other distribution companies is mainly due to the timing of the regulatory filings and the interest environment prevalent at that time.
3. Energy Cost Recovery	**Excellent** Good Satisfactory Below Average Poor	There is no power price risk for HOL as it is not responsible for purchasing power from generation facilities or the wholesale market. Power costs are passed on to rate payers at rates set by the OEB, and HOL collects the payments from its customers on a monthly basis.
4. Capital and Operating Cost Recoveries	Excellent **Good** Satisfactory Below Average Poor	Under Custom IR, the OEB has approved HOL's capex plan for 2016 to 2020. Capital costs will be added to the rate base after completion on an annual basis. DBRS notes that a Capital Variance Account has been established to track underspending or delays in three capex categories and will be returned to customers at the end of the Custom IR period. Any overspending above the capex plan will not be charged back to customers.
5. COS vs. IRM	Excellent Good **Satisfactory** Below Average Poor	HOL is regulated under Custom IR, which is a hybrid of cost of service (COS) and the incentive rate-setting method (IRM), for a five-year period from 2016 to 2020. The inflation, productivity and stretch factors are reasonable.
6. Political Interference	Excellent Good Satisfactory **Below Average** Poor	The Government of Ontario plays a significant role in the electricity sector in Ontario, given that the majority of the utilities are government owned (Hydro Ottawa is owned by the City of Ottawa). Further, stakeholders such as the IESO are also government owned. As a result, the government has direct and indirect influence on Ontario's electricity industry.
7. Stranded Cost Recovery	Excellent **Good** Satisfactory Below Average Poor	Minimal stranded costs exist in the Ontario market. DBRS notes that the recovery of the costs is also subject to some regulatory lag. Although stranded costs have been fully recovered in the past years, assets could potentially be written down if the OEB does not approve the recovery of the costs.
8. Rate Freeze	Excellent Good **Satisfactory** Below Average Poor	Distribution rates were frozen for a short time in the early 2000s. There have been no subsequent province-wide rate freezes.

Hydro Ottawa Holding Inc.

(CAD millions)	June 30	December 31			June 30	December 31	
Assets	**2019**	**2018**	**2017**	**Liabilities & Equity**	**2019**	**2018**	**2017**
Cash & equivalents	15	17	14	Bank indebtedness	308	227	158
Accounts receivable	172	179	193	Accounts payable	189	174	170
Inventories	2	1	2	Current portion L.T.D.	0	0	0
Prepaid expenses & other	16	11	76	Other current liab.	1	4	0
Total current assets	**205**	**208**	**284**	**Total current liab.**	**498**	**405**	**328**
Net fixed assets	1,543	1,450	1,261	Long-term debt	773	773	773
Future income tax assets	8	8	5	Provisions	14	13	14
Goodwill & intangibles	122	124	130	Deferred income taxes	44	45	30
Investments & others	74	65	51	Other L.T. liab.	167	156	148
				Shareholders' equity	456	463	438
Total assets	**1,952**	**1,856**	**1,732**	**Total liab. & SE**	**1,952**	**1,856**	**1,732**

Balance Sheet & Liquidity & Capital Ratios	12 mos. to June 30	For the year ended December 31				
	2019	**2018**	**2017**	**2016**	**2015**	**2014**
Current ratio	0.41	0.51	0.86	1.06	1.13	0.42
Total debt in capital structure	70.3%	68.4%	68.0%	66.4%	58.0%	52.2%
Total debt in capital structure 1, 2	65.9%	63.3%	62.5%	60.1%	58.1%	52.3%
Cash flow/Total debt	9.5%	11.3%	9.5%	10.7%	16.0%	19.0%
Cash flow/Total debt 1, 2	11.4%	13.8%	11.2%	14.2%	16.0%	19.0%
(Cash flow-dividends)/Capex (times)	0.33	0.41	0.40	0.43	0.59	0.61
Dividend payout ratio	71.4%	55.9%	56.6%	51.7%	52.3%	54.1%
Coverage Ratios (times)						
EBIT gross interest coverage 1	3.46	3.70	2.42	2.92	2.82	2.91
EBIT gross interest coverage 1, 2	3.18	3.40	2.22	2.96	2.82	2.91
EBITDA gross interest coverage	6.53	6.79	4.53	5.44	4.94	4.99
Fixed-charge coverage	3.46	3.70	2.42	2.92	2.82	2.91
Profitability Ratios						
EBITDA margin	47.6%	48.4%	45.9%	46.2%	44.8%	43.8%
EBIT margin	25.2%	26.4%	24.6%	24.8%	25.6%	25.6%
Profit margin	11.1%	13.9%	14.2%	16.2%	15.6%	16.8%
Return on equity	6.9%	8.7%	8.4%	8.9%	8.6%	9.0%
Return on capital	3.1%	3.7%	3.8%	4.3%	5.3%	5.8%

1 Excludes non-recourse debt. 2 Includes operating leases.

Application of Multiple Methodologies

Hydro Ottawa is engaged in both regulated and non-regulated businesses. The regulated business accounted for approximately 74% of EBIT in 2018, and the non-regulated business accounted for the remaining 26% of earnings. Following the completion of the Refurbishment in 2020, DBRS estimates the non-regulated business will contribute between 30% to 35% of EBIT. As a result of the material sizes and contributions from both businesses, DBRS applies the following two methodologies for the Company: (1) the *Rating Companies in the Regulated Electric, Natural Gas and Water Utilities Industry* methodology for the Hydro Ottawa's regulated segment, and (2) the *Rating Companies in the Independent Power Producer Industry* methodology for the Company's non-regulated segment.

Rating History

	Current	2018	2017	2016	2015	2014
Issuer Rating	A	A	A	A	A	A
Senior Unsecured Debt	A	A	A	A	A	A

Previous Action

- "DBRS Confirms Hydro Ottawa Holding Inc. at "A" with Stable Trends," July 31, 2018.

Previous Report

- Hydro Ottawa Holding Inc.: Rating Report, August 20, 2018.

Notes:
All figures are in Canadian dollars unless otherwise noted.

For the definition of Issuer Rating, please refer to Rating Definitions under Rating Policy on www.dbrs.com.

Generally, Issuer Ratings apply to all senior unsecured obligations of an applicable issuer, except when an issuer has a significant or unique level of secured debt.

The DBRS group of companies consists of DBRS, Inc. (Delaware, U.S.)(NRSRO, DRO affiliate); DBRS Limited (Ontario, Canada)(DRO, NRSRO affiliate); DBRS Ratings GmbH (Frankfurt, Germany)(CRA, NRSRO affiliate, DRO affiliate); and DBRS Ratings Limited (England and Wales)(CRA, NRSRO affiliate, DRO affiliate). For more information on regulatory registrations, recognitions and approvals, please see: http://www.dbrs.com/research/highlights.pdf.

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Ratings

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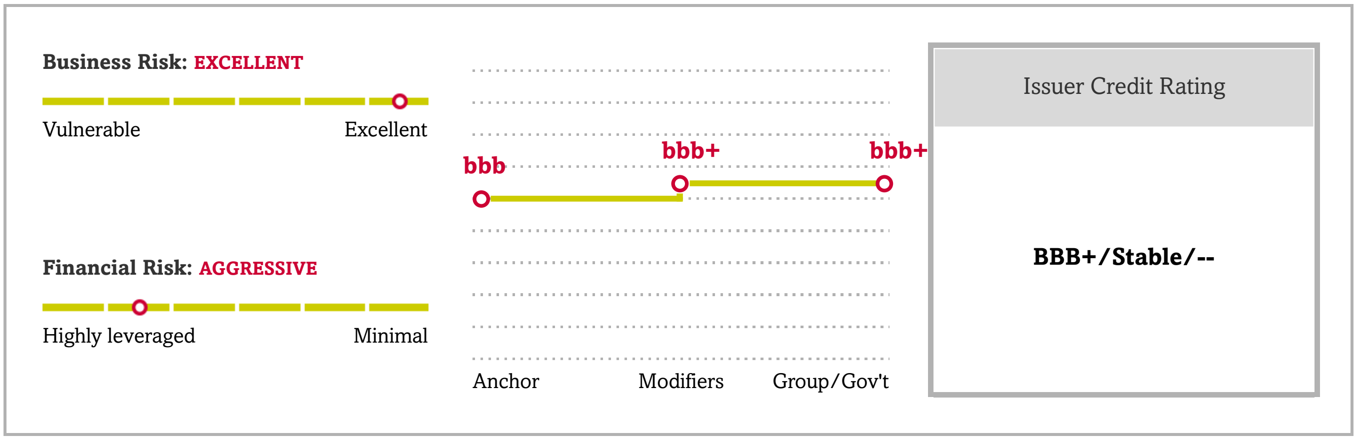
Hydro Ottawa Holding Inc.



Credit Highlights

Overview

Key strengths	Key risks
Relatively strong regulatory structure supports stable cash flows for its low-risk electricity distribution business.	Large capital program to execute for 2019, which will pressure credit metrics in the near term.
Diverse customer base comprising mainly residential customers, small businesses, and entities in the municipalities, universities, schools, and hospitals (MUSH) sector.	Will file a new rate application for 2021-2025, that includes the recovery of increased capital relating to the new building facility, subject to regulatory approval
Unregulated generation business features long-term contracts, favorable rates, and credible counterparties that provide a stable cash flow stream.	Lacks operational diversity because it only operates in the City of Ottawa, which makes the company reliant on its regulator, the Ontario Energy Board (OEB), to sustain its credit quality.

Unregulated cash flow is backed by quality contracts. Hydro Ottawa Holding Inc. (HOHI) generates about 20% of its cash flow from its unregulated generation. Although we view unregulated power generation as higher risk, this segment features long-term contracts, favorable terms, and creditworthy counterparties that partially mitigate risk and provide HOHI with stable cash flows.

The company has large capital spending plans over our outlook period. HOHI continues to execute its large capital program of about C$260 million through 2019, which includes the refurbishment of two hydro facilities and the construction of a new headquarters. This capital spending will pressure the company's credit metrics through 2020.

HOHI lacks geographic and regulatory diversity. HOHI serves the City of Ottawa, which is the capital of Canada, and has a diverse customer base that mainly consists of residential customers, small businesses, and entities in the MUSH sector. We consider the province of Ontario to be a relatively strong regulatory jurisdiction, which supports our excellent assessment of the company's business risk. However, compared with other utilities, HOHI lacks geographic and regulatory diversity, making it reliant on the OEB to sustain its credit quality.

Outlook: Stable

The stable outlook on HOHI reflects the predictable and stable cash flow we expect the company to generate from its low-risk, regulated distribution business over our two-year outlook horizon. The outlook also reflects the stable cash flow from the utility's unregulated renewable power generation operations, which are backed by strong purchase power agreements (PPAs). For fiscal year 2019, we expect HOHI's credit metrics to remain weak, with funds from operations (FFO) to debt of about 9.5%, because of delays in the refurbishment of its hydro assets due to weather and its large capital programs. We expect the company's credit metrics to recover in 2020-2021 with FFO to debt of about 10.5%-11.0%.

Downside scenario

We could lower our rating on HOHI over the next 12-24 months if the company's credit metrics deteriorate and its FFO to debt falls below 10% with no prospects for improvement. This could occur if the utility experiences any material adverse regulatory decisions, substantial delays, or cost overruns related to the refurbishment of its hydro assets or if it undertakes additional acquisitions that it funds with a material level of debt. Alternatively, additional growth in HOHI's unregulated power business could weaken the company's business risk profile, potentially leading us to lower our rating. However, we do not expect this to occur during our outlook period.

Upside scenario

Although unlikely, we could raise our rating on HOHI over the next 12-24 months if the utility improves its financial position, causing its FFO to debt to approach 15%. This could occur if the company earns better-than-forecast returns or deleverages its balance sheet. Alternatively, we could raise our rating if HOHI's share of sustained, unregulated cash flow relative to its regulated cash flow decreases.

Our Base-Case Scenario

Assumptions

- OEB, the company's regulator, will remain relatively stable and HOHI will not experience any material, adverse regulatory decisions;
- HOHI will continue to earn close to its allowed return on equity based on its deemed capital structure;
- No material delays or cost overruns on its hydro asset refurbishment projects;
- New customer growth of about 1% annually during our outlook period;
- Capital spending of about C$260 million in 2019 and C$140 million in 2020; and
- Dividend payments of about C$21 million per year.

Key Metrics

	2018A	2019E	2020E
FFO to debt (%)	10.9	9.5	10.5
FFO interest cash coverage (x)	4.45	4.3	4.3

A--Actual. E--Estimate. FFO--Funds from operations.

Company Description

HOHI is wholly owned by the City of Ottawa and governed by an independent board of directors appointed by its shareholder. The company's core businesses are electricity distribution, renewable energy generation, and energy conservation and management services. HOHI owns and operates three subsidiary companies.

Hydro Ottawa Ltd. (HOL) is a regulated electricity distribution company operating in the City of Ottawa. It is the third-largest municipally owned electrical utility in Ontario serving approximately 340,000 customers.

Portage Power (PP), formerly known as Energy Ottawa, is the largest municipally owned producer of green power in Ontario. PP has installed capacity of about 128 megawatts (MW) and owns and operates six run-of-the-river hydroelectric generators at Chaudiere Falls. In addition, the company also holds interests in two landfill gas-to-energy joint ventures.

Envari Holdings Inc. (EHI) is a provider of commercial energy management services. EHI delivers energy solutions for its large commercial, industrial, municipal, and utility clients.

Business Risk: Excellent

Our assessment of HOHI's business risk profile largely reflects its low-risk electricity distribution operations and our view of its management of regulatory risk.

The utility continues to operate under a supportive regulatory regime. The OEB, the regulator for the Province of Ontario, continues to provide a transparent, consistent, and independently operated regulatory framework that supports a stable and predictable cash flow model, which we view as a key credit strength. The regulatory framework also limits the utility's exposure to commodity risk and the associated cash flow volatility because the tariff structure allows it to recover the full cost of purchased power from its customers. The tariff structure also allows the operator to recover prudently spent operating costs, capital expenditure, or other unexpected material losses in a timely manner.

Further supporting our excellent business risk profile assessment is the utility's diverse customer base with no significant concentration risk. Residential customers, small businesses, and the MUSH sector account for majority of the company's customers. In our view, this customer profile is less sensitive to macroeconomic stress and business cycles.

Even though HOHI generates a material portion of its cash flows (about 20%) from unregulated power (renewable energy generation), which has much higher industry risk due to fluctuations in energy price, the utility is able to mitigate this risk through long-term PPA contracts with attractive terms. Most of HOHI's PPA contracts are long-term with an average length of at least 10 years. Some are also indexed to inflation, which provide the company with a steady, predictable, and stable cash flow stream. Moreover, HOHI's counterparty in these PPA contracts is the Independent Electricity Systems Operator (IESO), an agent of the Government of Ontario, which partially mitigates its counterparty concentration risk exposure. Furthermore, HOHI owns all of the hydro-generation assets at the Chaurdiere Falls in the Ottawa-Hull region, which gives the company full access to, and control of, the river and allows it to better coordinate and operate the assets to optimize its cash flows.

Peer comparison

Table 1

Peer Comparison

Industry sector: electric

	Hydro Ottawa Holding Inc.	Alectra Inc.	Toronto Hydro Corp.	ENMAX Corp.	Ontario Power Generation Inc.
Ratings as of Sept. 25, 2019	BBB+/Stable/--	A/Stable/--	A/Stable/--	BBB+/Negative/--	BBB+/Negative/A-2
	--Fiscal year ended Dec. 31, 2018--				
(Mil. C$)					
Revenue	1,138.6	3,452.0	3,472.7	2,378.8	5,474.0
EBITDA	143.0	363.5	530.2	588.6	2,019.0
FFO	108.6	296.7	408.5	398.6	1,530.4
Interest expense	33.9	71.8	90.8	127.8	277.7
Cash interest paid	31.5	65.8	79.1	117.0	286.6
Cash flow from operations	133.7	235.7	514.2	514.9	1,510.4
Capital expenditure	241.5	425.0	490.6	312.2	1,635.0
FOCF	(107.9)	(189.3)	23.6	202.7	(124.6)
DCF	(129.8)	(263.3)	(70.3)	162.7	(425.6)
Cash and short-term investments	16.7	16.0	0.0	89.0	349.0
Debt	996.8	2,016.3	2,365.1	2,507.8	11,437.4
Equity	462.9	1,689.0	1,833.5	2,261.3	13,127.0

Table 1

Peer Comparison (cont.)

Industry sector: electric

	Hydro Ottawa Holding Inc.	Alectra Inc.	Toronto Hydro Corp.	ENMAX Corp.	Ontario Power Generation Inc.
Adjusted ratios					
EBITDA margin (%)	12.6	10.5	15.3	24.7	36.9
Return on capital (%)	5.9	6.2	7.0	5.7	5.2
EBITDA interest coverage (x)	4.2	5.1	5.8	4.6	7.3
FFO cash interest coverage (x)	4.4	5.5	6.2	4.4	6.3
Debt/EBITDA (x)	7.0	5.5	4.5	4.3	5.7
FFO/debt (%)	10.9	14.7	17.3	15.9	13.4
Cash flow from operations/debt (%)	13.4	11.7	21.7	20.5	13.2
FOCF/debt (%)	(10.8)	(9.4)	1.0	8.1	(1.1)
DCF/debt (%)	(13.0)	(13.1)	(3.0)	6.5	(3.7)

FFO--Funds from operations. FOCF--Free operating cash flow. DCF--Discretionary cash flow.

Financial Risk: Aggressive

We evaluate HOHI's financial risk profile using our medial volatility financial benchmark tables rather than the tables we use for a typical corporate issuer, which reflects the company's lower-risk regulated business model and its management of regulatory risk.

For 2019, we expect HOHI's credit metrics to be weak because its capital programs will be larger than expected due to the timing of capital programs and increased costs. In addition, the company temporarily shut down some hydro assets and delayed its hydro refurbishment projects due to weather conditions in early 2019. We now expect that HOHI will complete the refurbishments in the first half of 2020 rather than by year-end 2019. We also expect the utility to file for recovery of the increased capital costs in its next rate application. Under our base-case scenario, which assumes capital spending of about C$260 million in 2019 and C$135 million in 2020 and dividends of about C$22 million in each year, we expect HOHI to have FFO to debt of about 9.5% in 2019. In 2020, we expect the company's FFO to debt to improve to about 10.5%.

Financial summary

Table 2

Financial Summary

Industry sector: electric

	--Fiscal year ended Dec. 31--				
	2018	**2017**	**2016**	**2015**	**2014**
(Mil. C$)					
Revenue	1,138.6	1,151.5	1,202.4	1,112.1	1,012.3

Table 2

Financial Summary (cont.)					
Industry sector: electric					
	--Fiscal year ended Dec. 31--				
	2018	**2017**	**2016**	**2015**	**2014**
EBITDA	143.0	124.5	110.9	121.5	93.5
FFO	108.6	87.1	87.2	105.1	73.5
Interest expense	33.9	31.2	24.4	21.5	19.3
Cash interest paid	31.5	31.4	20.8	19.3	18.8
Cash flow from operations	133.7	74.3	92.2	72.9	90.0
Capital expenditure	241.5	180.2	181.9	126.9	100.3
FOCF	(107.9)	(106.0)	(89.7)	(54.0)	(10.3)
DCF	(129.8)	(126.6)	(109.1)	(72.2)	(29.6)
Cash and short-term investments	16.7	0.9	1.0	4.0	0.0
Gross available cash	16.7	0.9	1.0	4.0	0.0
Debt	996.8	930.5	852.9	578.3	429.6
Equity	462.9	438.1	426.8	413.4	398.1
Adjusted ratios					
EBITDA margin (%)	12.6	10.8	9.2	10.9	9.2
Return on capital (%)	5.9	5.4	5.5	8.8	6.6
EBITDA interest coverage (x)	4.2	4.0	4.5	5.7	4.8
FFO cash interest coverage (x)	4.4	3.8	5.2	6.4	4.9
Debt/EBITDA (x)	7.0	7.5	7.7	4.8	4.6
FFO/debt (%)	10.9	9.4	10.2	18.2	17.1
Cash flow from operations/debt (%)	13.4	8.0	10.8	12.6	21.0
FOCF/debt (%)	(10.8)	(11.4)	(10.5)	(9.3)	(2.4)
DCF/debt (%)	(13.0)	(13.6)	(12.8)	(12.5)	(6.9)

FFO--Funds from operations. FOCF--Free operating cash flow. DCF--Discretionary cash flow.

Liquidity: Adequate

We assess HOHI's liquidity as adequate. We expect the company's liquidity sources to be more than 1.1x its uses over the next 12 months and anticipate that its net sources would remain positive even if its EBITDA declined by 10%. In our view, HOHI has sound relationships with its banks and a generally satisfactory standing in the credit markets. In the unlikely event of liquidity distress, we expect the company to scale back on its capital spending to preserve its credit metrics.

Principal Liquidity Sources	Principal Liquidity Uses
• Cash of about C$20 million as of March 31, 2019; • Cash FFO of about C$130 million; and • Availability under its undrawn committed facilities of about C$70 million as of March 31, 2019.	• Debt maturities of about C$150 million, including short-term debt; • Capital spending of about C$260 million; and • Dividends of about C$21 million over the next 12 months.

Debt maturities

HOHI has no long-term debt maturing between 2019 and 2023.

Other Credit Considerations

Overall, we assess HOHI's business risk profile as being at the stronger half of the excellent range compared with those of its peers. Specifically, the utility's PPA contracts in its unregulated business feature above-market rates, long maturities, and some are indexed to inflation. Furthermore, under the PPAs there is no obligation to deliver electricity and no minimum production requirements.

Government Influence

Our view of the relationship between HOHI and the City of Ottawa, its municipal owner, remains the same. We believe there is a low likelihood that Ottawa will provide extraordinary and timely support to HOHI during periods of financial distress. Although the utility is important to the city, given that it operates the city's electricity distribution network and is solely owned by the city of Ottawa, the province--not the city--maintains oversight of electricity regulation, including tariff setting. In addition, an investor-owned entity could undertake HOHI's role, if necessary. Furthermore, the city does not have any formal policy or track record of providing financial relief or support to the utility. For these reasons, we view the likelihood of extraordinary government support as low, which does not affect our rating on HOHI.

Issue Ratings - Subordination Risk Analysis

Capital structure

HOHI's capital structure consists of about C$575 million of senior unsecured debt at the corporate level and about C$500 million of senior secured amortizing debt at the project level.

Analytical conclusions

We rate HOHI's senior unsecured debt 'BBB+', the same level as our issuer credit rating, because its ratio of priority debt to total debt is less than 50%, which is consistent with our criteria.

Reconciliation

Table 3

Reconciliation Of Hydro Ottawa Holding Inc. Reported Amounts With S&P Global Ratings' Adjusted Amounts (Mil. C$)

	--Fiscal year ended Dec. 31, 2018--							
Hydro Ottawa Holding Inc. reported amounts								
	Debt	**Shareholders' equity**	**EBITDA**	**Operating income**	**Interest expense**	**S&P Global Ratings' adjusted EBITDA**	**Cash flow from operations**	**Capital expenditure**
	1,000.2	463.0	135.0	72.8	30.4	143.0	139.0	244.2
S&P Global Ratings' adjustments								
Cash taxes paid	--	--	--	--	--	(2.9)	--	--
Cash taxes paid: Other	--	--	--	--	--	--	--	--
Cash interest paid	--	--	--	--	--	(28.7)	--	--
Operating leases	3.4	--	0.2	0.2	0.2	(0.2)	(0.0)	--
Postretirement benefit obligations/deferred compensation	9.9	--	--	--	0.7	--	--	--
Accessible cash and liquid investments	(16.7)	--	--	--	--	--	--	--
Capitalized interest	--	--	--	--	2.6	(2.6)	(2.6)	(2.6)
Nonoperating income (expense)	--	--	--	2.1	--	--	--	--
Reclassification of interest and dividend cash flows	--	--	--	--	--	--	(2.6)	--
Noncontrolling interest/minority interest	--	(0.1)	--	--	--	--	--	--
EBITDA: Other	--	--	7.8	7.8	--	--	--	--
Total adjustments	(3.5)	(0.1)	8.0	10.1	3.5	(34.4)	(5.3)	(2.6)
S&P Global Ratings' adjusted amounts								
	Debt	**Equity**	**EBITDA**	**EBIT**	**Interest expense**	**Funds from operations**	**Cash flow from operations**	**Capital expenditure**
	996.8	462.9	143.0	82.9	33.9	108.6	133.7	241.5

Ratings Score Snapshot

Issuer Credit Rating

BBB+/Stable/--

Business risk: Excellent

- **Country risk:** Very low

- **Industry risk:** Low
- **Competitive position:** Excellent

Financial risk: Aggressive

- **Cash flow/Leverage:** Aggressive

Anchor: bbb

Modifiers

- **Diversification/Portfolio effect:** Neutral (no impact)
- **Capital structure:** Neutral (no impact)
- **Financial policy:** Neutral (no impact)
- **Liquidity:** Adequate (no impact)
- **Management and governance:** Satisfactory (no impact)
- **Comparable rating analysis:** Positive (+1 notch)

Stand-alone credit profile : bbb+

- **Group credit profile:** bbb+
- **Related government rating:** AA
- **Likelihood of government support:** Low (no impact)

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- Utilities: Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Business And Financial Risk Matrix

	Financial Risk Profile					
Business Risk Profile	Minimal	Modest	Intermediate	Significant	**Aggressive**	Highly leveraged
Excellent	aaa/aa+	aa	a+/a	a-	**bbb**	bbb-/bb+
Strong	aa/aa-	a+/a	a-/bbb+	bbb	bb+	bb
Satisfactory	a/a-	bbb+	bbb/bbb-	bbb-/bb+	bb	b+
Fair	bbb/bbb-	bbb-	bb+	bb	bb-	b
Weak	bb+	bb+	bb	bb-	b+	b/b-
Vulnerable	bb-	bb-	bb-/b+	b+	b	b-

Ratings Detail (As Of September 25, 2019)*

Hydro Ottawa Holding Inc.	
Issuer Credit Rating	BBB+/Stable/--
Senior Unsecured	BBB+
Issuer Credit Ratings History	
25-Aug-2016	BBB+/Stable/--
22-Jun-2016	A-/Watch Neg/--
30-Jul-2015	A-/Stable/--

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

PROSPECTUS FOR PLANNED AND RECENT SHARE ISSUES

Hydro Ottawa's sole shareholder is Hydro Ottawa Holding Inc. (the "Holding Company"). The Holding Company is 100% owned by the City of Ottawa (the "City"). There are no plans for additional share issues to the City or otherwise.

ACCOUNTING ORDERS

Hydro Ottawa confirms that it maintains compliance with the Uniform System of Accounts ("USofA"), as set out in the OEB's Accounting Procedures Handbook ("APH").

As part of the OEB's Decision and Order on Hydro Ottawa's 2012 distribution rate application, Hydro Ottawa received the following utility-specific accounting order:[1]

- Sub-Account 1508 - Other Regulatory Assets - Other Post-Employment Benefits ("OPEB") Deferral Account, to record cumulative actuarial gains or losses in Hydro Ottawa's post-retirement benefits.

As part of the OEB's Decision and Order on Hydro Ottawa's 2016 distribution rate application, Hydro Ottawa received the following utility-specific accounting orders:[2]

- Sub-Account 1508 - Other Regulatory Assets - Y-Factor Variance Account, to record the revenue requirement associated with the construction of the new facilities and related land up to the amount of $66.0M and the return of the existing facilities and related land.
- Sub-Account 1508 - Other Regulatory Assets - New Facilities Deferral Account, to record the revenue requirement impacts arising from costs of the new facilities and related land that is above the $66.0M captured in the Y-Factor Variance Account.
- Sub-Account 1508 - Other Regulatory Assets - Gains/Losses from Sale of Existing Facilities Deferral Account, to record the after-tax gains/losses from sale of existing facilities and related land.
- Sub-Account 1508 - Other Regulatory Assets - Gains and Losses on disposal of Fixed Assets Variance Account, to record the difference between the forecast and actual loss on the disposal of fixed assets, related to retirement of assets or damage to plant.

[1] Ontario Energy Board, *Decision and Rate Order*, EB-2011-0054 (January 26, 2012).
[2] Ontario Energy Board, *Decision and Order*, EB-2015-0004 (December 22, 2015).

- Sub-Account 1508 - Other Regulatory Assets - Earnings Sharing Mechanism ("ESM") Variance Account, to record amounts related to any earnings above Hydro Ottawa's approved Return on Equity ("ROE") to be shared on a 50/50 basis between Hydro Ottawa and its ratepayers with no dead band.
- Sub-Account 1508 - Other Regulatory Assets - Connection Cost Recovery Agreement ("CCRA") Payments Deferral Account, to record the revenue requirement impact of CCRA payments made to Hydro One.
- Sub-Account 1508 - Other Regulatory Assets - Revenue Requirement Differential Variance Account related to Capital Additions, to record the revenue requirement impact of underspending on Hydro Ottawa's capital plan by specific categories.
- Sub-Account 1508 - Other Regulatory Assets - Efficiency Adjustment Mechanism Deferral Account, to record the proxy stretch factor related to any Hydro Ottawa efficiency ranking declines during the Custom IR term for 2016-2020.

As part of the OEB's Decision and Order on Hydro Ottawa's Pole Attachment Charge, Hydro Ottawa received the following utility-specific accounting orders:[3]

- Sub-Account 1508 - Other Regulatory Assets - Wireless Attachment Revenues Deferral Account, to record revenues earned, if any, from wireless attachments from 2016-2020.
- Sub-Account 1508 - Other Regulatory Assets - Pole Attachment Charge Revenues Variance Account to record the difference between revenue based on the pole attachment charge of $57 per attachment per year and revenue based on the final charge approved by the OEB for 2016 of $53.

Hydro Ottawa hereby confirms compliance with the foregoing utility-specific accounting orders.

In addition, Hydro Ottawa confirms compliance with the following generic regulated accounting orders:

[3] Ontario Energy Board, *Decision and Rate Order on Pole Attachment Charge*, EB-2015-0004 (February 25, 2016).

- Energy Retailer Service Charges, to establish the following new variance accounts:[4]
  - Sub-Account 1508 - Other Regulatory Assets - Retailer Service Charges Incremental Revenue; and
  - Sub-Account 1508 - Other Regulatory Assets - Retailer Service Charges Incremental Revenue Carrying Charges.
- Accounting Guidance related to Pension and OPEB Forecast Accrual vs. Actual Cash Payment Differential Variance Account.[5]
- Sub-Account 1508 - Other Regulatory Assets - OPEB Differential - Variance Tracking Account related to Pension and OPEB.[6]

Please refer to Exhibit: 9-1-3: Group 2 Accounts for additional information on the accounts described in this Schedule.

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[4] Ontario Energy Board, *Decision and Order in the matter of Energy Retailer Service Charges effective May 1, 2019*, EB-2015-0304 (February 14, 2019).
[5] Ontario Energy Board, *Regulatory Treatment of Pension and Other Post-employment Benefits (OPEBs) Costs* (May 18, 2017).
[6] Ontario Energy Board, *Regulatory Treatment of Pension and Other Post-employment Benefits (OPEBs) Costs*: Section B - Variance Tracking Account (Sept 14, 2017).

ACCOUNTING STANDARDS USED

Hydro Ottawa adopted International Financial Reporting Standards ("IFRS") for financial reporting purposes on January 1, 2015. The audited financial statements provided in Exhibit 1-3-1: Audited Financial Statements have been prepared in accordance with IFRS.

ACCOUNTING TREATMENT FOR UTILITY-OWNED GENERATION

Hydro Ottawa confirms that the accounting for utility-owned generation, other than behind-the-meter generation, has been segregated from its rate-regulated activities.

As described in Exhibit 2-4-3: Distribution System Plan and Attachment 2-1-1(A): New Administrative Office and Operations Facilities, Hydro Ottawa's new facilities include behind-the-meter solar installations. This investment is expected to reduce Hydro Ottawa's environmental footprint and electricity costs for the next 30 years. The solar arrays are included in Hydro Ottawa's rate-regulated activities.

ACCOUNTING TREATMENT OF NON-UTILITY BUSINESS

Hydro Ottawa confirms that the accounting treatment used by the utility segregates the business activities of its non-utility business from its rate-regulated business.

CHANGES TO ACCOUNTING POLICIES USED IN PREVIOUS APPLICATIONS

Since the filing of Hydro Ottawa's last rebasing Application submitted in 2015,[1] the utility has adopted three new accounting standards as required by the International Accounting Standards Board. These include International Financial Reporting Standard ("IFRS") 15 – *Revenue from Contracts with Customers* ("IFRS 15"), IFRS 9 – *Financial Instruments* ("IFRS 9"), and IFRS 16 – *Leases* ("IFRS 16").

On January 1, 2018, Hydro Ottawa adopted IFRS 15 – *Revenue from Contracts with Customers*. IFRS 15 supersedes previous revenue recognition guidance, including International Accounting Standard ("IAS") 18 – *Revenue*, IAS 11 – *Construction Contracts*, and related interpretations. IFRS 15 provides a standardized, five-step model to recognize revenue (i.e. identify contract, identify performance obligations, determine transaction price, allocate transaction price, and recognize revenue). Per IFRS 15, depending on whether certain criteria are met, revenue is recognized over time in a manner that best reflects Hydro Ottawa's performance, or at a point in time when control of the goods or services is transferred to the customer. IFRS 15 applies to nearly all contracts with customers, unless covered by another standard (i.e. leases, financial instruments, insurance contracts), or those that are out of scope of IFRS 15 (i.e. contributions in aid of construction from developers). The adoption of IFRS 15 did not have an impact on Hydro Ottawa's revenue recognition practices, as reported in the last rebasing Application. Consequently, there is no impact to revenue requirement.

On January 1, 2018, Hydro Ottawa adopted IFRS 9 – *Financial Instruments*, which replaces IAS 39 – *Financial Instruments: Recognition and Measurement* ("IAS 39"). IFRS 9 includes revised guidance on the classification and measurement of financial assets, including basing the classification of financial assets on their contractual cash flow characteristics and the entity's business model for managing financial assets. In contrast, IAS 39 based the classifications on specific definitions for each category. Moreover, IFRS 9 simplifies the former IAS 39

[1] Hydro Ottawa Limited, *2016-2020 Custom Incentive Rate-Setting Distribution Rate Application*, EB-2015-0004 (April 29, 2015).

classifications into three main categories (i.e. amortized cost, fair value through other comprehensive income, and fair value through profit or loss), and introduces a new expected credit loss model for measuring impairment of financial assets. As a result, Hydro Ottawa assessed which business models apply to the financial assets it held and classified the financial instruments into the appropriate IFRS 9 categories. In addition, Hydro Ottawa revised its impairment methodology under IFRS 9 for each of its classes of financial assets. The utility's financial instruments will continue to be subsequently measured at amortized cost (previously classified as loans and receivables for financial assets under IAS 39). The new impairment methodology results in the same expected credit loss (i.e. allowance for doubtful accounts) as under the method used in Hydro Ottawa's last rebasing Application. The adoption of IFRS 9 by the utility did not result in any quantitative adjustments being recognized as at January 1, 2018. Consequently, there is no impact to revenue requirement.

On January 1, 2019, Hydro Ottawa adopted IFRS 16 – *Leases*, which replaces IAS 17 – *Leases*. IFRS 16 eliminates the current dual model (i.e. on and off balance sheet) and aims to provide greater comparability between companies who lease assets (i.e. right-of-use assets) and those who purchase assets with a single on-balance sheet approach. Under IFRS 16, all leases from the lessee's perspective will have to be recognized on the balance sheet, with related lease liabilities, and with exemptions for short-term (i.e. < 1 year) and "low value" leases. The adoption of IFRS 16 by Hydro Ottawa did not result in any right-of-use assets being recognized as at January 1, 2019. However, with the adoption of IFRS 16, Hydro Ottawa proposes to include the cost of any future right-of-use assets related to leases as part of rate base, since it is akin to purchasing property, plant, and/or equipment and financing it.

CORPORATE STRUCTURE AND GOVERNANCE

1. INTRODUCTION

Pursuant to section 2.1.4 of the *Chapter 2 Filing Requirements for Electricity Distribution Rate Applications*, as updated on July 12, 2018 and addended on July 15, 2019, Hydro Ottawa herein provides information regarding its corporate and utility organizational structure, and corporate governance practices.

This Schedule includes the following attachments:

- Attachment 1-4-1(A): Shareholder Declaration – Hydro Ottawa Holding Inc.
- Attachment 1-4-1(B): Shareholder Declaration – Hydro Ottawa Limited
- Attachment 1-4-1(C): Charter of the Hydro Ottawa Holding Inc. Board of Directors
- Attachment 1-4-1(D): Charter of the Hydro Ottawa Limited Board of Directors
- Attachment 1-4-1(E): Charter of the Nominating Committee
- Attachment 1-4-1(F): Charter of the Audit Committee
- Attachment 1-4-1(G): Charter of the Governance and Management Resources Committee
- Attachment 1-4-1(H): Charter of the Investment Review Committee
- Attachment 1-4-1(I): Charter of the Strategic Initiatives and Oversight Committee
- Attachment 1-4-1(J): 2018 and 2019 Board and Committee Meeting Schedule
- Attachment 1-4-1(K): Director Orientation and Continuing Education Policy and Process
- Attachment 1-4-1(L): Code of Business Conduct
- Attachment 1-4-1(M): Director Conflict of Interest and Conduct Guidelines
- Attachment 1-4-1(N): Related Party Transaction Disclosure Policy and Process
- Attachment 1-4-1(O): Business Conduct Hotline Brochure

2. CORPORATE AND UTILITY ORGANIZATIONAL STRUCTURE

Hydro Ottawa Holding Inc. ("Holding Company" or "the Corporation") was created as a result of the *Electricity Act, 1998*, which required all electric utilities to operate as business corporations.

Under this structure, the Holding Company is a for-profit company that continues to be wholly owned by the City of Ottawa, and is governed by an independent Board of Directors appointed by its shareholder. The core businesses of the Corporation are electricity distribution, renewable energy generation, and energy and utility services. In 2019, the Holding Company owned and operated three primary subsidiary companies: Hydro Ottawa Limited (referred to as "Hydro Ottawa" in all of the other evidence in this Application), a regulated distribution utility operating in the City of Ottawa and the Village of Casselman; Energy Ottawa Inc., the largest Ontario-based municipally-owned producer of green power; and Envari Holding Inc., a company that sells energy solutions to municipalities, industrial and commercial clients, and to various electricity distributors.

2.1. OEB REPORT ON UTILITY GOVERNANCE

In 2018, the Ontario Energy Board ("OEB") issued a report entitled *Best Practices regarding Governance of OEB Rate-Regulated Utilities*.[1] The report identified best practices in utility governance and confirmed the OEB's intent to introduce new mandatory governance reporting and record keeping requirements ("RRRs") for rate-regulated utilities, including natural gas distributors, electricity distributors, electricity transmitters, and Ontario Power Generation. The OEB's stated objectives in setting out best practices and introducing new reporting on governance are to build upon its focus on utility performance and to allow the OEB to obtain insight into the quality and robustness of decision-making by utilities. The combination of identified best practices and mandatory reporting is expected to support the OEB's ability to rely upon utility governance as an indicator of utility performance.[2]

As stated in the 2018 report, the OEB believes "that good governance is a significant contributor to excellence in utility performance and an important indicator of a utility's ability to achieve expected outcomes valued by customers." It is the OEB's expectation that the identification of governance-related best practices and implementation of RRRs will help foster the adoption of more robust practices throughout the sector. In turn, the OEB anticipates that

[1],Ontario Energy Board, *Report of the Board - Best Practices regarding Governance of OEB Rate-Regulated Utilities*, EB-2014-0255 (December 20, 2018).
[2] *Ibid,* page 3.

this will result in strengthened management accountability, enhanced utility performance, and improved outcomes for consumers.

Hydro Ottawa shares the OEB's view that good governance is a contributor to good performance. The utility is committed to ensuring effective corporate governance practices, consistent with a company of its size, mandate, and business activities. Hydro Ottawa adheres to high standards of integrity, transparency, and disclosure, and will ensure effective compliance with the new RRRs.

As outlined in more detail below, Hydro Ottawa has in place a robust governance structure.

2.2. CURRENT GOVERNANCE STRUCTURE

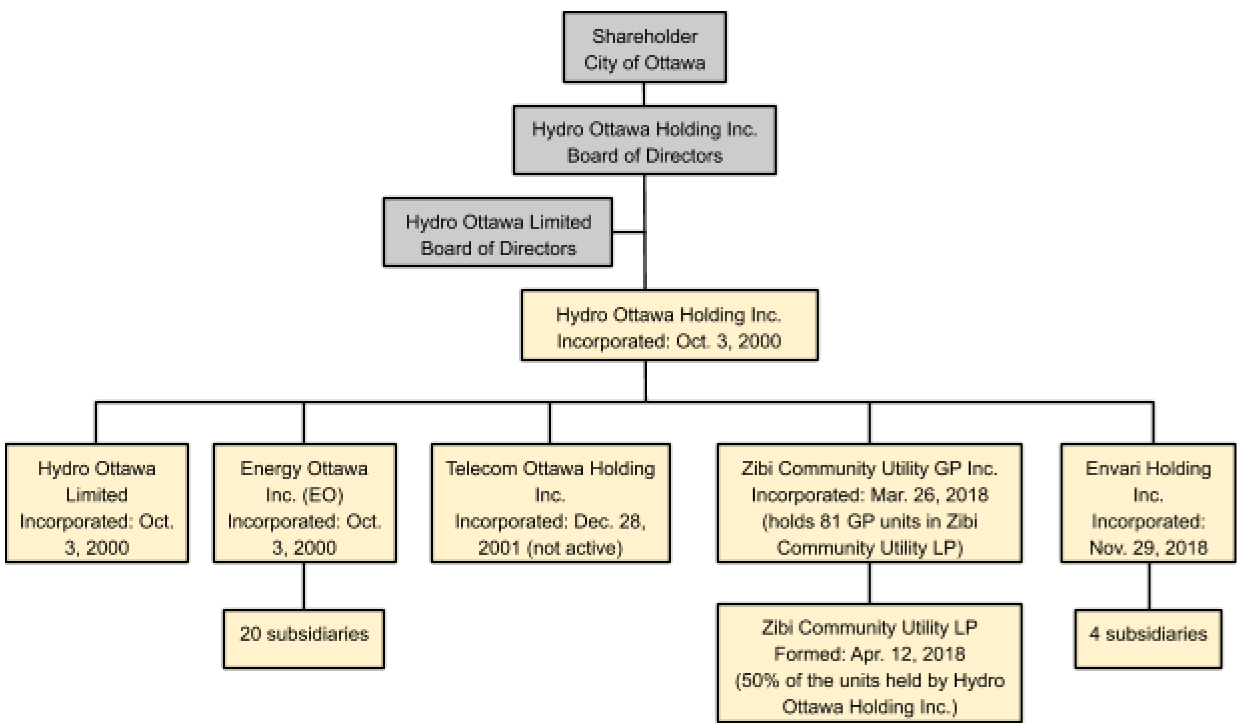
Accountability for the effective oversight of the Holding Company and its wholly-owned subsidiaries (Hydro Ottawa Limited, Energy Ottawa Inc., and Envari Holding Inc.) rests with an eleven-member Holding Company Board of Directors, which provides direction to the Corporation on behalf of the shareholder, the City of Ottawa. The Holding Company Board provides leadership within a framework of effective controls that enables risks to be assessed and managed, and is responsible for supervising the management of the business and affairs of the Corporation and its wholly-owned subsidiaries. In carrying out its oversight function, the Holding Company Board of Directors is guided by a Shareholder Declaration issued by Ottawa City Council (Attachment 1-4-1(A)) and revised from time to time. The Corporation's Code of Business Conduct (Attachment 1-4-1(L)), its Director Conflict of Interest and Conduct Guidelines (Attachment 1-4-1(M)), and a Related Party Transaction Disclosure Policy and Process (Attachment 1-4-1(N)) also govern the actions of the Holding Company Board.

In 2006, a separate subsidiary Board of Directors was established to oversee the operations of Hydro Ottawa Limited, in accordance with the OEB's *Affiliate Relationships Code for Electricity Distributors and Transmitters* ("ARC"). The powers and functions of the Hydro Ottawa Limited Board are set out in a Shareholder Declaration issued by the Holding Company Board of

Directors (Attachment 1-4-1(B)). The chart shown below depicts the relationship between the various corporate entities.

The composition of the Hydro Ottawa Limited Board includes three members, two of whom also serve on the Holding Company Board, and one who is a member of the management of Hydro Ottawa Limited but who is not employed by an affiliate of the utility. The members include the Holding Company Board Chair, the President and Chief Executive Officer of the Holding Company and Hydro Ottawa Limited, and the Chief Electricity Distribution Officer of Hydro Ottawa Limited.

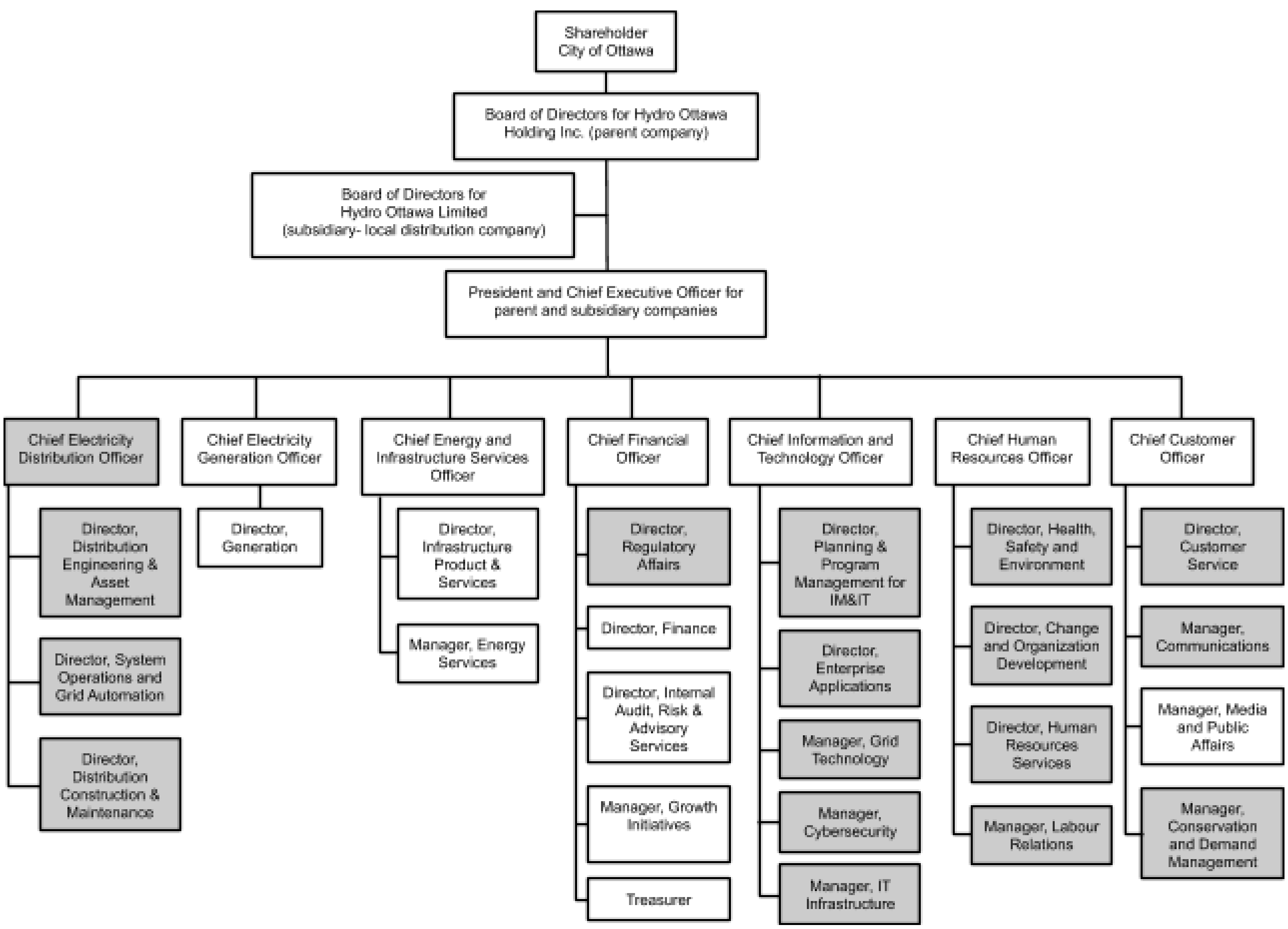
Figure 1 – Corporate Entities Relationship Chart



2.3. EXECUTIVE MANAGEMENT TEAM AND REPORTING RELATIONSHIP BETWEEN UTILITY MANAGEMENT AND PARENT COMPANY OFFICIALS

On a day-to-day basis, the Corporation is led by an Executive Management Team, comprised of the Corporation's President and Chief Executive Officer, the Chief Financial Officer, and the senior executives of the subsidiaries and critical functional areas. This team oversees the alignment of business practices and strategies with the goals of the Corporation, and drives performance by managing risks and opportunities. The Executive Management Team is accountable to the Corporation's Board of Directors through the President and Chief Executive Officer. The chart shown below depicts the relationship between utility management (shaded boxes) and Holding Company officials.

Figure 2 – Utility Management and Holding Company Relationship



3. CORPORATE GOVERNANCE PRACTICES

3.1. BOARD OF DIRECTORS

The composition of the Holding Company Board includes eleven members, eight of whom are independent of management and the sole shareholder, the City of Ottawa.

The composition of the Hydro Ottawa Limited Board includes three members: the Chair of the Holding Company Board; the President and Chief Executive Officer of the Holding Company and Hydro Ottawa Limited; and the Chief Electricity Distribution Officer of Hydro Ottawa Limited. One of the three members, Hydro Ottawa Limited's Chief Electricity Distribution Officer, is independent from any affiliate as required by the provisions of subsection 2.1.3 of the ARC.

The number and proportion of independent directors on the Hydro Ottawa Limited Board is set out in section 2 of its charter (Attachment 1-4-1(D)), which requires that one third of the Board shall, at all times, be independent of any affiliate.

To facilitate the exercise of independent judgement by the Holding Company and Hydro Ottawa Limited Boards in carrying out their respective responsibilities,

- the Holding Company Board is comprised of a majority of independent directors;
- the Hydro Ottawa Limited Board has met its charter requirements to have one third of the Board independent of any affiliate;
- a number of internal policies and processes are in place to address related party transactions (see Attachment 1-4-1(N): Related Party Transaction Disclosure Policy and Process), including, among other things:
    - an agenda item at each meeting of the Boards and committees that requires Board members to make declarations of interest and to disclose any transactions in which they could have an interest but also to disclose any entities in which they have come to have a financial interest that

could be involved in transactions with the Holding Company or its wholly-owned subsidiary companies;
  - an annual disclosure to the Governance and Management Resources Committee ("GMRC") of related party transactions involving directors of the Holding Company and its wholly-owned subsidiary companies; and
  - an annual disclosure to the shareholder, through the City Manager, of related party transactions involving directors of the Holding Company and its wholly-owned subsidiary companies, including certification of compliance with the restrictions contained in the Shareholder Declaration relating to restrictions on payments to directors, their family members, and entities in which directors have a substantive ownership interest;
- the Audit Committee is comprised of a majority of independent directors, both the internal and external auditors attend the Audit Committee meetings, and the Audit Committee has a closed session with the external auditors and one with the internal auditor at every meeting;
- the Holding Company and Hydro Ottawa Limited Boards receive regular briefings on a variety of strategic issues; and
- the Holding Company and Hydro Ottawa Limited Boards conduct a periodic self-evaluation to assess the performance and effectiveness of the Boards, Board committees, and Board and committee chairs. All information supplied by Board members is kept confidential and is not accessible by members of management of the Corporation. All results of the assessment process are reported out to the Board on a confidential basis without attribution.

3.2. BOARD MANDATE

As part of its commitment to implementing good governance practices consistent with a corporation of its size and nature of business activities, the Holding Company (including its wholly-owned subsidiary companies) is committed to regularly assessing its practices to ensure that this goal continues to be met.

With respect to Board mandates, the GMRC of the Holding Company Board has been assigned the responsibility to maintain charters for the Board and committees, including for the Hydro Ottawa Limited Board, and annually reviews roles, responsibilities, and terms of reference to ensure that they are consistent with good governance practices for a corporation of the Holding Company's size and mandate.

The written mandate of the Hydro Ottawa Limited Board is set out in its charter, appended at Attachment 1-4-1(D).

3.3. BOARD MEETINGS

A schedule of the 2018 and 2019 meetings of the Holding Company Board, its committees, and the Hydro Ottawa Limited Board is appended at Attachment 1-4-1(J).

3.4. ORIENTATION AND CONTINUING EDUCATION

As part of its commitment to implementing good governance practices consistent with a corporation of its size and nature of business activities, the Holding Company (including its wholly-owned subsidiary companies) is committed to ensuring that members of the Board of Directors receive both an initial orientation and on-going education that will assist them in undertaking their roles as directors of the Corporation and its subsidiaries.

To this end, the Holding Company Board has put in place a Director Orientation and Continuing Education Policy and Process (see Attachment 1-4-1(K)), and has assigned responsibility to the GMRC for ensuring that appropriate and relevant practices are in place for Board director orientation and continuing education. The Corporation encourages Board directors to participate in external professional development education programs to assist in the execution of their roles as Board directors, and also funds the participation of one Board director per year for a recognized director education program providing Board director certification.

In addition, in 2017 the Corporation purchased a corporate "board" membership with the Institute of Corporate Directors ("ICD") in order to provide all Board members with access to continuing education opportunities. The Corporation's ICD board membership extends to all Holding Company Board members and offers a number of resources aimed at optimizing Board performance.

3.5. ETHICAL BUSINESS CONDUCT

The Corporation's Code of Business Conduct (Attachment 1-4-1(L)), its Director Conflict of Interest and Conduct Guidelines (Attachment 1-4-1(M)), and a Related Party Transaction Disclosure Policy and Process (Attachment 1-4-1(N)) govern the actions of both the Holding Company and Hydro Ottawa Limited Boards. Moreover, the charters of the Holding Company Board (Attachment 1-4-1(C)), the GMRC (Attachment 1-4-1(G)), and the Hydro Ottawa Limited Board (Attachment 1-4-1(D)) each include specific provisions in relation to Code of Conduct and Compliance.

In accordance with their charter requirements, the GMRC, and the Holding Company and Hydro Ottawa Limited Boards, annually receive a report confirming that directors, members of management, and those in key financial positions have signed an attestation acknowledging acceptance of the company's Code of Business Conduct.

Additionally, the Corporation has established a Business Conduct Hotline (see Attachment 1-4-1(O)), a third party service that allows employees and Board members to anonymously report any concerns they might have related to perceived improper activities in the workplace and/or non-compliance with the Code of Business Conduct, or even suggestions for improvement. The Audit Committee of the Holding Company Board receives annual Business Conduct Hotline updates and more frequent reports if a serious complaint is received.

3.6. NOMINATION OF DIRECTORS

In accordance with the requirements of the Shareholder Declaration for the Holding Company Board (Attachment 1-4-1(A)), the City of Ottawa, the sole shareholder, appoints all directors to the Boards of the Holding Company and its wholly-owned subsidiaries, including Hydro Ottawa Limited, except for the President and Chief Executive Officer. In doing so, the City considers candidates recommended by the Nominating Committee of the Holding Company Board (see charter at Attachment 1-4-1(E)), but is not obliged to select these candidates. The Nominating Committee is assisted by outside consultants in its search for candidates for appointment to the Boards.

As set out in the Shareholder Declaration, all candidates for appointment to the Boards must meet certain requirements, including demonstrated integrity and high ethical standards, relevant career experience and expertise, and an understanding of the Corporation both as a service to local ratepayers and an asset of taxpayers.

In addition, the nomination and selection process is designed to maintain Boards that include the following overarching competencies among one or more directors: strong business background, including competitive business experience and strategic planning; strong financial background, including financial accreditation and public or private market financing experience; industry sector experience in the areas of business of the subsidiary companies; Board experience; engineering experience; and merger and acquisition experience.

In 2018, the Institute on Governance assisted with the process of identifying and evaluating potential candidates. The process used by the Institute on Governance to source qualified candidates for the Nominating Committee's consideration was designed to target recruitment priorities identified by the GMRC as part of its annual review of the Board competency profile. It included the following:

- A recruitment posting on the Corporation's website; and
- A review of the Institute of Corporate Directors Register.

The Institute on Governance assessed applications against the selection criteria set out in the Shareholder Declaration as well as the recruitment priorities identified for 2018. Thereafter, it provided the Nominating Committee with a report including a candidate listing, biographies, and a summary competency assessment for each potential candidate.

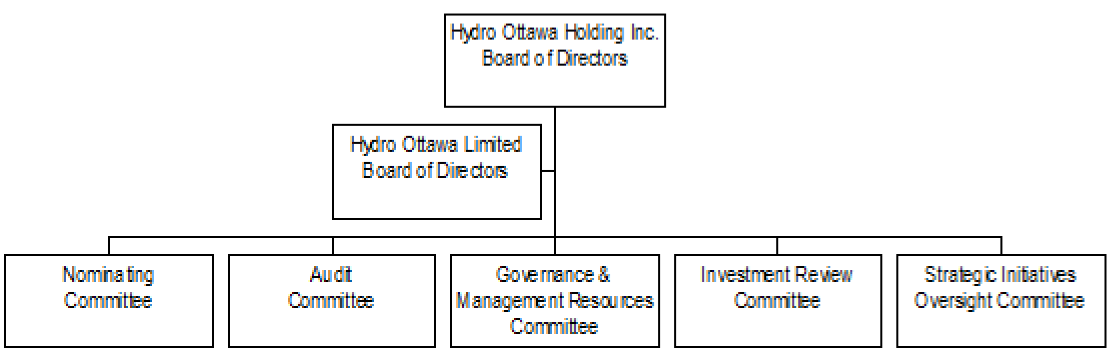
As per usual practice, the Nominating Committee then met to discuss the candidate listing provided by the Institute on Governance, giving consideration to the recruitment priorities identified through the Board profile review conducted earlier in the year. Following its deliberation, the Nominating Committee resolved to recommend candidates for appointments to the Board to the shareholder, and the recommended candidate names were included as part of the Holding Company's report to City Council for its Annual General Meeting ("AGM") held on June 27, 2018.

In 2019, no new recruitment was undertaken. The Nominating Committee met to consider the recruitment priorities identified by the GMRC as part of its annual review of the Board competency profile. Following its deliberation, the Nominating Committee resolved to recommend to the shareholder the reappointment of an outgoing Board member for an additional year. The recommended candidate's name was included as part of the Holding Company's report to City Council for its AGM held on June 26, 2019.

3.7. BOARD COMMITTEES

The following five committees have been created to assist the Holding Company and Hydro Ottawa Limited Boards in carrying out their respective duties:

Figure 3 – Board Committees



- **Nominating:** The Nominating Committee, with the assistance of outside consultants, identifies and evaluates potential candidates for appointment as Board directors. The

Nominating Committee makes recommendations to the shareholder (represented by Ottawa City Council) for the appointment of Board directors. The Committee charter is appended at Attachment 1-4-1(E).

- **Audit**: The Audit Committee reviews financial statements, accounting practices and policies, auditing processes, and the results of internal and external audits and related matters. It also oversees financial risk management and assesses internal controls. The Committee charter is appended at Attachment 1-4-1(F).

  The Audit Committee is comprised of a majority of independent directors. Financial expertise is one of the overarching competencies for all Board directors, and all Audit Committee directors are financially literate. In addition, both the internal and external auditors attend the Audit Committee meetings, and the Audit Committee has a closed session with the external auditors at every meeting.

- **Governance and Management Resources:** The GMRC reviews the Corporation's governance structures and practices to ensure that the Board of Directors can fulfill its mandate. It reviews management resources and compensation practices to ensure systems are in place to attract, retain, and motivate qualified management employees. It also reviews and assesses the performance of the President and Chief Executive Officer, oversees the Board assessment process, and monitors compliance with codes of conduct. The Committee charter is appended at Attachment 1-4-1(G).

- **Investment Review:** The Investment Review Committee is responsible for assisting management and the Board of Directors in the review and pursuit of business development, acquisition, and investment opportunities. In carrying out these functions, the Committee focuses on the consistency of opportunities with strategic plans and investment guidelines, the maximization of shareholder value, and the management of risk. The Committee charter is appended at Attachment 1-4-1(H).

- **Strategic Initiatives Oversight:** The Strategic Initiatives Oversight Committee is responsible for assisting the Board of Directors in guiding management and providing support and focus for large-scale capital project efforts, as identified by the Board from time to time. The Committee charter is appended at Attachment 1-4-1(I).

SHAREHOLDER DECLARATION dated the 25th day of June 2014.

BY: **CITY OF OTTAWA**
Being the sole shareholder of Hydro Ottawa Holding Inc.

WHEREAS subsection 108(2) of the *Ontario Business Corporations Act* permits all of the shareholders of a corporation to enter into a unanimous shareholder agreement;

AND WHEREAS pursuant to subsection 108(3) of such Act, a written declaration by a sole shareholder of a corporation that restricts in whole or in part the powers of the directors to manage or supervise the management of the business and affairs of the corporation is deemed to be a unanimous shareholder agreement;

AND WHEREAS pursuant to subsection 108(5) of such Act, to the extent that a unanimous shareholder agreement restricts the discretion or powers of the directors of a corporation to manage or supervise the management of the business and affairs of a corporation, a shareholder who is a party to the unanimous shareholder agreement assumes such powers and the related duties and liabilities and the directors are thereby relieved of their duties and liabilities;

AND WHEREAS the City of Ottawa is the sole owner of all the issued and outstanding shares of Hydro Ottawa Holding Inc./Société de Portefeuille d'Hydro Ottawa Inc. and desires to make this Declaration with the intent that to the extent that it restricts the discretion and powers of the directors of Hydro Ottawa Holding Inc./Société de Portefeuille d'Hydro Ottawa Inc., it shall constitute a unanimous shareholder agreement with respect to only those restrictions;

AND WHEREAS the City of Ottawa wishes that the shareholder declaration show that it is an objective of Hydro Ottawa Holding Inc. and its Subsidiary Hydro Ottawa Limited to have electricity customers in the whole of the geographic area of the City of Ottawa receive electricity distribution services from Hydro Ottawa Limited;

AND WHEREAS the City of Ottawa wishes to establish certain principles of governance and other fundamental principles and policies relating to Hydro Ottawa Holding Inc./Société de Portefeuille d'Hydro Ottawa Inc. and its subsidiaries;

NOW THEREFORE, the City of Ottawa hereby declares as follows:

ARTICLE I
INTERPRETATION

1.1 Definitions

In this Declaration the following terms will have the meanings set out below:

"Act" means the Ontario *Business Corporations Act*, as now enacted or as the same may from time to time be amended, re-enacted or replaced;

"Affiliate" means a Body Corporate that is affiliated with Holdco as such relationship is defined in the Act;

"Board" means the board of directors of Holdco;

"Body Corporate" means a firm, partnership, unincorporated association, joint venture, corporation, bank, trust, pension fund, union, governmental agency, board, tribunal, ministry of commission or other legal entity of any kind whatsoever, but excludes an individual or natural person;

"Business Day" means a day, other than a Saturday or Sunday, on which the principal commercial banks located at Ottawa, Ontario are open for business during normal banking hours;

"City" means the City of Ottawa being the body corporate by which, on January 1, 2001, the inhabitants of the municipal areas, as defined in the *City of Ottawa Act, 1999*, are constituted as a body corporate as provided in subsection 2.(1) of such act;

"Competitive Affiliates" means Energy Ottawa Inc./Énergie Ottawa Inc. and Telecom Ottawa Holding Inc.;

"External" means, with respect to a member of the Board, (a) an individual who is not the Mayor (or his/her designee), a councillor or employee of the City; or (b) an individual who is not an officer or employee of Holdco or any Affiliate;

"Holdco" means Hydro Ottawa Holding Inc./Société de Portefeuille d'Hydro Ottawa Inc., a corporation incorporated under the Act;

"Municipal Electric Utilities" means collectively The Hydro-Electric Commission of the City of Ottawa, The Hydro-Electric Commission of the City of Nepean, The Hydro-Electric Commission of The City of Kanata, The Hydro-Electric Commission of the City of Gloucester and Goulbourn Hydro-Electric Commission;

"Person" means an individual, a natural person or a Body Corporate;

"Regulator" means the Ontario Energy Board, the Independent Electricity System Operator, the Ontario Power Authority or any other governmental or regulatory authority having jurisdiction over Holdco or a Subsidiary;

"Subsidiary" means, with respect to Holdco, each of the Utility Affiliate, the Competitive Affiliates and any body corporate of which more than 50% of its outstanding securities of any class carrying exercisable voting rights are beneficially owned, directly or indirectly, by Holdco, and includes any Body Corporate in like relation to a Subsidiary;

"Third Party" means a person who deals at arm's length (as interpreted by subsection 251 (1) of the *Income Tax Act* (Canada) with Holdco or a Subsidiary; and

"Utility Affiliate" means Hydro Ottawa Limited/Hydro Ottawa Limitée, a corporation incorporated under the Act.

1.2 Calculation of Time

In this Declaration, unless otherwise specified, time periods within or following which any payment is to be made or act is to be done shall be calculated by excluding the day on which the period commences and including the day which ends the period and by extending the period to the next Business Day following if the last day of the period is not a Business Day.

1.3 Regulatory Matters

In the event of any conflict between any approval or direction or other requirement of the City of Ottawa and Holdco or a Subsidiary under this Declaration and any decision, order or policy of any Regulator, the decision, order or policy of the Regulator shall govern and Holdco and the Subsidiaries will at all times comply with any decision, order or policy of the Regulator whether or not an approval or direction has first been given in respect thereof by the City of Ottawa under this Declaration. For greater certainty, Holdco and the Subsidiaries will not seek any order from any Regulator for any matter that would require the approval of the City of Ottawa under this Declaration without first giving notice of their intention to seek such an order to the City of Ottawa.

ARTICLE 2
BUSINESS OF HOLDCO

2.1 Permitted Business Activities

Subject to its compliance with the *Energy Competition Act, 1998*, Holdco, either directly or through a Subsidiary, may engage in any of the following business activities:

(a) Transmitting and distributing electricity;

(b) providing the standard supply service of electricity to Persons connected to the distribution system of Holdco or a Subsidiary;

(c) owning, managing, operating and having an ownership interest in electricity generation facilities;

(d) providing meter installation, repair, calibration and reading services;

(e) providing energy-related products and services;

(f) providing services related to the promotion of energy conservation, energy efficiency, load management or the use of cleaner energy sources, including alternative and renewable energy sources and services to assist the Government of Ontario in achieving its goals in electricity conservation;

(g) providing energy procurement and energy efficiency services;

(h) renting or selling hot water heaters;

(i) providing street lighting services;

(j) distributing gas or any other energy product which is carried through pipes or wires to the user;

(k) retailing electricity produced at a generating facility owned, operated or managed by a Subsidiary;

(l) participating in the retailing of electricity (other than as set out in paragraph (k) above) or gas on a basis that is limited to normal commercial risk and does not subject Holdco or a Subsidiary to risk created by variations in the market price of the commodity;

(m) using the real property that Holdco or a Subsidiary has the right to use for the purpose of providing telecommunications services, or entering into agreements with any Third Party, or Subsidiary, authorizing such Third Party or Subsidiary to use such real property for the purpose of providing telecommunications services;

(n) managing or operating on behalf of the City of Ottawa the provision of a public utility, water or sewage service;

(o) conducting business activities the principal purpose of which is to use more effectively the assets of a Subsidiary;any other business activities carried on by the Municipal Electric Utilities at the time the assets of the latter were transferred to Holdco and/or a Subsidiary, the principal purpose of which is to use more effectively the assets of Holdco or a Subsidiary; and

(p) subject to the restrictions set out in paragraph (l), any other business activities permitted, pursuant to provincial legislation, to be carried on by an electricity distributor or its affiliates where the voting securities carrying more than 50 per cent of the voting rights attached to the voting securities of the electricity distributor are owned directly or indirectly by a municipal corporation .

2.2 Other Business Activities with Prior Approval

Subject to compliance with the *Energy Competition Act, 1998,* and with the prior written approval of the City of Ottawa, Holdco, either directly or through a Subsidiary, may engage in any of the following business activities:

(a) retailing electricity or gas on a basis which exposes Holdco or a Subsidiary to the risk of fluctuations in the market price of the commodity.

2.3 City of Ottawa Consent

The Board shall have the authority to prepare a business case for consideration by the City of Ottawa whether or not related to any business activity set out in section 2.2. hereof which business case shall include an assessment of whether or not the new business activity is financially viable or otherwise commercially prudent to be pursued by Holdco or a Subsidiary. Upon a review of the business case, the City of Ottawa shall advise Holdco in writing whether or not the new business activity may be pursued by Holdco or its Subsidiary.

2.4 Service Territory

Holdco shall have an objective of having electricity customers in the whole of the geographic area of the City of Ottawa receive electricity distribution services from its Subsidiary Hydro Ottawa Limited.

ARTICLE 3
OPERATION AND CONTROL

3.1 Number of Directors

Holdco shall be managed by the Board which shall be comprised of not less than five (5) and not more than eleven (11) directors, and which will consist of eleven (11) directors elected by the City of Ottawa, of whom:

(a) one (1) shall be the Mayor of the City of Ottawa or a member of the Council of the City of Ottawa designated by such Council in the event that such Mayor chooses not to act as a director;

(b) two other members of the Council of the City of Ottawa, until November 30, 2014 and shall be reduced to one other member of the Council of the City of Ottawa effective December 1, 2014;

(c) the Chair of the Board of Directors of Hydro Ottawa Limited (unless such office shall be held at the same time by the Chair of the Board);

(d) one shall be the President and Chief Executive Officer of Holdco; and

(e) the balance shall be External, one of whom shall become Chair of the Board.

Paragraph (c) shall be repealed effective December 1, 2014.

3.2 Governance Practices

The Board of Directors of Holdco shall prepare and make available to the City of Ottawa upon request a manual setting out its governance practices. The manual shall include a description of the roles and responsibilities of the Board of Directors, of the Chair of the Board of Directors, of individual directors and of the President and Chief Executive Officer.

3.3 Role of the Chair of the Board

The Chair of the Board of Directors shall carry out the following duties and responsibilities:

(a) provide leadership to the company and its Board of Directors;

(b) provide leadership in the good governance of the corporation;

(c) set the agenda for meetings of the Board of Directors;

(d) chair the meetings of the Board of Directors ;

(e) ensure that the Board of Directors and its committees work effectively in carrying out their responsibilities;

(f) attend to the assessment of the performance of the Board of Directors;

(g) facilitate the relationship between the Board of Directors and management;

(h) represent the company at meetings with the shareholder and to the public;

(i) attend to the evaluation of the performance of the President and Chief Executive Officer of Holdco;

(j) assist the President in the evaluation of the performance of senior management of Holdco and its subsidiaries and in the proper succession planning for the Senior Management;

(k) collaborate with the Shareholder to allow for the proper succession planning for the Board of Directors; and

(l) carry out such other functions and responsibilities as may be determined by the Board of Directors.

3.4 Committees

The Board may appoint one or more committees which shall have such powers as may be assigned by the Board. The Board may appoint additional members of a committee from outside the Board for their particular expertise, but a majority of the members of committees with responsibilities relating to the operations of Holdco shall be members of the Board.

3.5 Nominating Committee

The City of Ottawa shall consider candidates nominated by the Nominating Committee, being a Committee established to assist in the selection of directors of Holdco and its wholly-owned Subsidiaries, but shall not be obliged to select such candidates. It is expected that the Nominating Committee will develop a process to identify and evaluate potential Board candidates in order to recommend a slate of qualified candidates to the City of Ottawa The Nominating Committee shall utilize the services of a placement service to search for members of the Board.

3.6 Criteria For Selection of Directors

The process used by the Nominating Committee shall be designed to ensure that each director satisfies the following criteria:

(a) demonstrates integrity and high ethical standards;

(b) has career experience and expertise relevant to Holdco's business purposes, financial responsibilities and risk profile;

(c) demonstrates an appreciation of the fiduciary duties of a Director;

(d) demonstrates well-developed listening, communicating and influencing skills;

(e) demonstrates an interest in and a commitment to devote the time necessary so that the individual Directors can actively participate in Board and Committee discussions and debate;

(f) demonstrates an understanding of the role of Hydro Ottawa as a service to local ratepayers; and

(g) demonstrates an understanding of the role of Hydro Ottawa as an asset of taxpayers;

The process used by the Nominating Committee shall also be designed to maintain a Board having the following competencies among one or more directors:

(a) strong business background;

(b) strong financial background including financial accreditation;

(c) industry sector experience in the areas of business of the Subsidiary companies;

(d) strategic planning and corporate stewardship experience;

(e) competitive business experience;

(f) an awareness of the needs of the Corporation's customers;

(g) public or private market financing experience; and

(h) board experience.

3.7 Term of Office

The term of office for a director shall be:

(a) In the case of a director who is the Mayor of the City, or City Council's designee, as the case may be, for a term which ends on the earlier of: (i) the date on which the term of office of such Mayor ends; or (ii) the date on which his or her successor takes office;

(b) In the case of the director who is the President and Chief Executive Officer of Holdco, for so long as the director holds such office;

(c) In the case of members of the Council of the City of Ottawa other than the Mayor, for the balance of the term for which the member of Council has been elected and

(d) In the case of any other directors, for such terms, which will be staggered, as may, from time to time, be provided in the by-laws of Holdco.

Any director may stand for re-election to the Board at the expiry of his or her term, subject to any limitations as may, from time to time, be provided in the by-laws of Holdco.

3.8 Remuneration

The remuneration of the members of the Board or the board of directors of a Subsidiary for their respective services as directors will be as determined by the City of Ottawa from time to time. For greater certainty, only one annual stipend will be paid where an individual is a director of both Holdco and a Subsidiary. Notwithstanding the foregoing:

(a) the directors who are members of the Council of the City of Ottawa (including the Mayor) will receive no remuneration; and
(b) the President and Chief Executive Officer of Holdco will receive no remuneration in his or her capacity as director,

although the individuals described in paragraphs (a) and (b) will, along with all other directors, be reimbursed by Holdco for their out-of-pocket expenses upon presentation of supporting receipts therefor.

The Board of Directors shall review every other year the remuneration paid to members of the Board of Directors of Holdco and its Subsidiaries (including the Chair) and bring forward recommendations to the City of Ottawa for consideration in connection with the presentation of the financial statements for such year.

No amount shall be paid to the Chair, directors, members of their immediate families or entities in which they have a substantive ownership interest over and above the remuneration for directors determined by the City of Ottawa from time to time.

3.9 Vacancies

If a member of the Board ceases to be a director for any reason, the City of Ottawa will fill the vacancy created thereby as soon as reasonably possible having regard to the provisions of section 3.1. If a member of the board of directors of a Subsidiary ceases to be a director for any reason, Holdco will cause the vacancy to be filled by another director as soon as reasonably possible.

ARTICLE 4
SHAREHOLDER MATTERS

4.1 Shareholder Approval under the Act

In accordance with the provisions of the Act, Holdco will not, without the prior written approval of the City of Ottawa:

(a) amend its articles or make, amend or repeal any by-law;

(b) amalgamate (except for an amalgamation with one or more Subsidiaries), apply to continue as a body corporate under the laws of another jurisdiction, merge, consolidate or reorganize, or approve or effect any plan of arrangement, in each case whether statutory or otherwise;

(c) take or institute proceedings for any winding-up, arrangement, reorganization or dissolution;

(d) create new classes of shares or reorganize, consolidate, subdivide or otherwise change its outstanding securities;

(e) change its auditor;

(f) make any change to the number of directors comprising the Board; or

(g) enter into any other transaction or take any other action that requires shareholder approval pursuant to the Act.

4.2 Additional Matters Requiring Shareholder Consent

The powers of the Board, including without limitation any committee thereof, from time to time are hereby restricted, in part, such that Holdco shall not without the prior written approval of the City of Ottawa:

(a) make any change in the issued capital of Holdco;

(b) enter into any agreement or make any offer or grant any right capable of becoming an agreement to allot or issue any shares of Holdco;

(c) permit the ratio of consolidated funded obligations to total consolidated capitalization of Holdco to exceed 75 percent, as calculated in accordance with market standard practice for local distribution utilities in the Province of Ontario;

(d) make directly or indirectly loans or advances in excess of fifty thousand dollars ($50,000) to any Person, other than a Subsidiary;

(e) give security for or guarantee debts in excess of fifty thousand dollars ($50,000) of any Person, other than a Subsidiary;

(f) declare any dividend prior to consultation with the City or any dividend which is inconsistent with the dividend policy communicated, from time to time in writing, by the City of Ottawa to the Board;

(g) appoint any auditor to fill any vacancy in the position of auditor which may occur during a year;

(h) appoint any director to fill any vacancy in the position of director of the Board or director of the board of directors of Subsidiary directly or indirectly wholly owned by the City of Ottawa, as contemplated by section 3.5 hereof;

(j) establish any financial year end of Holdco which is not December 31; or

(k) sell or otherwise dispose of, by conveyance, transfer, lease, sale and leaseback or other transaction, ten percent (10%) or more of its assets or undertaking,

4.3 Liability of the City of Ottawa

In the exercise of the rights, duties and powers assumed and transferred under this Declaration, the City of Ottawa, as the sole shareholder of Holdco, shall be subject to the same obligations and liabilities to which the Board would otherwise have been subject if this Declaration had not been made and the Board is hereby wholly relieved of all powers, duties and liabilities as directors of Holdco to the extent that the City of Ottawa is subject thereto.

4.4 Residual Power of Boards

Without restricting the application of sections 4.1 and 4.2 hereof, the Board and the boards of directors of a Subsidiary shall have, subject to the Act and this Declaration, the full authority to manage the business and affairs of Holdco and a Subsidiary, respectively, including the authority to develop and recommend to the City of Ottawa decisions with respect to any of the matters specified in sections 4.1 and 4.2 hereof.

4.5 City of Ottawa Power to Consent

The rights, powers and duties vested in the City of Ottawa pursuant to the provisions of this Declaration shall be exercised by or pursuant to a resolution or by-law of the City of Ottawa.

ARTICLE 5
REPORTING TO CITY OF OTTAWA

5.1 Reports

Holdco will report to the City of Ottawa on any and all matters as requested by the City of Ottawa from time to time including reports relating to a Subsidiary. Without limiting the foregoing, Holdco shall provide, in a timely manner, to the City of Ottawa an annual financial report containing such financial and other information as the City of Ottawa may reasonably request and which information Holdco is legally entitled to provide. Holdco shall provide to the City of Ottawa a report of material facts and material changes as they occur and shall be guided by securities laws applicable to publicly traded corporations when assessing the extent and timing of such disclosure.

ARTICLE 6
GENERAL PROVISIONS

6.1 Reference on Certificates

Holdco shall cause a reference to this Declaration to be noted conspicuously on every share certificate issued by Holdco. Holdco shall cause each Subsidiary to ensure that a reference to the Declaration delivered to it pursuant to section 6.4 hereof is noted conspicuously on every share certificate issued by such Subsidiary.

6.2 Termination

This Declaration shall be effective as of the date hereof and shall continue in full force and effect until the City of Ottawa has given written notice to the Board of the revocation and termination of this Declaration.

6.3 Amendment of Declaration

This Declaration may be amended by the City of Ottawa from time to time as circumstances may require and the City of Ottawa will consult with the Board prior to completing any amendments and will promptly provide the Board with copies of such amendments.

6.4 Revocation of Previous Declarations

The Declaration dated June 29, 2006 passed by the City of Ottawa is hereby revoked and replaced by this Declaration.

6.5 Governing Law

This Declaration shall be governed by and construed in accordance with the laws of the Province of Ontario and the laws of Canada applicable therein.

6.6 Effective Date

This Declaration shall be effective as of and from July 1, 2014, except as otherwise expressly provided.

IN WITNESS WHEREOF, the City of Ottawa has executed this Declaration as a unanimous shareholder agreement pursuant to subsections 108(2) and 108(3) of the Act.

CITY OF OTTAWA
Per:

By: ______________________

Name: Jim Watson
Title: Mayor

Approved for Execution
Per City Solicitor

By: ______________________

Name: M. Rick O'Connor
Title: City Clerk and Solicitor

SHAREHOLDER DECLARATION dated the 28th day of August 2014.

BY: **HYDRO OTTAWA HOLDING INC./SOCIÉTÉ DE PORTEFEUILLE D'HYDRO OTTAWA INC.**
A corporation incorporated under
The laws of the Province of Ontario
("Holdco").

WHEREAS subsection 108(2) of the *Ontario Business Corporations Act* permits all of the shareholders of a corporation to enter into a unanimous shareholder agreement;

AND WHEREAS pursuant to subsection 108(3) of such Act, a written declaration by a sole shareholder of a corporation that restricts in whole or in part the powers of the directors to manage or supervise the management of the business and affairs of the corporation is deemed to be a unanimous shareholder agreement;

AND WHEREAS pursuant to subsection 108(5) of such Act, to the extent that a unanimous shareholder agreement restricts the discretion or powers of the directors of a corporation to manage or supervise the management of the business and affairs of a corporation, a shareholder who is a party to the unanimous shareholder agreement assumes such powers and the related duties and liabilities and the directors are thereby relieved of their duties and liabilities;

AND WHEREAS Holdco is the registered and beneficial owner of all the issued and outstanding shares of Hydro Ottawa Limited/Hydro Ottawa Limitée and desires to make this Declaration with the intent that to the extent that it restricts the discretion and powers of the directors of Hydro Ottawa Limited/Hydro Ottawa Limitée, it shall constitute a unanimous shareholder agreement with respect to only those restrictions;

AND WHEREAS Holdco, together with its subsidiaries Hydro Ottawa Limited/Hydro Ottawa Limitée and Energy Ottawa Inc./Énergie Ottawa Inc., are the successors to the businesses formerly carried on by the Municipal Electric Utilities (as herein defined);

AND WHEREAS Holdco wishes that this declaration show that it is an objective of Hydro Ottawa Limited to provide electricity distribution services to all customers in the geographic area of the City of Ottawa;

AND WHEREAS Holdco wishes to establish certain principles of governance and other fundamental principles and policies relating to Hydro Ottawa Limited/Hydro Ottawa Limitée and its subsidiaries;

NOW THEREFORE, Holdco hereby declares as follows:

ARTICLE I
INTERPRETATION

1.1 Definitions

In this Declaration the following terms will have the meanings set out below:

"Act" means the Ontario *Business Corporations Act*, as now enacted or as the same may from time to time be amended, re-enacted or replaced;

"Affiliate" means a Body Corporate that is affiliated with Hydro Ottawa Limited as such relationship is defined in the Act;

"Board" means the board of directors of Hydro Ottawa Limited;

"Body Corporate" means a firm, partnership, unincorporated association, joint venture, corporation, bank, trust, pension fund, union, governmental agency, board, tribunal, ministry of commission or other legal entity of any kind whatsoever, but excludes an individual or natural person;

"Business Day" means a day, other than a Saturday or Sunday, on which the principal commercial banks located at Ottawa, Ontario, are open for business during normal banking hours;

"External" means, with respect to a member of the Board, (a) an individual who is not the Mayor, a councillor or employee of the City; or (b) an individual who is not an officer and employee of Hydro Ottawa Limited or any Affiliate;

"Hydro Ottawa Limited" means Hydro Ottawa Limited/Hydro Ottawa Limitée, a corporation incorporated under the laws of Ontario;

"Municipal Electric Utilities" means collectively The Hydro-Electric Commission of the City of Ottawa, the Hydro-Electric Commission of the City of Nepean, The Hydro-Electric Commission of The City of Kanata, The Hydro-Electric Commission of the City of Gloucester and Goulbourn Hydro-Electric Commission;

"Person" means an individual, a natural person or a Body Corporate;

"Regulator" means the Ontario Energy Board, the Independent Electricity System Operator, the Ontario Power Authority or any other governmental or regulatory authority having jurisdiction over Hydro Ottawa Limited or a Subsidiary;

"Subsidiary" means, any body corporate, the incorporation of which has been approved by Holdco as contemplated by subsection 4.2(a) hereof, of which more than 50% of its outstanding securities of any class carrying exercisable voting rights are beneficially owned, directly or indirectly, by Hydro Ottawa Limited, and includes any Body Corporate in like relation to a Subsidiary;

"Third Party" means a person who deals at arm's length (as interpreted by subsection 251 (1) of the *Income Tax Act* (Canada) with Hydro Ottawa Limited;

1.2 Calculation of Time

In this Declaration, unless otherwise specified, time periods within or following which any payment is to be made or act is to be done shall be calculated by excluding the day on which the period commences and including the day which ends the period and by extending the period to the next Business Day following if the last day of the period is not a Business Day.

1.3 Regulatory Matters

In the event of any conflict between any approval or direction or other requirement of Holdco and Hydro Ottawa Limited or a Subsidiary under this Declaration and any decision, order or policy of any Regulator, the decision, order or policy of the Regulator shall govern and Hydro Ottawa Limited and a Subsidiary will at all times comply with any decision, order or policy of the Regulator whether or not an approval or direction has first been given in respect thereof by Holdco under this Declaration. For greater certainty, Hydro Ottawa Limited and a Subsidiary will not seek any order from any Regulator for any matter that would require the approval of Holdco under this Declaration without first giving notice of their intention to seek such an order to Holdco.

ARTICLE 2
BUSINESS OF HYDRO OTTAWA LIMITED

2.1 Permitted Business Activities

Subject to its compliance with the *Energy Competition Act,* 1998, Hydro Ottawa Limited, either directly or through a Subsidiary, may engage in any of the following business activities:

(a) Transmitting and distributing electricity;

(b) providing the standard supply service of electricity to Persons connected to the distribution system of Hydro Ottawa Limited or a Subsidiary;

(c) providing meter installation, repair, calibration and reading services;

(d) providing services related to the promotion of energy conservation, energy efficiency, load management or the use of cleaner energy sources, including alternative and renewable energy sources and services to assist the Government of Ontario in achieving its goals in electricity conservation

(e) providing street lighting services;

(f) managing or operating on behalf of the City of Ottawa the provision of a public utility, water or sewage service;

(g) using the real property that Hydro Ottawa Limited or a Subsidiary has the right to use for the purpose of providing telecommunications services for the purpose of electricity transmission or distribution, or entering into agreements with any Third Party, or Subsidiary, authorizing such Third Party or Subsidiary to use such real property for the purpose of providing telecommunications services for the purpose of electricity transmission or distribution;

(h) any other business activities carried on by the Municipal Electric Utilities at the time the assets of the latter were transferred to Hydro Ottawa Limited, the principal purpose of which is to use more effectively the assets of Hydro Ottawa Limited; and

(i) any other business activities permitted, pursuant to provincial legislation, to be carried on by an electricity distributor where the voting securities carrying more than 50 per cent of the voting rights attached to the voting securities of the electricity distributor are owned directly or indirectly by a municipal corporation.

2.2 Other Business Activities with Prior Approval

Subject to compliance with the *Energy Competition Act, 1998,* and with the prior written approval of Holdco, Hydro Ottawa Limited, either directly or through a Subsidiary, may engage in any of the following business activities:

(a) business activities which Hydro Ottawa Limited is not otherwise permitted to undertake which are not prohibited by section 71 of the *Ontario Energy Board Act, 1998.*

2.3 Holdco Consent

The Board shall have the authority to prepare a business case for consideration by Holdco related to any business activity set out in section 2.2. hereof which business case shall include an assessment of whether or not the new business activity is financially viable or otherwise commercially prudent to be pursued by Hydro Ottawa Limited or a Subsidiary. Upon a review of the business case, Holdco shall advise Hydro Ottawa Limited in writing whether or not the new business activity may be pursued by Hydro Ottawa Limited or its Subsidiary.

2.4 Service Territory

Hydro Ottawa Limited shall have an objective of providing electricity distribution services to all electricity customers in the geographic area of the City of Ottawa.

ARTICLE 3
OPERATION AND CONTROL

3.1 Number of Directors

Until November 30, 2014, Hydro Ottawa Limited shall be managed by the Board which shall be comprised of not less than five (5) and not more than seven (7) directors, and which initially will consist of seven (7) directors elected by Holdco, of whom:

(a) one (1) shall be the President and Chief Executive Officer of Holdco;

(b) one shall be a member of the Council of the City of Ottawa;

(c) one shall be the Chair of Holdco (unless such office shall be held at the same time by the Chair of the Board) and

(d) the balance shall be External, one of whom may become Chair of the Board.

provided that one-third of the Board shall, at all times, be independent from any Affiliate as required by the provisions of subsection 2.1.3 of the Ontario Energy Board's Affiliate Relationships Code for Electricity Distributors and Transmitters.

Effective December 1, 2014, Hydro Ottawa Limited shall be managed by the Board which shall be comprised of not less than two (2) and not more than three (3) directors, and which initially will consist of three (3) directors elected by Holdco, of whom:

(a) one shall be the President and Chief Executive Officer of Holdco;
(b) one shall be the Chair of Holdco; and
(c) one shall be a member of the management of Hydro Ottawa Limited who is not employed by an affiliate of Hydro Ottawa Limited

For greater certainty, notwithstanding the fact that the size of the Board may vary within the range specified above, the Board shall at all times be comprised of the director holding the office referred to in paragraph (a) above.

3.2 Term of Office

The term of office for a director shall be:

(a) In the case of the director who is the President and Chief Executive Officer of Holdco for so long as the director holds such office;

(b) Until November 30, 2014,in the case of members of the Council of the City of Ottawa, for the balance of the term for which the member of Council has been elected; and

(c) In the case of any other directors, for terms, which will be staggered, as may, from time to time, be provided in the by-laws of Hydro Ottawa Limited.

Any director may stand for re-election to the Board at the expiry of his or her term.

3.3 Chair of the Board

The Chair of the Board of Hydro Ottawa Limited shall be appointed by Holdco from among the members of the Board of Directors who are also members of the Board of Directors of Holdco.

3.4 Vacancies

If a member of the Board ceases to be a director for any reason, Holdco will fill the vacancy created thereby as soon as reasonably possible having regard to the provisions of section 3.1. If a member of the board of directors of a Subsidiary ceases to be a director for any reason, Hydro Ottawa Limited will cause the vacancy to be filled by another director, to be identified by Holdco, as soon as reasonably possible.

3.5 Remuneration

The remuneration of the members of the Board or the board of directors of a Subsidiary for their respective services as directors, will be as determined by Holdco from time to time. For greater certainty, only one annual stipend will be paid where an individual is a director of both Hydro Ottawa Limited and an Affiliate. Notwithstanding the foregoing,

(a) the director who is a member of the Council of the City of Ottawa will receive no remuneration; and
(b) the President and Chief Executive Officer of Holdco will receive no remuneration in his or her capacity as director,

(c) the member of the management of Hydro Ottawa Limited who is not employed by an affiliate of Hydro Ottawa Limited will receive no remuneration in his or her capacity as a director,

although the individuals described in paragraphs (a) and (b) will, along with all other directors, be reimbursed by Hydro Ottawa Limited for their out-of-pocket expenses upon presentation of supporting receipts therefor.

No amount shall be paid to the Chair, directors, members of their immediate families or entities in which they have a substantive ownership interest over and above the remuneration for directors determined by Holdco from time to time.

ARTICLE 4
SHAREHOLDER MATTERS

4.1 Shareholder Powers

In accordance with the provisions of the Act, Hydro Ottawa Limited will not, without the prior written approval of Holdco:

(a) amend its articles or make, amend or repeal any by-law;

(b) amalgamate (except for an amalgamation with one or more Subsidiaries), apply to continue as a body corporate under the laws of another jurisdiction, merge, consolidate or reorganize, or approve or effect any plan of arrangement, in each case whether statutory or otherwise;

(c) take or institute proceedings for any winding-up, arrangement, reorganization or dissolution;

(d) create new classes of shares or reorganize, consolidate, subdivide or otherwise change its outstanding securities;

(e) change its auditor;

(f) make any change to the number of directors comprising the Board; or

enter into any other transaction or take any other action that requires shareholder approval pursuant to the Act.

4.2 Additional Matters Requiring Shareholder Consent

The powers of the Board, including without limitation any committee thereof, from time to time are herby restricted, in part, such that Hydro Ottawa Limited shall not without the prior written approval of Holdco:

(a) cause a Subsidiary to be incorporated;

(b) make any change in the issued capital of Hydro Ottawa Limited;

(c) enter into any agreement or make any offer or grant any right capable of becoming an agreement to allot or issue any shares of Hydro Ottawa Limited;

(d) give shareholder approval, as shareholder of a Subsidiary, in respect of any matter which shareholder approval for a Subsidiary is required;

(e) implement a business plan other than a business plan approved by Holdco;

(f) incur operating or capital expenditures that exceed the budget for Hydro Ottawa Limited approved by Holdco;

(g) submit an application to a Regulator for the approval of rates to be charged by Hydro Ottawa Limited that seeks a rate of return on equity other than the rate approved by Holdco;

(h) borrow any money on the credit of Hydro Ottawa Limited other than from Holdco;

(i) grant any security or create an encumbrance on the assets of Hydro Ottawa Limited;

(j) make directly or indirectly loans or advances except advances made to employees to defray expenses to be incurred in the course of the business of Hydro Ottawa Limited;

(k) give security for or guarantee debts;

(l) make donations or contributions to any Person contrary to policies established by Holdco;

(m) permit any conduct contrary to codes of conduct or ethical standards established by Holdco applicable to directors, officers, employees, contractors or other representatives of Hydro Ottawa Limited;

(m.1) adopt any governance practices applicable to directors of Hydro Ottawa Limited other than governance practices established by Holdco;

(n) make any payment of remuneration to officers or employees of Hydro Ottawa Limited in any form in excess of guidelines or directives established by Holdco;

(o) declare any dividend prior to consultation with Holdco or any dividend which is inconsistent with the dividend policy communicated, from time to time in writing, by Holdco to the Board;

(p) appoint any auditor to fill any vacancy in the position of auditor which may occur during a year;

(q) appoint any director to fill any vacancy in the position of director, as contemplated by section 3.4 hereof;

(r) enter into any partnership or any arrangement for the sharing of profits, union of interests, joint venture or reciprocal concession with any Person; and

(s) establish any financial year end of Hydro Ottawa Limited which is not December 31;

4.3 Liability of Holdco

In the exercise of the rights, duties and powers assumed and transferred under this Declaration, Holdco, as the sole shareholder of Hydro Ottawa Limited, shall be subject to the same obligations and liabilities to which the Board would otherwise have been subject if this Declaration had not been made and the Board is hereby wholly relieved of all powers, duties and liabilities as directors of Hydro Ottawa Limited to the extent Holdco is subject thereto.

4.4 Residual Power of Boards

Without restricting the application of sections 4.1 and 4.2 hereof, the Board and the boards of directors of a Subsidiary shall have, subject to the Act and this Declaration, the full authority to manage the business and affairs of Hydro Ottawa Limited and a Subsidiary, respectively, including the authority to develop and recommend to Holdco decisions with respect to any of the matters specified in sections 4.1 and 4.2 hereof.

4.5 Holdco Power to Consent

The rights, powers and duties vested in Holdco pursuant to the provisions of this Declaration shall be exercised by or pursuant to a resolution or by-law of Holdco.

ARTICLE 5
REPORTING TO HOLDCO

5.1 Reports

Hydro Ottawa Limited will report to Holdco on any and all matters as requested by Holdco from time to time including reports relating to a Subsidiary. Without limiting the foregoing, Hydro Ottawa Limited shall provide, in a timely manner, to Holdco, an annual financial report containing such financial and other information as Holdco may reasonably request and which information Hydro Ottawa Limited is legally entitled to provide. Hydro Ottawa Limited shall provide to Holdco a report of material facts and material changes as they occur and shall be guided by securities laws applicable to publicly traded corporations when assessing the extent and timing of such disclosure

ARTICLE 6
GENERAL PROVISIONS

6.1 Reference on Certificates

Hydro Ottawa Limited shall cause a reference to this Declaration to be noted conspicuously on every share certificate issued by Hydro Ottawa Limited. Hydro Ottawa Limited shall cause each Subsidiary to ensure that a reference to the Declaration delivered to it pursuant to subsection 6.4 hereof is noted conspicuously on every share certificate issued by such Subsidiary.

6.2 Termination

This Declaration shall be effective as of the date hereof and shall continue in full force and effect until Holdco has given written notice to the Board of the revocation and termination of this Declaration.

6.3 Amendment of Declaration

This Declaration may be amended from time to time by Holdco as circumstances may require and Holdco will consult with the Board prior to completing any amendments and will promptly provide the Board with copies of such amendments.

6.4 Declaration re Subsidiaries

In the event that, with the approval of Holdco contemplated by subsection 4.2(a) hereof, Hydro Ottawa Limited causes a Subsidiary to be incorporated, and so often as the same may occur, Hydro Ottawa Limited shall execute and deliver a declaration to each such Subsidiary in the form of this Declaration, mutatis mutandis.

6.5 Revocation of Previous Declarations

The Declaration dated January 17, 2002 is hereby revoked and replaced by this Declaration.

6.6 Governing Law

This Declaration shall be governed by and construed in accordance with the laws of the Province of Ontario and the laws of Canada applicable therein.

6.7 Effective Date

This Declaration shall be effective as of and from August 28, 2014, except as otherwise expressly provided.

IN WITNESS WHEREOF, Holdco has executed this Declaration as a unanimous shareholder agreement pursuant to subsections 108(2) and 108(3) of the Act.

HYDRO OTTAWA HOLDING INC./SOCIÉTÉ DE PORTEFEUILLE D'HYDRO OTTAWA INC.

By:

Name: J. Bryce Conrad
Title: President and Chief Executive Officer

Approved by the Board of Directors: April 2, 2009
Revised on: August 27, 2009
Revised on: November 14, 2013
Revised on: August 28, 2014
Revised on June 18, 2019

HYDRO OTTAWA HOLDING INC
(HOHI)

CHARTER OF THE BOARD OF DIRECTORS

1. PRIMARY ROLE OF THE BOARD

"HOHI" means "Hydro Ottawa Holding Inc.", a corporation existing under the Ontario Business Corporations Act.

The Board of Directors (the "Board") of "HOHI" is appointed by the City of Ottawa (the sole Shareholder of HOHI) and is charged with the careful and responsible management of HOHI and, subject to the provisions of the shareholder declaration, *is the highest decision making authority within the organization*. This responsibility of the Board consists primarily of managing or supervising those who manage the business and affairs of HOHI. As such, the overarching role of the Board of Directors focuses on ***governance and stewardship*** rather than on running the day-to-day operations of HOHI – the latter of which is the responsibility of management. The Board is further authorized to delegate to an officer or officers of HOHI certain powers to manage the business and affairs of HOHI. As such,

a) the Board delegates to the Chief Executive Officer of HOHI (the "CEO") the powers and authority to manage the business and affairs of HOHI; and

b) the Board assumes the role of supervising the CEO's management of the business and affairs of HOHI (the "Supervisory Role").

The governance goal of the Board of Directors is to enhance executive decision making for the purpose of improving the performance of the organization. Accordingly, every member of the Board (a "Director") must, in discharging his or her Supervisory Role and other responsibilities,

c) act honestly and in good faith ***with a view to the best interests of HOHI***; and

d) exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

The Board of Directors is accountable to the Corporation's Shareholder.

2. COMPOSITION

The Board of HOHI shall be appointed by the City of Ottawa and shall be comprised of not less than five (5) and not more than eleven (11) directors, and which will consist of eleven (11) directors of whom:

a) one (1) shall be the Mayor of the City of Ottawa or a member of the Council of the City of Ottawa designated by such Council in the event that such Mayor chooses not to act as a director;

Approved by the Board of Directors: April 2, 2009
Revised on: August 27, 2009
Revised on: November 14, 2013
Revised on: August 28, 2014
Revised on June 18, 2019

b) two other members of the Council of the City of Ottawa until November 30, 2014 and shall be reduced to one other member of the Council of the City of Ottawa effective December 1, 2014;

c) the Chair of the Board of Directors of Hydro Ottawa Limited (unless such office shall be held at the same time by the Chair of the Board);

d) the President and Chief Executive Officer of HOHI; and

e) all other directors shall be External, one of whom shall become Chair of the Board.

Paragraph c) shall be repealed effective December 1, 2014.

3. THE SUPERVISORY ROLE

No provision of this Charter is intended to or may be construed to impose on the Board of Directors or any member thereof any duties, standard of care or liabilities in any way more onerous or extensive than those otherwise existing at law. In particular, to the extent that HOHI, acting as a shareholder, has not restricted the discretion or powers of the directors of an affiliated or subsidiary corporation to manage or supervise the management of its business and affairs, the Board of Directors and any member thereof shall not be considered to have assumed any duties, standard of care or liabilities in respect of the management or supervision of the management of the affairs of such affiliated or subsidiary corporation.

Without limiting the scope or nature of the Supervisory Role, the Board acknowledges and accepts that the Supervisory Role includes the following obligations and responsibilities of the Board:

3.1 Financial Reporting

a) The Board must satisfy itself that HOHI meets all financial reporting and disclosure obligations imposed on HOHI by applicable laws, regulations, rules, policies and other requirements relating to financial reporting and disclosure promulgated by governments and regulatory agencies (“Financial Reporting Obligations”). The Board shall satisfy itself as to the quality and integrity of financial statements, internal controls, information systems and disclosure controls.

The Board recognizes that it has the responsibility to review and provide guidance to Management about:

i. financial strategies;
ii. capital and debt structures
iii. proposed mergers, acquisitions, divestitures and strategic investments;
iv. policies relating to financial management, including cash flow management, working capital and dividend distributions;
v. financial risk, including relevant policies, risk management and insurance; and
vi. other transactions or financial issues that management desires to have reviewed by the Board.

The Board must also satisfy itself that:

1. HOHI’s annual and interim financial statements present fairly HOHI’s financial position, the results of its operations and its cash flows in accordance with Canadian generally accepted

accounting principles ("Canadian GAAP") as well as certain industry related regulatory requirements;

2. HOHI's annual financial statements are audited and reported on by a reputable firm of chartered accountants (the "external auditor") which is objective and independent; and

3. Material financial information concerning HOHI is disseminated to its sole Shareholder in a timely manner and all financial information concerning HOHI which is disseminated to the Shareholder is accurate, complete and fairly presented.

b) The Board must also:

1. appoint and maintain an audit committee (the "Audit Committee") to assist the Board in discharging its responsibility to satisfy itself that HOHI meets the Financial Reporting Obligations;

2. nominate a firm of chartered accountants for appointment by the Shareholder of HOHI as the external auditor of HOHI and its subsidiaries;

3. fix the compensation of the external auditor;

4. adopt policies governing HOHI's hiring of partners, employees and former partners and employees of the present and any former external auditor; and

5. approve the payment of dividends to the Shareholder in compliance with legal requirements and requirements of the Shareholder dividend policies.

3.2 Strategic Planning

a) The Board, in conjunction with the CEO, must develop a statement of the strategy which HOHI intends to pursue in carrying on business (the "Strategic Plan") which includes: (1) determining those long-term goals (i.e. mission, vision and values) and objectives which reflect an organization's sources of competitive advantage and which address important stakeholder needs; and (2) identifying the scope (or domain) of business activities within which those goals and objectives are to be achieved.

b) If at any time the Board is of the opinion that the then-existing Strategic Plan is no longer appropriate, the Board – in conjunction with the CEO **-** must develop a revised Strategic Plan.

c) After the Board has approved the Strategic Plan, the Board must monitor on an ongoing basis HOHI's implementation of the Strategic Plan and HOHI's progress toward achieving the Strategic Plan.

3.3 Business Planning

Approved by the Board of Directors: April 2, 2009
Revised on: August 27, 2009
Revised on: November 14, 2013
Revised on: August 28, 2014
Revised on June 18, 2019

a) The Board must review and consider for approval the Business Plans of HOHI and its subsidiaries as presented by the CEO of HOHI.

b) The Board must review and consider for approval the annual budgets of HOHI and its subsidiaries as presented by the CEO of HOHI.

c) After the Board has approved the budget of HOHI the Board must monitor its progress and achievement at each regular meeting of the HOHI Board.

3.4 Risk Management

The Board must satisfy itself that the risks confronting HOHI ("Risks") are identified, monitored and managed by the senior management of HOHI ("Management") (Note: Senior management is defined as being comprised of the CEO and those reporting directly to the CEO.)

In particular, the Board must satisfy itself that:

a) Management has identified the most significant Risks currently confronting HOHI;

b) New significant Risks which confront HOHI will be identified in a timely manner and brought to the attention of the Board;

c) appropriate risk assessment processes to identify, assess and manage significant risks are implemented; and

d) Management directly and effectively monitors and manages HOHI's significant risks.

3.5 Human Resources

a) The Board must satisfy itself that there exists within HOHI and its subsidiaries effective human resource policies and practices to enable HOHI to attract and retain the people required by HOHI to meet the Strategic Plan. In particular, the Board must annually satisfy itself that:

1. HOHI's overall compensation philosophy for Management balances the objectives of (i) attracting and retaining highly competent managers, (ii) appropriately and fairly rewarding strong performance by managers, (iii) maintaining HOHI's employee costs at competitive levels, and (iv) linking managers' compensation to the achievement of HOHI's strategic objectives;

2. HOHI establishes and maintains a succession plan which identifies the potential successors to the holders of all Management positions in HOHI; and

3. HOHI establishes and maintains effective policies and practices for training and continuously improving the skills of high-potential managers and employees; and

Approved by the Board of Directors: April 2, 2009
Revised on: August 27, 2009
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Revised on: August 28, 2014
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4. HOHI is in compliance with its approved human resources policies, procedures and guidelines as well as all applicable laws, regulations, rules, policies and other requirements of governments and regulatory agencies relating to human resources.

b) The Board must also:

1. establish and regularly review a job description for the CEO which reflects the Board's delegation to the CEO of the powers and authority to manage the business and affairs of HOHI;

2. establish and execute processes for the recruitment, selection, motivation, evaluation and compensation of the CEO which will enable HOHI to achieve the Strategic Plan;

3. establish and approve the terms and conditions of the CEO's employment by HOHI;

4. Establish and approve a formal process for annually assessing the performance of the CEO; and

5. discharge the CEO when the Board believes he or she is no longer capable of managing the business and affairs of HOHI.

The Board may delegate to a Board committee (the "Governance and Management Resources Committee" or "GMRC") the authority to perform any of the tasks (a1) through (b5) in this section and to make recommendations to the Board concerning them.

3.6 Pension Governance

The Board must satisfy itself as to the oversight and governance of, and approve all material amendments to, any and all pension plans sponsored by the Corporation and its subsidiaries. In particular, the Board must annually satisfy itself that

a) Appropriate pension plan governance structures are in place related to its obligations as plan sponsor and administrator in accordance with applicable legislation, regulations and industry guidelines;
b) Mandates regarding pension plan and fund administration are clearly described for the board, relevant committee(s), pension fund agents and trustees and other participants in the governance process;
c) Measures to implement the mandates are established and the plan governance structure is reviewed on a regular basis;
d) Documentation that evidences implementation of plan administration is developed and maintained;
e) The board or its relevant committee(s) receives and considers regular reports from the responsible executive involved in plan administration; and
f) The operation of the plan is made transparent through communication to plan members.

Subject to applicable law, the Board may delegate to a committee or committees appointed by the Board, various aspects of the operation and administration of any and all pension plans sponsored by the Corporation and its subsidiaries.

3.7 Code of Conduct, Compliance and Communication

The Board must:

a) establish, maintain and monitor compliance with a written code of business conduct and ethics (the "Code") applicable to Directors, Officers and employees of the Corporation. The Code must constitute standards reasonably designed to promote integrity, the protection and proper use of assets, avoid conflicts of interest and both deter and report wrongdoing;

b) require every HOHI and subsidiary Director, member of Management and those in key financial positions to annually sign an attestation acknowledging acceptance of the Code of Conduct;

c) satisfy itself that every employee of HOHI and its subsidiaries receives training on the Code of Conduct and signs an attestation acknowledging when they received it;

d) require waivers of compliance with the Code which shall be granted only by the Board or an appropriately empowered Board committee;

e) satisfy itself as to the integrity, comprehensiveness and effectiveness of those elements of HOHI (including its resources, management information systems, processes, culture, structure and tasks) which, taken together (the "Internal Controls"), support HOHI's personnel in meeting HOHI's objectives and obligations, including the Financial Reporting Obligations;

f) adopt an external communications policy for HOHI and its subsidiaries;

g) satisfy itself (i) as to the integrity of the CEO and the other members of Management, and (ii) that the CEO and the other members of Management create and maintain a culture of integrity throughout HOHI; and

h) satisfy itself that Management, the Board, and the Corporation comply with the applicable laws, regulations, rules, policies and other requirements promulgated by legislation and applicable industry regulation and that appropriate policies and processes exist for compliance with environmental, health and safety laws and regulations.

The Board may delegate to a Board committee (the "Governance and Management Resources Committee" or "GMRC") the authority to perform any of the tasks (a) through (h) in this section and to make recommendations to the Board concerning them.

Approved by the Board of Directors: April 2, 2009
Revised on: August 27, 2009
Revised on: November 14, 2013
Revised on: August 28, 2014
Revised on June 18, 2019

4. GOVERNANCE

4.1 Governance Structures and Practices

a) The Board must satisfy itself that the governance structures and practices of HOHI and its subsidiaries comply with the requirements of the Shareholder Declaration and enable the HOHI Board to discharge the Board's responsibilities in a highly effective manner. In particular, the Board must satisfy itself that:

1. With the exception of the President and CEO, all HOHI Directors are independent. For the purposes of this charter, a Director is independent if the Director has no relationship with HOHI which, in the view of the Board, could reasonably be expected to interfere with the exercise of the Director's independent judgment;

2. the Chair of the Board is an External Director and not a member of Management;

3. every Board committee is comprised of a majority of independent directors;

4. the Board, as a whole, possesses the competencies and skills required to enable the Board to discharge the Supervisory Role and the Board's other responsibilities;

5. the number of Directors constituting the Board facilitates effective decision-making by the Board; and

6. as a part, or by means, of regularly scheduled meetings, the Board holds separate meetings of the Directors at which no member of Management is present.

b) The Board must also:

1. develop HOHI's approach to corporate governance, including a set of governance principles and guidelines specifically applicable to HOHI;

2. appoint and maintain any committees of the Board as the Board deems necessary in discharging its responsibilities;

3. develop and maintain written charters for the Board and each committee of the Board as well as written position descriptions for the individual Director and all Board leadership positions;

4. develop and implement processes for regularly assessing the effectiveness of the Board, each Board committee, the individual Directors and all Board leadership positions taking into account their respective charters and position descriptions;

5. identify the skills and knowledge required for directors and provide an orientation and continuing education process directed at enabling Directors to fully understand the nature and operation of HOHI's business(es) and affairs as well as the individual Director's and the Board's roles and responsibilities for the successful performance of HOHI; and

6. establish and maintain a process, that includes Board approval, by which any Director may, at the expense of HOHI, engage independent counsel or other advisors to provide advice to the

Director with respect to the Director's liabilities or the discharge of his or her responsibilities as a Director; and

The Board may delegate to a Board committee (the "Governance and Management Resources Committee" or "GMRC") the responsibility to perform any of the tasks (1) through (6) in this section and to make recommendations to the Board concerning them.

4.2 Governance Principles

The Board must use its best efforts to establish and sustain amongst all Directors governance principles which incorporate the following:

a) acceptance of the Board's accountability for HOHI's performance;

b) recognizing the responsibility to act in the best interest of the Corporation;

c) recognizing, that the Board as a whole, through the Chair, has the authority to direct the actions of the CEO and Management and that no individual director has the authority to direct such actions unless specifically authorized by the Board to do so;

d) recognizing that directors must comply with the Code of Business Conduct and that personal and external interests are not to be permitted to conflict with the interests of the Corporation;

e) recognizing the importance of solidarity ("the board speaks only with one voice") once decisions are taken;

f) recognizing that no member of the Board has the authority to speak or act on behalf of the Corporation unless specifically authorized to do so; and

g) respecting and preserving the confidentiality of corporate information.

Approved by the Board:
April 2, 2009
Revised: August 27, 2009
Revised: November 14, 2013
Revised: August 28, 2014
Revised: June 18, 2019

(A) CHARTER OF THE BOARD OF DIRECTORS

(i) HYDRO OTTAWA LIMITED
(HOL)

1. **<u>Primary Role Of The Board</u>**

"HOL" means "Hydro Ottawa Limited", a corporation existing under the Ontario Business Corporations Act.

The Board of Directors (the "Board") of "HOL" is appointed by the City of Ottawa, on behalf of Hydro Ottawa Holding Inc (the sole Shareholder of HOL), and is charged with the supervision of the business activities of HOL. As such, the overarching role of the Board of Directors focuses on ***governance and stewardship*** rather than on running the day-to-day operations of HOL – the latter of which is the responsibility of management. The Board is further authorized to delegate to an officer or officers of HOL certain powers to manage the business and affairs of HOL. As such,

a) the Board delegates to the Chief Executive Officer of HOL (the "CEO") the powers and authority to manage the business and affairs of HOL; and

b) the Board assumes the role of supervising the CEO's management of the business and affairs of HOL (the "Supervisory Role").

The governance goal of the Board of Directors is to enhance executive decision making for the purpose of improving the performance of the organization. Accordingly, every member of the Board (a "Director") must, in discharging his or her Supervisory Role and other responsibilities,

c) act honestly and in good faith ***<u>with a view to the best interests of HOL</u>***; and

d) exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

The Board of Directors is accountable to the Corporation's sole Shareholder, Hydro Ottawa Holding Inc. ("HOHI")

2. **<u>Composition</u>**

Approved by the Board:
April 2, 2009
Revised: August 27, 2009
Revised: November 14, 2013
Revised: August 28, 2014
Revised: June 18, 2019

The Board of Hydro HOL shall be appointed by the City of Ottawa and, until November 30, 2014, shall be comprised of not less than five (5) and not more than seven (7) directors of whom:

a) one shall be the President and Chief Executive Officer of HOHI;

b) one shall be a member of Council of the City of Ottawa;

c) one shall be the Chair of HOHI; and

d) all other directors shall be External, independent Directors, one of whom may become Chair of the HOL Board.

Effective December 1, 2014, the Board of Hydro Ottawa Limited shall be comprised of not less than two (2) and not more than three (3) directors, and which initially will consist of three (3) directors elected by Holdco, of whom:

(a) one shall be the President and Chief Executive Officer of Holdco;
(b) one shall be the Chair of Holdco; and
(c) one shall be a member of the management of Hydro Ottawa Limited who is not employed by an affiliate of Hydro Ottawa Limited.

One-third of the Board shall, at all times, be independent from any Affiliate as required by the provisions of subsection 2.1.3 of the Ontario Energy Board's Affiliate Relationships Code for Electricity Distributors and Transmitters.

For greater certainty, notwithstanding the fact that the size of the Board may vary within the range specified above, the Board shall at all times be comprised of the director holding the office referred to in paragraph (a) above.

3. The Supervisory Role

Without limiting the scope or nature of the Supervisory Role, the Board acknowledges and accepts that the Supervisory Role includes the following obligations and responsibilities of the Board:

Financial Reporting and Disclosure

The Board must satisfy itself that HOL meets all financial reporting and disclosure obligations imposed on HOL by applicable law and applicable regulations, rules, policies and other requirements relating to financial reporting and disclosure promulgated by governments and regulatory agencies ("Financial Reporting Obligations"). The Board shall satisfy itself as to the integrity of financial statements, internal controls, information systems and disclosure controls.

Approved by the Board:
April 2, 2009
Revised: August 27, 2009
Revised: November 14, 2013
Revised: August 28, 2014
Revised: June 18, 2019

The Board recognizes that it has the responsibility:

a) To ensure that HOL's annual and interim financial statements present fairly HOL's financial position, the results of its operations and its cash flows in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") as well as certain industry related regulatory requirements;

b) To ensure that HOL's annual financial statements are audited and reported on by a firm of chartered accountants (the "external auditor") which is objective and independent;

c) To review and approve the financial statements of HOL;

d) To approve the payment of dividends to HOHI in compliance with legal requirements and requirements of the shareholder dividend policy; and

e) To ensure that material financial information concerning HOL is disseminated to its sole Shareholder, HOHI, in a timely manner and all financial information concerning HOL which is disseminated to the Shareholder must be accurate, complete and fairly presented.

Business Planning

a) The Board, in conjunction with the CEO and subject to HOHI direction and approval, must develop a business plan which indicates the over-arching strategy that HOL intends to pursue in carrying on business. The Business Plan must align to the enterprise strategic plan established by HOHI.

b) The Board must regularly review the integrity of the business plan and, if at any time the HOL Board is of the opinion that the then-existing Business Plan is no longer appropriate, the Board – in conjunction with the CEO - must develop a revised Business Plan.

c) After the Board has approved the Business Plan, submitted the Business Plan to HOHI and received the approval of the Business Plan by the Board of HOHI, the Board must monitor on an ongoing basis HOL's implementation of the Business Plan and HOL's progress toward achieving it.

d) The Board must annually consider for approval the budget of HOL as presented by the CEO of HOL, subject to the approval of HOHI.

e) After the Board has approved the budget, submitted the budget to HOHI and received the approval of the budget by the Board of HOHI, the Board must monitor its progress and achievement at each regular meeting of the HOL Board.

Approved by the Board:
April 2, 2009
Revised: August 27, 2009
Revised: November 14, 2013
Revised: August 28, 2014
Revised: June 18, 2019

Risk Management

The Board must satisfy itself that the risks confronting HOL ("Risks") are identified, monitored and managed by the senior management of HOL ("Management") (Note: Senior management is defined as being comprised of the CEO and those reporting directly to the CEO).

In particular, the Board must satisfy itself that:

a) Management has identified the most significant Risks currently confronting HOL;

b) New significant Risks which confront HOL will be identified in a timely manner and brought to the attention of the Board;

c) ensure the implementation of appropriate risk assessment processes to identify, assess and manage significant risks are implemented; and

d) Management directly and effectively monitors and manages HOL's significant risks.

Human Resources

The Board must satisfy itself that there exists within HOL effective human resource policies and practices to enable HOL to attract and retain the people required by HOL to meet the Business Plan and the enterprise Strategic Plan.

In particular, the Board must annually satisfy itself that:

a) HOL establishes and maintains effective policies and practices for training and continuously improving the skills of high-potential managers and employees; and

b) HOL is in compliance with its approved human resources policies, procedures and guidelines as well as all applicable laws, regulations, rules, policies and other requirements of governments and regulatory agencies relating to human resources.

Code of Conduct and Compliance

The Board must:

a) establish, maintain and monitor compliance with the written code of business conduct and ethics (the "Code") approved by HOHI and applicable to Directors, Officers and employees of the Corporation;

Approved by the Board:
April 2, 2009
Revised: August 27, 2009
Revised: November 14, 2013
Revised: August 28, 2014
Revised: June 18, 2019

b) require that every HOL Director, member of Management and those in key financial positions annually sign an attestation acknowledging acceptance of the Code of Business Conduct;

c) satisfy itself that every employee of HOL receives training on the Code of Business Conduct and signs an attestation acknowledging when they receive it;

d) satisfy itself (i) as to the integrity of the members of Management, and (ii) that the members of Management create and maintain a culture of integrity throughout HOL; and

e) satisfy itself that Management, the Board, and the Corporation comply with the applicable laws, regulations, rules, policies and other requirements promulgated by legislation and applicable industry regulation and that appropriate policies and processes exist for compliance with environmental, health and safety laws and regulations.

4. Governance Practices

The Board also acknowledges and accepts the following responsibilities and obligations of the Board.

a) As a part, or by means, of regularly scheduled meetings of the Board, the Board will hold separate meetings of the Directors at which no member of Management or the general public is present;

b) The Board will provide an orientation and continuing education process directed at enabling Directors to understand fully the nature and operation of HOL's business and affairs as well as the individual Director's and the Board's roles and responsibilities for the successful performance of HOL;

c) The Board will implement processes for regularly assessing the effectiveness of the Board, any Board committee, the individual Directors and all Board leadership positions taking into account their respective charters and position descriptions; and

d) The Board will establish and maintain a process that includes Board approval, by which any Director may, at the expense of HOL, engage independent counsel or other advisors to provide advice to the Director with respect to the Director's liabilities or the discharge of his or her responsibilities as a Director.

The Board must use its best efforts to establish and sustain amongst all Directors governance principles which incorporate the following values, and convictions:

a) acceptance of the Board's accountability for HOL's performance;

Approved by the Board:
April 2, 2009
Revised: August 27, 2009
Revised: November 14, 2013
Revised: August 28, 2014
Revised: June 18, 2019

b) recognizing the responsibility to act in the best interest of the Corporation;

c) recognizing that the Board as a whole, through the Chair, has the authority to direct the actions of the CEO and Management and that no individual director has the authority to direct such actions unless specifically authorized by the Board to do so;

d) recognizing that directors must comply with the Code of Business Conduct and that personal and external interests are not to be permitted to conflict with the interests of the Corporation;

e) recognizing the importance of solidarity ("the board speaks only with one voice") once decisions are taken;

f) recognizing that no member of the Board has the authority to speak or act on behalf of the Corporation unless specifically authorized to do so; and

g) respecting and preserving the confidentiality of corporate information.

Approved by the Board of Directors:
May 14, 2009
Revised: August 28, 2014
Revised: June 18, 2019

HYDRO OTTAWA HOLDING INC
(HOHI)

Nominating Committee ("NC") Charter

1. Composition

a) The Nominating Committee ("NC") of Hydro Ottawa Holding Inc. ("HOHI") is a Board Committee which shall be comprised of up to 5 members of which:

   (i) A majority shall be external directors of HOHI;
   (ii) One (1) shall be the Mayor of the City of Ottawa;
   (iii) Until November 30, 2014, two members shall be members of the Council of the City of Ottawa who are members of the Board of Directors of HOHI (as long as the City of Ottawa remains as the sole shareholder of HOHI) and shall be reduced to one member effective December 1, 2014 in the event the Mayor of the City of Ottawa chooses to act as a Director;
   (iv) One (1) shall be the Board Chair as an *ex officio* voting member.

b) The following skill set is normally looked for in the selection of NC members:
   - Previous Board experience
   - Familiarity with the legal and regulatory requirements of directorships and executive human resources management
   - Previous experience in the recruitment, selection, motivation, evaluation and leadership of directors and senior executives
   - Excellent interpersonal and conflict resolution skills

   It is not necessary for any one member of the Committee to posses all of the skill set items. However, each skill set item (and parts thereof) should be present in the NC's composition.

c) The Chair of HOHI shall recommend, for HOHI Board approval, the members to serve on the NC.

d) The Chair of the Nominating Committee shall be the Chair of the Board of Directors.

2. Terms of Reference

Société de portefeuille HydroOttawa Holding Inc

Approved by the Board of Directors:
May 14, 2009
Revised: August 28, 2014
Revised: June 18, 2019

a) The purpose of the Nominating Committee is to identify and evaluate potential candidates for appointment as Directors to the Boards of HOHI and its subsidiaries.

b) The NC shall make recommendations to the Shareholder of HOHI and its subsidiaries regarding the appointment of candidates as Directors.

c) For the purpose of carrying out items (a) through (c) in this section, the NC shall:

i. review with the Board, or the GMRC, the selection criteria for the appointment of Directors to the Boards of HOHI and its subsidiaries and any suggested changes to the selection criteria set out in the Shareholder Declaration;

ii. receive from the Board, or the GMRC, any selection criteria for the appointment of Directors to the Boards of HOHI and its subsidiaries in addition to those set out in the Shareholder Declaration;

iii. develop processes to identify, evaluate and nominate potential candidates for appointment as Directors to the Boards of HOHI and its subsidiaries in accordance with the requirements of the Shareholder Declaration;

iv. have the authority, in its sole discretion, to retain such outside consultants to help the NC identify candidates and to investigate their suitability for appointment as Directors; and

v. examine and report on any other matters necessary to meet the purposes of the Committee.

3. Operating Principles

The NC shall fulfill its responsibilities within the context of the following principles:

a) Conduct

The NC expects its Committee members and nominees for appointment to the Board of HOHI and its subsidiaries to operate in compliance with HOHI's Code of Business Conduct and policies and with all applicable laws and regulations governing HOHI.

Société de portefeuille Hydro Ottawa Holding Inc

Approved by the Board of Directors:
May 14, 2009
Revised: August 28, 2014
Revised: June 18, 2019

b) Communications

The Chair and members of the NC expect to have direct, open and frank communications throughout the year with the Board, Management and other key NC advisors as applicable.

c) Committee Expectations and Information Needs

The NC shall communicate its expectations to the Board, Management and/or Governance and Management Resources Committee ("GMRC") with respect to the nature, timing and extent of its information needs. The Committee expects that all reasonably required and available information (including minutes) relating to each matter to be dealt with by the NC at its meetings will be received from the Board, Management and/or the GMRC within a reasonable time frame in advance of each Committee meeting.

d) Reliance on Experts

In contributing to the NC's discharging of its duties under this Charter, each member of the NC shall be entitled to rely in good faith upon:

i) the reports of HOHI represented to him or her by the Board Chair, the Chair of the GMRC, an officer of HOHI or in a written report of external advisors with respect to the recruitment and selection of Board members; and

ii) any report of a lawyer, accountant, appraiser or other person whose profession lends credibility to a statement made by any such person.

e) In Camera Meetings

The members of the NC shall meet in private session as part of each meeting, (i.e., without Management present). The NC shall meet in private session as often as it deems necessary.

4. Operating Procedures

Société de portefeuille Hydro Ottawa Holding Inc

Approved by the Board of Directors:
May 14, 2009
Revised: August 28, 2014
Revised: June 18, 2019

a) The NC shall meet as circumstances dictate to carry out the responsibilities set out in its Terms of Reference. Meetings shall be held at the call of the Chair or upon the request of two (2) members of the Committee;

b) a quorum shall be a majority of the members;

c) in the absence of the Chair, the Committee members present shall appoint an Acting Chair;

d) NC meeting agendas shall be the responsibility of the Chair of the Committee in consultation with the Board Chair, Committee members and Management.

e) To assist the NC in discharging its responsibilities, the NC may, after consultation with the Board Chair, retain at the expense of HOHI, one or more persons having special expertise that will assist the NC in discharging its responsibilities.

f) The NC shall report to the shareholders its recommendations for the appointment of directors to the Boards of Directors of HOHI and its subsidiaries.

5. Limitations on Committee's Duties

In contributing to the Committee's discharging of its duties under this Charter, each member of the Committee shall be obliged only to exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. Nothing in this Charter is intended, or may be construed, to impose on any member of the Committee a standard of care or diligence that is in any way more onerous or extensive than the standard to which all Board members are subject. The essence of the Committee's duties is to satisfy itself (but not to ensure) that the nominating policies, procedures and practices of HOHI (i) are being conducted effectively and in compliance with all applicable laws, statutes and regulations; (ii) are reasonable and appropriate in the circumstances given the nature of the organization and its strategy; and (iii) are sufficiently and accurately reported upon to the Board.

Approved by the Board of Directors: May 14, 2009
Revised on: August 22, 2013
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Revised: November 27, 2014
Revised: June 18, 2019

AUDIT COMMITTEE ("AC") CHARTER

HYDRO OTTAWA HOLDING INC
(HOHI)

1. Composition

a) The Audit Committee ("AC") of Hydro Ottawa Holding Inc. ("HOHI") is a Board Committee which shall be comprised of that number of Directors as shall be determined from time to time by the Board, of which:

i. A majority shall be External Directors of HOHI;
ii. One (1) shall be the Board Chair as an *ex officio* voting member; and
iii. All members of the AC shall be independent of the management of HOHI and its subsidiaries.

b) The following skill set is normally looked for in the selection of AC members:

i. All members should be *financially literate* (i.e. have the expertise and capability to read and understand the financial statements of HOHI and its related subsidiaries);
ii. One of the members shall hold a financial accreditation and that person should normally be the Chair;
iii. Previous audit committee experience;
iv. Risk management experience;
v. Mergers and acquisitions experience; and
vi. Internal control, corporate disclosure and regulatory compliance experience.

Except as specifically set out above, it is not necessary for any one member of the committee to possess all of the skill set items. However, each skill set item (or parts thereof) should be present in the AC's composition.

c) The Chair of HOHI shall recommend, for HOHI Board approval, both the members to serve on the AC and the Chair of the AC.

2. Terms of Reference

The AC's role is to assist the Board of HOHI in fulfilling its oversight responsibilities concerning the financial affairs of HOHI (which includes its subsidiaries) and in monitoring the organization's financial reporting and disclosure.

Reporting by the AC will be solely to the HOHI Board. However, the Chief Executive Officer and the Chief Financial Officer, will be expected to advise the HOL Board of any matters of concern raised by the AC in reviewing HOL's financial affairs.

The objective of the Board's monitoring of HOHI financial reporting and disclosure (the "Financial Reporting Objective") is to satisfy itself of the following:

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a) that HOHI and its subsidiaries comply with all applicable laws, regulations, rules, policies and other requirements of governments, regulatory agencies relating to financial reporting and disclosure;

b) that the accounting principles, significant judgments and disclosures which underlie or are incorporated in HOHI and subsidiary financial statements, are appropriate in the prevailing circumstances;

c) that HOHI's and its subsidiaries' interim and annual financial statements present fairly HOHI's financial position as a result of its operations in accordance with:
   (i) generally accepted accounting principles ("GAAP"); and
   (ii) certain industry related regulatory requirements,
   and together with the annual Management Discussion and Analysis (i.e., the document containing a complete and integrated view of the organization's historical operations, prospective analysis and financial condition explaining the 'why" behind performance and prospects) constitute a fair presentation of HOHI's financial condition; and

d) that appropriate information concerning the financial position and performance of HOHI is disseminated to the Board in a timely manner.

3. Fundamental Activities

The Board is of the view that the Financial Reporting Objective (see 2 a) through d) above) cannot be reliably met unless the following activities are conducted effectively:

a) HOHI's accounting functions are performed in accordance with a system of internal financial controls designed to capture and record properly and accurately all of HOHI's and its subsidiaries financial transactions;

b) HOHI's internal financial controls are regularly assessed for effectiveness and efficiency; and

c) HOHI's and its subsidiaries' interim financial results and annual financial statements are prepared promptly by management and are prepared in accordance with GAAP **-** as well as certain industry related regulatory requirements.

To fulfill its roles and responsibilities, the AC shall:

4. Financial Reporting

a) review HOHI's and its subsidiaries' annual financial statements with Management and the external auditors to satisfy itself that the statements are prepared in accordance with GAAP, are complete, represent fairly HOHI's financial position and performance, and together with the Management's Discussion and Analysis, ensure fair presentation of the HOHI's and subsidiaries' financial condition and report thereon to the Board;

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b) receive from Management a copy of the engagement letter provided to the external auditors;

c) receive from the external auditors a copy of the “Management Letter” and Management’s response to it;

d) review all aspects of the annual report which pertain to the historical, current or projected financial performance of the Corporation;

e) review HOHI’s consolidated interim financial results with Management to satisfy itself that the statements are prepared in accordance with GAAP, are complete, represent fairly HOHI’s financial position and performance, and ensure fair presentation of HOHI’s consolidated financial condition and report thereon to the Board;

f) receive from Management any additional representations required by the AC;

g) satisfy itself that adequate procedures are in place for the review of HOHI’s disclosure of financial information extracted or derived from HOHI’s financial statements (especially ratio and trend analyses) in order to satisfy itself that such information is fairly presented and periodically assess the adequacy of these procedures; and

h) obtain summaries of complex financings and other significant transactions and other potentially difficult matters whose treatment in the annual financial statements merits advance disclosure to the Audit Committee;

5. Accounting Policies

a) review with Management and the external auditors the appropriateness of HOHI’s accounting policies, disclosures, reserves, key estimates and judgments, including changes or variations thereto and satify itself that they are presented fairly in accordance with GAAP; and

b) review major issues regarding accounting principles and financial statement presentation including any significant changes in the selection or application of accounting principles to be observed in the preparation of the accounts of HOHI and its subsidiaries.

6. Risk and Uncertainty

The AC shall satisfy itself that financial risk is being effectively managed or controlled by identifying the principal financial risks facing HOHI and its subsidiaries and HOHI’s tolerance for financial risk, and approving financial risk management plans.

7. Compliance with Legal, Ethical and Regulatory Requirements

The AC shall satisfy itself that HOHI has implemented appropriate systems of internal control to ensure compliance with legal, ethical and regulatory requirements and that these systems are operating effectively by:

a) reviewing summaries of matters reported pursuant to the Corporation's "Business Conduct Hotline" and actions taken in relation thereto;

b) inquiring about the policies and procedures the company has in place for monitoring compliance with laws and regulations and HOHI's own code of business conduct;

c) informing senior management and external auditors which matters the AC wishes them to report should such matters come to the auditors' attention during the course of the auditors' work;

d) asking senior management to provide a summary concerning compliance and any changes in the acts or regulations governing HOHI and its subsidiaries;

e) considering whether the CFO or others should be asked to undertake special assignments to monitor compliance with regulatory requirements;

f) reviewing no less than annually the reasonableness of the expenses reimbursed to the Chair and members of the Boards; and

g) receiving no less than annually the Board Chair's oral report with respect to his/her semi-annual review of the reasonableness of expenses reimbursed to the President and Chief Executive Officer.

8. Internal Audit

a) assess periodically the need for an internal audit function within HOHI and, if needed, whether it is adequately staffed and effectively carried out;

b) review and recommend the internal audit charter (i.e. the terms of reference, program of audit activities and resources of the internal audit function, and the independence of the internal audit function) to ensure its primary reporting relationship to the AC;

c) review and approve internal audit plans; and

d) review reports and recommendations of the internal auditors and monitor the implementation of recommendations.

9. Internal Controls Over Financial Reporting

a) review both Management's overall approach to control and the plans of the CFO and external auditors to satisfy itself that the combined evaluation and testing of internal financial controls is comprehensive, coordinated and cost-effective;

b) inquire specifically about HOHI's compliance with its internal control policies and procedures; and

c) receive regular reports from Management, internal audit, the external auditors and HOHI's legal advisors on all significant deviations or any indications/detections of fraud and the investigative and corrective activity undertaken in respect thereto.

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10. Relationship with External Auditors

a) recommend to the Shareholder, through the Board, the need for the annual financial statements of HOHI to be audited by external auditors;

b) approve the compensation to be paid to the external auditor;

c) recommend to the Shareholder, through the Board, the appointment of the external auditors;

d) review the performance of the external auditors annually or more frequently as required;

e) if deemed necessary, receive a report annually from the external auditors with respect to their independence, such report to include a disclosure of all engagements (and fees related thereto) for audit and non-audit services for HOHI;

f) review with the external auditors the scope of the audit, the areas of special emphasis to be addressed in the audit and the materiality levels which the external auditors propose to employ;

g) meet with the external auditors in the absence of Management to determine that no Management restrictions have been placed on the scope and extent of the audit examinations by the external auditors or the reporting of their findings to the AC;

h) establish effective communication processes with Management and HOHI's CFO and external auditors to assist the AC in monitoring objectively the quality and effectiveness of the relationship among the external auditors, Management and the Committee;

i) oversee the work of the external auditors and the resolution of disagreements between Management and the external auditors with respect to financial reporting;

j) request that the external auditors provide to the AC, at least annually, an oral and/or written report describing the external auditors' internal quality assurance policies and procedures as well as any material issues raised in the most recent internal quality assurance reviews; and

k) approve additional engagements of the external auditors for non-audit assignments.

11. Other Responsibilities

a) Investigate any matters that, in the AC’s discretion, fall within the Committee’s responsibilities; and

b) Perform such other functions as may from time to time be assigned to the AC by the Board.

12. Operating Principles

The AC shall fulfill its responsibilities within the context of the following principles:

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Revised: November 27, 2014
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a) Conduct

The AC expects the Management of HOHI to operate in compliance with HOHI's Code of Business Conduct and policies; with laws and regulations governing HOHI; and to maintain strong financial reporting and control processes.

b) Communications

The Chair and members of the AC expect to have direct, open and frank communications throughout the year with Management, other Committee Chairs, the external auditors, the Chief Financial Officer ("CFO") and other key AC advisors as applicable.

c) Financial Literacy

All AC members shall have the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by HOHI's financial statements.

d) Annual AC work Plan

The AC, in consultation with Management and the external auditors, shall develop and present to the Board for the Board's approval a work plan which, amongst other things, will describe the activities in which the AC will engage for the purpose of carrying out the AC's responsibilities as set out in this Charter. In addition, the AC, in consultation with Management and the external auditors, shall develop and participate in a process for review of important financial topics that have the potential to impact HOHI's financial disclosure.

e) Committee Expectations and Information Needs

The AC shall communicate its expectations to Management and the external auditors with respect to the nature, timing and extent of its information needs. The Committee expects that all reasonably required and available information (including minutes) relating to each matter to be dealt with by the AC at its meetings will be received from Management and the external auditors within a reasonable time frame in advance of each Committee meeting.

f) Reliance on Experts

In contributing to the AC's discharging of its responsibilities under this Charter, each member of the AC shall be entitled to rely in good faith upon:

i. The financial statements of HOHI represented to him or her by the Management of HOHI or in a written report of the external auditors to present fairly the financial position of HOHI in accordance with generally accepted accounting principles; and

ii. Any report of a lawyer, accountant, appraiser or other person whose profession lends credibility to a statement made by any such person.

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g) In Camera Meetings

The members of the AC shall meet in private session and separately with the external auditors annually; and, as part of each meeting, with the AC members only (i.e., without Management present). The Committee shall meet in private session as often as it deems necessary.

h) Committee Self-Assessment

The AC shall regularly review, discuss and assess its own performance. In addition, the AC shall periodically review its role, responsibilities and terms of reference as specified in this Charter.

i) The External Auditors

The AC expects that, in discharging their responsibilities to the Board, the external auditors shall be accountable to the Board through the AC. The external auditors shall report all material issues or potentially material issues to the AC.

13. Operating Procedures

a) The AC shall meet at least twice annually, or more frequently as circumstances dictate. Meetings shall be held at the call of the Chair, or upon the request of two (2) members of the Committee or at the request of the external auditors;

b) A quorum shall be a majority of the members;

c) in the absence of the Chair, the Committee members present shall appoint an Acting Chair;

d) AC meeting agendas shall be the responsibility of the Chair of the Committee in consultation with the Board Chair, Committee members, Management and the external auditors;

e) In addition to the external auditors, the AC may, after consultation with the Chair of the Board, retain one or more persons having special expertise that will assist the AC in discharging its responsibilities; and

f) The AC, through its Chair, shall report after each Committee meeting to the Board at the Board's next regular meeting.

14. Limitations on the Audit Committee's Responsibilities

In contributing to the AC's discharging of its responsibilities under this Charter, each member of the AC shall be obliged only to exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. Nothing in this Charter is intended, or may be construed, to impose on any member of the AC a standard of care or diligence that is in any way more onerous or extensive than the standard to which all Board members are subject. The essence of the AC's responsibilities is monitoring and reviewing to satisfy itself (but not to ensure) that the

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Fundamental Activities are being conducted effectively and that the Financial Reporting Objective is being met and to enable the AC to report thereon to the Board.

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GOVERNANCE AND MANAGEMENT RESOURCES COMMITTEE ("GMRC") CHARTER

HYDRO OTTAWA HOLDING INC.

(HOHI)

1. Composition

a) The Governance & Management Resources Committee ("GMRC") of Hydro Ottawa Holding Inc. is a Board Committee which shall be comprised of up to 6 members of which:

i. A majority shall be external directors of HOHI;
ii. One (1) shall be the Board Chair as an *ex officio* voting member; and
iii. All members of the GMRC shall be independent of the management of HOHI and its subsidiaries;

b) The following skill set is normally looked for in the selection of GMRC members:

i. Previous governance committee and human resources committee experience
ii. Familiarity with the legal and regulatory requirements of directorships and executive human resources management
iii. Previous experience in the recruitment, selection, motivation, evaluation and leadership of senior executives
iv. General corporate human resource management expertise

It is not necessary for any one member of the committee to possess all of the skill set items. However, each skill set item (and parts thereof) should be present in the GMRC's composition.

c) The Chair of HOHI shall recommend, for HOHI Board approval, both the members to serve on the GMRC and the Chair of the GMRC.

2. Terms of Reference

a) The GMRC's role is to assist the Board in monitoring both the governance and human resources structures, processes and policies of HOHI (which includes its subsidiaries).

b) Reporting by the GMRC will be solely to the HOHI Board. However, the CEO and members of senior management reporting directly to the CEO will be expected to advise the HOL Board of any matters of concern raised by the GMRC affecting HOL.

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3. Governance Structures and Practices

a) The GMRC must satisfy itself that the governance structures and practices of HOHI and its subsidiaries comply with the requirements of the shareholder declaration and enable the HOHI Board to discharge the Board's roles and responsibilities in a highly effective manner. In particular, the GMRC must satisfy itself that:

i. With the exception of the President and CEO and members of the Council of the City of Ottawa, all HOHI Directors are independent. For the purposes of this charter, a Director is independent if the Director has no relationship with HOHI which, in the view of the Board, could reasonably be expected to interfere with the exercise of the Director's independent judgment;
ii. the Chair of the Board is an external director and not a member of Management;
iii. every Board committee is comprised of a majority of external directors;
iv. the Board, as a whole, possesses the competencies and skills required to enable the Board to discharge the its responsibilities and roles; and
v. the number of Directors constituting the Board facilitates effective decision-making by the Board.

b) The GMRC must also:

i. develop and recommend to the Board HOHI's approach to corporate governance, including a set of governance principles and guidelines specifically applicable to HOHI;
ii. review and make recommendations with respect to the Bylaws and Shareholder Declaration of HOHI;
iii. recommend the creation of any committees of the Board as the GMRC deems necessary for the Board to discharge its responsibilities;
iv. develop and maintain written Charters for the Board and each committee of the Board;
v. review and recommend the enterprise risk management charter;
vi. develop and maintain written position descriptions for the Chair of the Board, the CEO, the Chairs of Board or Standing Committees and an individual Director;
vii. for the purpose of Board and Director development (and taking into account their respective charters and position descriptions), make recommendations to the Board of Directors regarding *the process* for ongoing and regular evaluations of the Board, each Board & Standing Committee, each individual Director, the Chair of the Board and the Chairs of Board and Standing Committees;
viii. identify the skills and knowledge required for directors and provide an orientation and continuing education process directed at enabling Directors to fully understand the nature and operation of HOHI's business(es) and affairs as well as the individual Director's and the Board's roles and responsibilities for the successful performance of HOHI;
ix. establish and maintain a process, that includes Board approval, by which any Director may, at the expense of HOHI, engage independent counsel or other advisors to provide advice to the Director with respect to the Director's liabilities or the discharge of his or her roles responsibilities as a Director;
x. develop policies and procedures for communication by HOHI and its subsidiaries with the Shareholder and other stakeholders;
xi. carry out any governance process adopted by the Board of Directors; and

xii. perform such other governance functions as may, from time to time, be assigned to the GMRC by the Board of Directors.

4. Risk Management

The GMRC shall review the risk management programs to satisfy the Board that appropriate risk management processes have been developed and implemented to identify, assess and manage significant risks. The GMRC shall also:

a) receive regular updates on the Enterprise Risk Management (ERM) program that focuses on current and emerging risks and opportunities associated with meeting business objectives and executing on the organization's strategic direction, and annually review and recommend to the Board for approval the ERM charter; and
b) receive regular updates on the Business Continuity Management program and associated plans that ensure that the organization has in place systems of preparedness and recovery to deal with potential threats (e.g. natural – severe weather and earthquakes, technology and supply – cyber and loss of supply, human – terrorism and pandemic) and to minimize potential impacts to business processes.

5. Human Resources Management

a) The GMRC must satisfy itself that:

i. HOHI's overall compensation philosophy for Management balances the objectives of (i) attracting and retaining highly competent managers, (ii) appropriately and fairly rewarding strong performance by managers, (iii) maintaining HOHI's employee costs at competitive levels, and (iv) linking managers' compensation to the achievement of HOHI's strategic objectives;
ii. the comprehensive compensation programs for the CEO and for other members of senior management is appropriate;
iii. HOHI establishes and maintains a succession plan which identifies the potential successors to the holders of key Management positions in HOHI; and
iv. HOHI establishes, maintains and is in compliance with its approved human resources policies, procedures and guidelines as well as all applicable laws, regulations, rules, policies and other requirements of governments and regulatory agencies relating to human resources.

b) The GMRC must also:

i. establish and regularly review a job description for the CEO which reflects the Board's delegation to the CEO of the powers and authority to manage the business and affairs of HOHI;
ii. recommend processes for the recruitment, selection, motivation, evaluation and compensation of the CEO which will enable HOHI to achieve the Strategic Plan;
iii. recommend the terms and conditions of the CEO's employment by HOHI;

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iv. make appropriate recommendations to the HOHI Board of Directors for the for approval of the terms of employment or termination of the Chief Executive Officer ("CEO");

v. make recommendations to the Board of Directors regarding a formal process for annually assessing the performance of the CEO;

vi. establish the criteria against which the performance of HOHI and the CEO will be evaluated for the purposes of receiving any compensation adjustments;

vii. conduct an annual performance review of the CEO against the performance criteria approved by the Board and report thereon to the Board of Directors;

viii. review and recommend to the Board for approval any organization-wide benefit policies and practices related to the achievement of HOHI's strategy as well as general terms and conditions of employment at HOHI;

ix. review the CEO's report to the Board annually *summarizing* the results of his/her performance evaluations and compensation changes for senior managers;

x. review regularly the implementation of the evaluation, planning and development processes that focus attention on Management succession within HOHI;

xi. review and approve the criteria recommended by the CEO against which the performance of other members of senior management will be evaluated for the purpose of receiving any compensation adjustments;

xii. review and recommend to the Board of Directors for approval the organization wide human resources policies and procedures related to the achievement of HOHI's strategy *and any significant changes in them;*

xiii. identify with Management the risks associated with human resource activities at HOHI and to review Management's plan to control them; and

xiv. perform such other human resource functions as may, from time to time, be assigned to the GMRC by the Board of Directors.

6. Pension Governance

a) The GMRC must, on behalf of the Board, satisfy itself that any and all pension plans sponsored by the Corporation and its subsidiaries are properly operated and administered, and that the fiduciary obligations of the pension plan sponsor and administrator are met. In particular, the GMRC must annually satisfy itself that

i. Mandates regarding pension plan and fund administration are clearly described for the board, relevant committee(s), pension fund agents and trustees and other participants in the governance process;

ii. Measures to implement the mandates are established and the plan governance structure is reviewed on a regular basis;

iii. Documentation that evidences implementation of plan administration is developed and maintained;

iv. The board or its relevant committee(s) receives and considers regular reports from others involved in plan administration; and

v. The operation of the plan is made transparent through communication to plan members.

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b) The GMRC shall perform the specific duties, responsibilities and actions pursuant to the authority delegated to it by the Board, and shall make recommendations to the Board concerning them.

7. Code of Conduct & Compliance

The GMRC shall also, on behalf of the Board:

a) establish, maintain and monitor compliance with a written code of business conduct and ethics (the "Code") applicable to Directors, Officers and employees of the Corporation. The Code must constitute standards reasonably designed to promote integrity, the protection and proper use of assets, avoid conflicts of interest and both deter and report wrongdoing;

b) require every HOHI and subsidiary Director, member of Management and those in key financial positions to annually sign an attestation acknowledging acceptance of the Code of Business Conduct;

c) satisfy itself that every employee of HOHI and its subsidiaries receive training on the Code of Business Conduct and sign an attestation acknowledging when they received it;

d) satisfy itself that waivers of compliance with the Code are granted only by the Board or an appropriately empowered Board committee;

e) satisfy itself (i) as to the integrity of the CEO and the other members of Management, and (ii) that the CEO and the other members of Management create and maintain a culture of integrity throughout HOHI;

f) satisfy itself that Management, the Board, and the Corporation comply with the applicable laws, regulations, rules, polices and other requirements promulgated by legislation and applicable industry regulation; and

g) review and recommend the governance process and procedures relating to the Business Conduct Hotline.

8. Operating Principles

The GMRC shall fulfill its responsibilities within the context of the following principles:

a) Conduct

The GMRC expects the Management (defined as being comprised of the CEO and his/her direct reports) of HOHI to operate in compliance with HOHI's Code of Business Conduct and policies and with laws and regulations governing HOHI.

b) Communications

The Chair and members of the GMRC expect to have direct, open and frank communications throughout the year with Management, other Committee Chairs and other key GMRC advisors as applicable.

c) Annual GMRC Work Plan

The GMRC, in consultation with Management shall develop and present to the Board for the Board's approval an annual Committee work plan which, amongst other things, will describe the activities in which the GMRC will engage for the purpose of carrying out the GMRC's responsibilities as set out in this Charter.

In addition, the GMRC, in consultation with Management shall develop and participate in a process for review of important governance and human resources topics that have the potential to impact HOHI's effective operation.

d) Committee Expectations and Information Needs

The GMRC shall communicate its expectations to Management with respect to the nature, timing and extent of its information needs. The Committee expects that all reasonably required and available information (including minutes) relating to each matter to be dealt with by the GMRC at its meetings will be received from Management within a reasonable time frame in advance of each Committee meeting.

e) Reliance on Experts

In contributing to the GMRC's discharging of its roles and responsibilities under this Charter, each member of the GMRC shall be entitled to rely in good faith upon:

i. the reports of HOHI represented to him or her by the Management of HOHI or in a written report of external advisors with respect to the governance policies and human resources policies of HOHI ; and
ii. any report of a lawyer, accountant, appraiser or other person whose profession lends credibility to a statement made by any such person.

f) In Camera Meetings

The members of the GMRC shall meet in private session as part of each meeting, (i.e., without Management present). The GMRC shall meet in private session as often as it deems necessary.

g) Committee Self-Assessment

The GMRC shall regularly review, discuss and assess its own performance. In addition, the GMRC shall periodically review its role, responsibilities and terms of reference as specified in the Charter.

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Revised: November 14, 2013
Revised: November 27, 2014
Revised: June 18, 2019

9. Operating Procedures

a) The GMRC shall meet at least twice annually, or more frequently as circumstances dictate. Meetings shall be held at the call of the Chair or upon the request of two (2) members of the Committee;

b) A quorum shall be a majority of the members;

c) In the absence of the Chair, the Committee members present shall appoint an Acting Chair;

d) GMRC meeting agendas shall be the responsibility of the Chair of the Committee in consultation with the Board Chair, Committee members and Management;

e) To assist the GMRC in discharging its responsibilities, the GMRC may, after consultation with the Board Chair, retain at the expense of HOHI, one or more persons having special expertise that will assist the GMRC in discharging its responsibilities.

f) The GMRC, through its Chair (or the Chair's designate), shall report after each Committee meeting to the Board at the Board's next regular meeting.

10. Limitations on Committee's Responsibilities

In contributing to the Committee's discharging of its responsibilities under this Charter, each member of the Committee shall be obliged only to exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. Nothing in this Charter is intended, or may be construed, to impose on any member of the Committee a standard of care or diligence that is in any way more onerous or extensive than the standard to which all Board members are subject. The essence of the Committee's responsibilities is to satisfy itself (but not to ensure) that the governance and human resources policies, procedures and practices of HOHI (i) are being conducted effectively and in compliance with all applicable laws, statutes and regulations; (ii) are reasonable and appropriate in the circumstances given the nature of the organization and its strategy; and (iii) are sufficiently and accurately reported upon to the Board.

Société de portefeuille HydroOttawa Holding Inc

Approved by the Board of Directors on:
May 13, 2010
Revised on: None

HYDRO OTTAWA HOLDING INC.
(HOHI)

INVESTMENT REVIEW COMMITTEE ("IRC") CHARTER

1. Composition

a) The Investment Review Committee ("IRC") of Hydro Ottawa Holding Inc. ("HOHI") is a Board Committee which shall be comprised of up to 5 members of which:

(i) A majority shall be external directors of HOHI;
(ii) One (1) shall be the Chair of the Audit Committee of HOHI;
(iii) One (1) shall be the Mayor of the City of Ottawa if that person is a member of the Board of Directors of HOHI;
(iv) Two members shall be directors who are members of the Board of Directors of HOHI who are independent of the management of HOHI and its subsidiaries;
(v) One (1) shall be the Board Chair as an *ex officio* voting member.

b) The following skill set is normally looked for in the selection of IRC members:
- Board experience
- Experience in relation to mergers and acquisitions;
- Experience in business development;
- Experience in the design, construction or development of capital projects;
- Experience in public or private financing or project financing

It is not necessary for any one member of the Committee to posses all of the skill set items. However, each skill set item (and parts thereof) should be present in the IRC's composition.

c) The Chair of HOHI shall recommend, for HOHI Board approval, the members to serve on the IRC.

d) The Chair of the IRC shall be the Chair of the Board of Directors.

2. Terms of Reference

a) The purpose of the Investment Review Committee is to assist management and the Board of Directors in the review and pursuit of business development, acquisition and investment opportunities.

b) For the purpose of carrying out its purpose, the IRC shall:

i. Review and consider potential business development, acquisition or investment opportunities and make recommendations to the Board of Directors with respect thereto, with a focus on:
   1) The consistency of the opportunity with the strategic plan adopted by the Board of Directors;
   2) The consistency of the opportunity with investment guidelines and acquisition criteria approved by the Board of Directors;
   3) The maximization of shareholder value;
   4) The financial resources as well as other resources required to benefit from the opportunity over the short and long-term;
   5) The material risks related to the opportunity;
   6) The compliance with legislative and regulatory restrictions on business activities in exercising the opportunity; and
   7) Such other matters as the Committee may consider relevant to the assessment and evaluation of the opportunity;

ii. Approve the submission of letters of intent, expressions of interest or other documents brought by management to the Committee for its consideration indicating the interest of the corporation in pursuing an investment or acquisition, subject to any applicable final decision of the Board of Directors with respect to the investment or acquisition;

iii. Provide guidance and advice to management in relation to potential acquisition or investment opportunities; and

iv. Perform such other functions as may be assigned by the Board of Directors.

3. Operating Principles

The IRC shall fulfill its responsibilities within the context of the following principles:

a) Conduct

The IRC expects its Committee members to operate in compliance with HOHI's Code of Business Conduct and policies and with all applicable laws and regulations governing HOHI.

b) Committee Expectations and Information Needs

The Chair and members of the IRC expect to have direct, open and frank communications throughout the year with Management, other Committee Chairs and other key IRC advisors as applicable.

c) Reliance on Experts

In contributing to the IRC's discharging of its duties under this Charter, each member of the IRC shall be entitled to rely in good faith upon:

i) the reports of HOHI represented to him or her by the Board Chair, the Chair of the IRC, an officer of HOHI or in a written report of external advisors; and

ii) any report of a lawyer, accountant, appraiser or other person whose profession lends credibility to a statement made by any such person.

4. Operating Procedures

a) The IRC shall meet as circumstances dictate to carry out the responsibilities set out in its Terms of Reference. Meetings shall be held at the call of the Chair;

b) a quorum shall be a majority of the members;

c) in the absence of the Chair, the Committee members present shall appoint an Acting Chair;

d) IRC meeting agendas shall be the responsibility of the Chair of the Committee in consultation with Management.

e) To assist the IRC in discharging its responsibilities, the IRC may, after consultation with the Board Chair, retain at the expense of HOHI, one or more persons having special expertise that will assist the IRC in discharging its responsibilities.

f) The IRC, through its Chair (or the Chair's designate), shall report after each Committee meeting to the Board at the Board's next regular meeting.

5. Limitations on Committee's Duties

In contributing to the Committee's discharging of its duties under this Charter, each member of the Committee shall be obliged only to exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. Nothing in this Charter is intended, or may be construed, to impose on any member of the Committee a standard of care or diligence that is in any way more onerous or extensive than the standard to which all Board members are subject.

Approved by the Board:
November 14, 2013

HYDRO OTTAWA HOLDING INC.
(HOHI)

STRATEGIC INITIATIVES OVERSIGHT COMMITTEE ("SIOC") CHARTER

1. Composition

a) The Strategic Initiatives Oversight Committee ("SIOC") of Hydro Ottawa Holding Inc. ("HOHI") is a Board Committee which shall be comprised of that number of Directors as shall be determined from time to time by the Board, of which:

(i) A majority shall be external directors of HOHI;
(ii) One (1) shall be the Board Chair as an *ex officio* voting member; and
(iii) All other members shall be directors who are members of the Board of Directors of HOHI who are independent of the management of HOHI and its subsidiaries.

b) The following skill set is normally looked for in the selection of SIOC members:
- Board experience;
- Merger and acquisition experience including change and transition management and transformation capacity;
- Experience in business development;
- Experience in the design, construction or development of capital projects; and
- Experience in public or private financing or project financing.

It is not necessary for any one member of the Committee to posses all of the skill set items. However, each skill set item (and parts thereof) should be present in the SIOC's composition.

c) The Chair of HOHI shall recommend, for HOHI Board approval, both the members to serve on the SIOC and the Chair of the SIOC.

2. Terms of Reference

a) The purpose of the Strategic Initiatives Oversight Committee is to assist the Board of Directors in overseeing the development and implementation of certain key strategic initiatives set out in the annual corporate scorecard adopted by the Board of Directors in support of the strategic plan.

b) To fulfill its purpose, the SIOC shall:

(i) Oversee the planning and implementation of certain key strategic initiatives as identified by the Board of Directors from time to time;
(ii) Receive timely reports from management;
(iii) Review progress on planning as well as relevant communication, stakeholder engagement, and implementation plans;
(iv) Provide guidance and advice to management;

(v) Ensure that management has considered all significant risks in the development of plans;
(vi) Review and advise on the approval of major project decisions and monitor execution;
(vii) Keep the Board of Directors apprised of progress and results, as well as the most significant risks and risk mitigation strategies, and make recommendations to the Board of Directors on such matters; and
(viii) Perform such other functions as may be assigned by the Board of Directors.

3. Operating Principles

The SIOC shall fulfill its responsibilities within the context of the following principles:

a) Conduct

The SIOC expects its Committee members to operate in compliance with HOHI's Code of Business Conduct and policies and with all applicable laws and regulations governing HOHI.

b) Committee Expectations and Information Needs

The Chair and members of the SIOC expect to have direct, open and frank communications throughout the year with Management, other Committee Chairs and other key SIOC advisors as applicable.

c) Reliance on Experts

In contributing to the SIOC's discharging of its duties under this Charter, each member of the SIOC shall be entitled to rely in good faith upon:
(i) the reports of HOHI represented to him or her by the Board Chair, the Chair of the SIOC, an officer of HOHI or in a written report of external advisors; and
(ii) any report of a lawyer, accountant, appraiser or other person whose profession lends credibility to a statement made by any such person.

4. Operating Procedures

a) The SIOC shall meet as circumstances dictate to carry out the responsibilities set out in its Terms of Reference. Meetings shall be held at the call of the Chair;

b) a quorum shall be a majority of the members;

c) in the absence of the Chair, the Committee members present shall appoint an Acting Chair;

d) SIOC meeting agendas shall be the responsibility of the Chair of the Committee in consultation with Management;

e) To assist the SIOC in discharging its responsibilities, the SIOC may, after consultation with the Board Chair, retain at the expense of HOHI, one or more persons having special expertise that will assist the SIOC in discharging its responsibilities; and

f) The SIOC, through its Chair (or the Chair's designate), shall report after each Committee meeting to the Board at the Board's next regular meeting.

5. Limitations on Committee's Duties

In contributing to the Committee's discharging of its duties under this Charter, each member of the Committee shall be obliged only to exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. Nothing in this Charter is intended, or may be construed, to impose on any member of the Committee a standard of care or diligence that is in any way more onerous or extensive than the standard to which all Board members are subject.

2018 Board and Committee Meeting Dates

Confirmed
May 17, 2018

	JAN	FEB	MAR	APR	MAY	JUNE	JULY	AUG	SEPT	OCT	NOV	DEC
AUDIT COMMITEE		**Tues. Feb. 6 10:00 a.m.– 12:00 p.m.**	**Thurs. Mar. 29 9:00 a.m. - 11:30 a.m.**		**Tues. May 29 9:00 a.m. - 11:30 a.m.**				**Tues. Sept. 11 9:00 a.m. – 11:30 a.m.**		**Tues. Nov. 13 9:00 a.m. – 11:30 a.m.**	
GMRC COMMITTEE				**Wed. Apr. 4 12:00 p.m. – 3:00 p.m.**	**Thurs. May 31 12:00 p.m. – 3:00 p.m.**				**Thurs. Sept. 13 12:00 p.m. – 3:00 p.m.**		**Thurs. Nov. 15 12:00 p.m. – 3:00 p.m.**	
INVESTMENT REVIEW COMMITTEE			**Thurs. Mar. 29 12:00 p.m. – 2:30 p.m.**		**Thurs. May 31 9:30 a.m. – 11:30 a.m.**							
NOMINATING COMMITTEE					**Mon. May 28 11:00 a.m. – 11:45 a.m.**							
STRATEGIC INITIATIVES OVERSIGHT COMMITTEE				**Wed. Apr. 4 9:00 a.m. – 11:30 a.m.**					**Thurs. Sept. 13 9:00 a.m. – 11:30 a.m.**		**Thurs. Nov. 15 9:00 a.m. – 11:30 a.m.**	
HOL BOARD				**Thurs. Apr. 19 8:00 a.m.– 9:00 a.m.**		**Monday, June 11 8:00 a.m.– 9:00 a.m.**			**Thurs. Sept. 27 8:00 a.m.– 9:00 a.m.**		**Thurs. Nov. 29 8:00 a.m.– 9:00 a.m.**	
HOHI BOARD				**Thurs. Apr. 19 9:00 a.m.– 12:00 p.m.**		**Monday, June 11 9:00 a.m.– 12:00 p.m.** **AGM Wed. June 27 10:00 a.m. – 12:00 p.m.**			**Thurs. Sept. 27 9:00 a.m.– 12:00 p.m.**		**Board Strategy Session Thurs. Nov 1** **Board Mtg. Thurs. Nov. 29 9:00 a.m.– 12:00 p.m.**	

2019 MEETING SCHEDULE – HYDRO OTTAWA HOLDING INC. BOARD, ITS COMMITTEES, AND ITS SUBSIDIARY BOARD, HYDRO OTTAWA LIMITED

	JAN	FEB	MAR	APR	MAY	JUNE	JULY	AUG	SEPT	OCT	NOV	DEC
AUDIT COMMITTEE	**Thurs. Jan 31 10:00 a.m.– 12:00 p.m.**		**Fri. Mar. 29 9:00 a.m. - 11:30 a.m.**		**Tues. May 28 9:00 a.m. - 11:30 a.m.**				**Tues. Sept. 10 9:00 a.m. – 11:30 a.m.**		**Tues. Nov. 12 9:00 a.m. – 11:30 a.m.**	
GOVERNANCE AND MANAGEMENT RESOURCES COMMITTEE			**Thurs. Mar. 28 12:00 p.m. – 3:00 p.m.**		**Thurs. May 30 12:00 p.m. – 3:00 p.m.**				**Thurs. Sept. 12 12:00 p.m. – 3:00 p.m.**	**Mon. Oct. 28 1:00 p.m. – 4:00 p.m.**		
INVESTMENT REVIEW COMMITTEE						**Mon. June 3 10:30 a.m.- 12:30 p.m.**				**Thurs. Oct. 10 9:00 a.m. – 10:30 a.m.**		
NOMINATING COMMITTEE						**Wed. June 5 2:30 p.m.**						
STRATEGIC INITIATIVES OVERSIGHT COMMITTEE			**Thurs. Mar. 28 9:00 a.m. – 11:30 a.m.**			**Mon. June 3 1:00 p.m.- 3:30 p.m.**			**Thurs. Sept. 12 9:00 a.m. – 11:30 a.m.**		**Thurs. Nov. 14 9:00 a.m. – 11:30 a.m.**	
HYDRO OTTAWA LIMITED BOARD				**Tues Apr. 16 8:00 a.m.– 9:00 a.m.**		**Tues. June 18 8:00 a.m. – 9:00 a.m.**			**Mon. Sept. 23 8:00 a.m.– 9:00 a.m.**		**Thurs. Nov. 28 8:00 a.m.– 9:00 a.m.**	
HYDRO OTTAWA HOLDING INC. BOARD				**Tue. Apr. 16 9:00 a.m.– 12:00 p.m.**		**Tues. June 18 9:00 a.m. – 12:00 p.m.**			**Mon. Sept. 23 9:00 a.m.– 12:00 p.m.**	**Board Strategy Session 8:30 a.m. – 7:30 p.m.**	**Thurs. Nov. 28 9:00 a.m.– 12:00 p.m.**	
ANNUAL GENERAL MEETING (Board Chair only)						**Wed June 26 10:00 a.m. – 12:00 p.m.**						

Société de portefeuille Hydro Ottawa Holding Inc.

Approved by the Board of Directors on: November 22, 2007

HYDRO OTTAWA HOLDING INC
(HOHI)

Director Orientation and Continuing Education Policy and Process

As part of its commitment to ensuring that the corporation implements good governance practices consistent with a corporation of its size and nature of business activities, Hydro Ottawa Holding Inc. and its subsidiaries are committed to ensuring that members of the Board of Directors receive both an initial orientation and on-going education that will assist them in undertaking their roles as directors of the corporation and its subsidiaries. The Governance and Management Resources Committee shall be responsible for ensuring that appropriate and relevant practices are in place to director orientation and continuing education.

Orientation of Directors

The program for the orientation of new directors will be tailored to reflect the knowledge, unique skills, experience and education of new directors.

Each new director shall receive an orientation package to assist the director in understanding the nature and structure of the businesses, an outline of current issues and an explanation of the expected roles and responsibilities of the directors. The overview of the businesses of the corporation will include a review of strategic directions, business, financial and capital plans, financial results, significant business issues and key areas of risk. The orientation package will also explain legal requirements applicable to the corporation and its subsidiaries including the regulatory environment within which the businesses operate, significant components of shareholder agreements (or declarations), by-laws, codes of conduct and key corporate and Board policies and procedures. The orientation package will also outline the structure of the organization and explain the roles and responsibilities of the Board, its committees and members of the executive.

In addition to the provision of an orientation package, new directors meet with members of the executive to review business activities and key functions and to review the roles and responsibilities of directors. The Chair will also meet with new directors during which the workload and expected time commitments will be further reviewed.

Continuing Education

Management will ensure that the members of the Board of Directors receive timely access to information needed to carry out their duties. Directors may contact the Chair, committee chairs and the Chief Executive Officer to recommend that matters be included in the agendas for meetings of the Board and its committees. Directors will receive a comprehensive information package in advance of meetings and may request further information to assist in the fulfillment of their roles as directors.

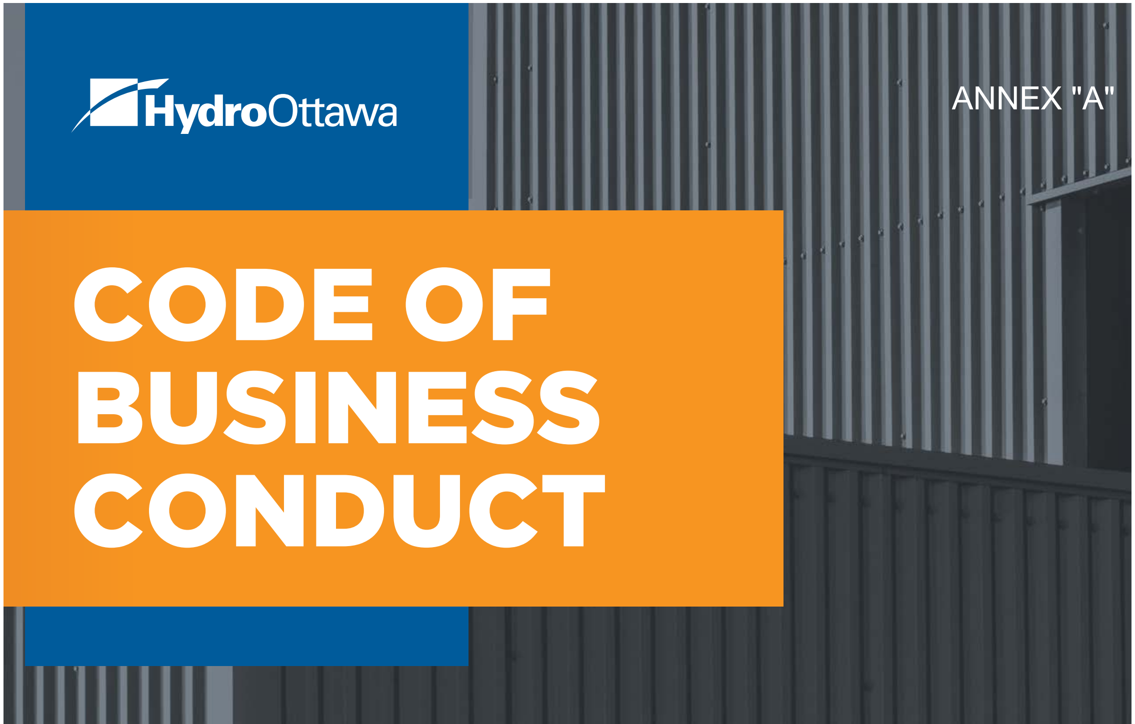
The corporation shall provide to directors with information relating to significant, specialized and complex business operations and activities. Management will also provide directors with information relating to good governance practices and other areas to assist the Board and its committees in fulfilling their responsibilities.

The corporation encourages directors to participate in external professional development education programs to assist in the execution of their roles as directors. The following process will apply to encourage participation in the programs:

1. The Corporate Secretary will disseminate information about external education opportunities brought to the attention of the corporation and directors are encouraged to provide to the Corporate Secretary information about other educational opportunities.
2. Directors may make a request to the Corporate Secretary to attend a specific educational program or to attend an undefined program addressing a defined topic or area. The Corporate Secretary will, in turn, forward requests to the Chair of the Board of Directors and the Chair of the Governance and Management Resources Committee.
3. The Chair of the Board of Directors, in consultation with the Chair of the Governance and Management Resources Committee, shall consider requests and determine which requests shall be approved having regard to the following:
    a. The educational needs of the individual director;
    b. The relevance of a particular program to the fulfillment of the role and responsibilities of the director;
    c. The scope of knowledge of the matters addressed by the program already held by the individual director and other members of the Board of Directors;
    d. The cost and quality of the program, including related travel costs;
    e. The existence, availability and quality of comparable programs;
    f. Existing budgetary restrictions of the corporation;
    g. The need to provide education opportunities for other members of the Board of Directors; and
    h. Any other matters relevant to participation in the educational program.
4. Where the Chair of the Board of Directors requests to participate in an external education program, such request shall be considered by the Chair of the Governance and Management Resources Committee who will determine whether such request shall be approved.

5. The corporation will also fund the participation of one director per year for a recognized director education program providing director certification. Priority for approval of participation of a director shall be provided first to the Chair of the Board of Directors, then to committee chairs followed by other members of the Board of Directors. The Chair shall determine which director shall be permitted to attend the director education program in a given year at the cost of the corporation.
6. For the purposes of this policy, participation and attendance at an external education program shall include receipt of educational information by electronic means.
7. Where the Chair approves the participation of a director at an external education program, such approval may be on the basis of funding of all expenses related to the participation of the director in the external education program (including travel, accommodation and program registration expenses) or on the basis of an agreed sharing of costs.
8. The payment or reimbursement of expenses incurred by the director in connection with the attendance or participation in an external education program shall be subject to any policies or guidelines established by the Board of Directors. No remuneration shall be paid to a director for participation or attendance at an external education program.

Hydro Ottawa Limited
EB-2019-0261
Exhibit 1
Tab 4
Schedule 1
Attachment L
ORIGINAL



HydroOttawa

ANNEX "A"

CODE OF BUSINESS CONDUCT

OUR VISION

Hydro Ottawa – a leading partner in a smart energy future.

OUR MISSION

To create long-term value for our shareholder, benefitting our customers and the communities we serve.

CONTENTS

Effective January 1, 2019


CTION
I.

INTRODUCTION

WHY DO WE HAVE A CODE OF BUSINESS CONDUCT?

Every day, individuals at Hydro Ottawa[1] strive to make the right choices in accordance with applicable laws and regulations, contractual commitments, company policies, professional standards, our standards of business conduct and our organizational values of Teamwork, Integrity, Excellence and Service. We do this because we know that *how* we accomplish our objectives, individually and as a company, is as important as *what* we achieve. And that by living our values, we strengthen both the employee experience and our business outcomes.

1 The reference to Hydro Ottawa and/or company in the Code should be read as referring to Hydro Ottawa Holding Inc. and all of its subsidiaries and/or affiliates.

The Code of Business Conduct (also referred to as 'the Code') helps us make the right choices by:

- Guiding us as we make decisions and take action.
- Helping us understand where personal choices can be in conflict with our standards of business conduct, our values and our obligations to the company and each other.
- Providing examples of behaviours and attitudes that further define our values and the standard of business conduct required of each and every one of us.
- Describing a high standard that can be applied to any situation, including situations not specifically addressed in the Code.
- Setting specific, ethical direction and expectations.
- Explaining what we can do when we experience or observe non-compliance with the Code.

The Code outlines general principles of appropriate business conduct, with examples[2], rather than attempting to cover every situation we may possibly encounter. It is not a substitute for the use of sound judgement, and the seeking of advice as required, in assessing a particular situation.

WHO DOES THE CODE APPLY TO?

The Code applies to all employees of Hydro Ottawa, members of the Boards of Directors and, to the extent feasible, our external business partners – agents, representatives, consultants, contractors, vendors and suppliers.

The Code is not intended to conflict with our commitments to employees as stated in our collective agreements, terms and conditions of employment or contracts, nor with the professional standards by which certain of our employees and Board members are bound.

2 As time progresses, examples may be added, removed or updated to reflect best practices and changes in the workplace; any such changes will be posted on the Intranet.

SPECIFIC ROLES

Each and every one of us has the responsibility to model the behaviours and attitudes that are outlined in the Code.

All Employees and Board Members

All employees and Board members are required to know, understand and apply the Code, as well as the related policies that apply to them. They must all complete any required training on the Code, acknowledge receipt of the Code and training, and report non-compliance with the Code in accordance with the Compliance section of the Code.

Additional Roles for People Leaders

The importance of seeking the advice of your direct supervisor is stressed throughout the Code. As such, the company places added expectations on those with direct reports; we expect that they will:

- Respond when their advice regarding the Code is sought, making it comfortable for advice to be sought; and seek guidance from their next level of management or Human Resources when required, to ensure the advice provided is sound.
- Ensure that their direct reports understand the Code and the impact of individual behaviour on the company, both positive and negative.
- Agree, in writing, to abide by the Code. This also applies to all Board members.
- Champion the Code; ensure that any required training on the Code and applicable documents are completed.
- Support those who report non-compliance with the Code.
- Always address issues of non-compliance promptly by taking the opportunity to coach the individual on how to demonstrate the right behaviours or by involving their next level of management or Human Resources as appropriate.

Additional Roles for Executive and Senior Management

Executives and senior management are responsible, in addition to all of the above, for establishing internal controls, ensuring that monitoring of compliance is in place, reviewing this Code on a regular basis to ensure it includes all necessary references, and ensuring that appropriate action is taken to investigate suspected or actual non-compliance and that appropriate actions are taken when non-compliance occurs.

ASK YOURSELF THESE QUESTIONS:

Annual Recommitment

Board members, members of the executive team, senior management and those in key financial positions are required to recommit to the Code, in writing, on an annual basis.

WHEN THE CODE DOES NOT HAVE AN ANSWER

Codes of business conduct cannot address every possible situation. However, our Code sets a standard against which all situations can be assessed.

Ask yourself these questions:

Does this feel right? Does it make me feel uncomfortable?

Would I be proud to tell someone what I have decided or done?

Am I adhering to the letter and spirit of the laws, regulations and contracts that may be involved?

Is there any specific guidance in the Code, or in company policies? If not, does the Code and/or a policy give me a sense of the standard that I must apply in this situation?

If, after reading the Code and considering these questions, you are uncertain how to act or react in a given situation, or sense you may be in contravention of the Code if you take a certain action, speak to your direct supervisor, your next level of management or Human Resources without delay.

While all the laws and regulations, and contractual commitments, as well as all the policies that apply to us as individuals and as a company are not specifically described in the code the company requires compliance with all applicable laws and regulations and company policies. In situations where the law, policy and the Code appear to be different, each of us must always comply with the highest standard.


GANIZAT
LUES
II.

OUR ORGANIZATIONAL VALUES

This section includes the definitions for our organizational values and examples of associated behaviours and attitudes, provided by our employees, which describe what our values look like in action. Our values are the 'TIES' that link our conduct to our vision and our mission; they speak to who we are and the kind of business we want.

TEAMWORK

Teamwork is getting the job done through cooperation.

Working as a team means sharing our knowledge and skills, and willingly supporting each other. It's striving toward a common goal, while respecting each other's viewpoints and opinions, and acknowledging each other's contributions.

You are living the value of teamwork when you demonstrate behaviours and attitudes like these:

- Ensure clarity of team goals by communicating them at the outset and/or confirming your understanding.
- Trust colleagues to fulfill their responsibilities.
- Encourage and provide honest, courteous and constructive feedback, identifying what works and offering alternatives for what does not.
- Listen to what others have to say, and take the time to understand their reasons.
- Respect the workspace of others and the necessary limitations when working in open concept areas and make use of collaboration spaces, quiet rooms or meeting rooms when working with others.
- Seek information and ideas from across the company, leveraging and relying on the diverse experience, background and knowledge of all team members.
- Willingly share workload; adapt your schedule/duties for team members who are away and participate positively in discussions and completion of tasks.
- Share information and ideas with those who need to know.
- Respect other people's time and schedules, and be on time for meetings.
- Celebrate the achievement of milestones.
- Participate in activities that bring people together, to build team spirit.
- Share credit, by promoting and acknowledging the ideas and contribution of all team members.

INTEGRITY

Integrity is doing what is right.

It means we are trustworthy, we fulfill our commitments with honesty and fairness and we adhere to the highest ethical standards – *no matter what the circumstance.* It's taking responsibility for our actions and being transparent about our business practices.

You are living the value of integrity when you demonstrate behaviours and attitudes like these:

- Be fair and honest in your dealings with others.
- Act professionally and be respectful in all of your interactions.
- Ensure your behaviours and attitudes foster a positive work environment.
- Do what is right, not what is convenient.
- Say what you will do and do what you say; promise only what you believe you can deliver – and follow through.
- Admit when you have made a mistake.
- Identify when a mistake has been made; don't cover up a mistake that is in your favour.
- Speak up when you recognize that something is wrong.
- Lead by example. Walk your own talk – don't tell someone to do something and then do it differently yourself.
- Give a full day's work for a full day's pay.
- Declare any potential or actual conflict of interest.
- Protect confidential or sensitive information.
- Let people know what you can and cannot tell them and respect that you may not be privy to certain information.
- Ensure that those who need to understand our business practices are given clear and transparent explanations.

EXCELLENCE

Excellence is achieved through our commitment to quality, safety and learning.

It means using our assets effectively to achieve the best possible outcomes, protecting the environment and caring for our employees by maintaining a positive and safe workplace. It means embracing innovation and continuous improvement, and developing our talent.

You are living the value of excellence when you demonstrate behaviours and attitudes like these:

- Follow and encourage others to follow safety, environmental, and quality standards.
- Report to work fit for duty, free from any impairment, to work safely.
- Give and/or take assignments that develop new skills.
- Be proactive about learning and stay informed.
- Help others learn and perform, through proper instruction and documentation, coaching and mentoring.
- Keep company assets in good working order; identify when assets are not working properly.
- Ensure that your work is thorough, accurate and in line with what is needed. Take ownership, and take steps to ensure quality work.
- Be creative and innovative, while effectively managing any associated risks.
- Always think about what can be done to add value to your work.
- Identify best practices – do not be satisfied with the status quo.
- Recognize and make use of diversity.

SERVICE

Service is what we say and do to ensure satisfaction.

It's all the actions and interactions that meet or exceed the expectations of our customers, our shareholder, our community and our colleagues. Satisfaction is rooted in being treated fairly and with respect, and being kept informed. Through effective service, we increase trust and recognition of the value we provide.

You are living the value of excellence when you demonstrate behaviours and attitudes like these:

- Take time to understand what the person wants – see yourself as an ambassador in every situation.
- Treat co-workers as valued customers.
- Ensure you provide/have the proper resources to provide good service.
- Respond to requests clearly, accurately and in a timely manner; acknowledge needs and follow through on your commitments. If your response will be delayed, explain why.
- Monitor products and services so you know there is a problem before the customer knows - and keep the customer informed.
- When providing service, listen fully and with interest, and don't use terminology that the person may not understand.
- Address the person you are serving professionally; be honest, fair, objective and sensitive, without jeopardizing the company's interests.
- Whenever possible address the customer's issue during the first contact.
- Ask customers and other stakeholders for feedback and provide convenient avenues for feedback.
- Clearly and politely explain a policy when it conflicts with what the person wants, while working towards a solution.


ARDS
NESS
III.

OUR STANDARDS OF BUSINESS CONDUCT

This section provides guidance and direction regarding key responsibilities and accountabilities, including specific required behaviours and attitudes that align with our organizational values. We are all responsible and accountable to disclose any concerns we have, and decline involvement in any decision or action that is contrary to these expected behaviours and attitudes.

SAFETY

A fundamental component of Hydro Ottawa's commitment to operating efficiently and effectively is the high priority we place on protecting the health and safety of our employees, contractors, subcontractors, external business partners, visitors, customers and our community.

We acknowledge that, integral to business success, is the establishment and continuous improvement of a safe workplace. We expect individuals to reduce potential harm by complying with all applicable laws, regulations, policies, procedures, guidelines, and work instructions and immediately reporting any situation that compromises safety.

As part of our concern for safety, Hydro Ottawa will not allow any employee, contractor, subcontractor or external business partner to work for or with the company if there is any reason to believe that individual safety or the safety of others is compromised or likely to be compromised.

We are committed to minimizing the risk of injury associated with our operations and the provision of services.

For instance:

- Come to work fit for duty, free from any impairment, to work safely.
- Identify, report, and where appropriate, correct workplace hazards.
- Wear your protective equipment at all times and ensure it is in proper working condition.

3 Alcohol and drugs means any substance, the use of which has the potential to change or adversely affect the way a person thinks, feels or acts including alcohol, cannabis/marijuana, legal and illegal drugs or medications.

- Do not erode safety through dangerous or careless driving, or by failing to adequately secure items on or in company vehicles.
- Smoke tobacco only in designated areas, and respect the concerns of others when smoking during work. Smoking is not permitted in the workplace, including garages and company vehicles.
- Never bring any weapon, or other type of object that could cause fear or physical harm and is not required in the completion of work duties, to any location where Hydro Ottawa work is being performed.
- Never consume alcohol or drugs[3] when operating a vehicle or equipment, or when working in a safety sensitive position as defined in corporate policy.
- Never attend to your job duties and responsibilities when the consumption of alcohol or the use of any drugs could adversely affect your performance on the job.
- Never use technological devices when driving, operating equipment or performing safety-sensitive work.
- Notify your direct supervisor immediately if you feel that your performance or safety is or might be compromised as a result of alcohol or any drugs, including when called into work on an emergency basis.

FINANCIAL ACCOUNTABILITY

We are accountable to our shareholder, and the stewards of significant assets. We must effectively and responsibly use and protect the assets entrusted to us.

PROTECTION OF COMPANY ASSETS[4]

We are all entrusted with protecting our company assets, the assets of our customers, and the assets of our employees and external business partners which are brought into our places of work, from theft, fraud, vandalism, embezzlement and illegal copying of licensed materials.

Additionally, we must protect our assets from neglect – through regular maintenance and care, from waste, from unauthorized use, and from inappropriate disclosure of information, any of which could damage our reputation or our success.

For instance:

- Only use company assets for activities associated with work; unauthorized personal use of any company asset is not permitted.
- Do not take company supplies home for personal use, such as pens, paper, electrical tape, batteries, cleaning supplies/tools, etc.
- If you see someone doing something improper or unsafe with a company asset you must report it to your direct supervisor.
- Maintain and make use of the systems Hydro Ottawa has in place to manage and safeguard assets and information.
- Safeguard keys, property access cards, mobile devices and laptops.
- Ask any unfamiliar, unescorted persons who are not displaying proper identification to identify themselves.
- Take all steps to protect information against disclosure, recognizing that corporate information and knowledge are amongst our most valuable assets; never share information with anyone who does not have a solid business need to know, and be careful about discussing company business in public venues.
- Do not make unauthorized or illegal copies of intellectual property belonging to or licensed to Hydro Ottawa.
- Dispose of assets only when the appropriate Executive or designate has given permission in writing, or when the method for disposal is clearly outlined in a policy.

FINANCIAL DECISIONS

We apply sound business principles and practices, and make decisions about purchases or expenses that are based on merit and value to the company.

For instance:

- Make purchasing decisions based on pre-set objective criteria and fully disclose all transactions and payments.
- Conduct thorough cost/value analysis.
- Ensure that business expenses are reasonable and necessary for business or commercial needs.
- Obtain approval or pre-authorization before committing Hydro Ottawa funds.
- Ensure all payments made are appropriate for the level of goods/products and/or services received.
- Adhere to all legal and accounting standards when making purchases and subsequent payments.
- Take the necessary steps to ensure that our external business partners are paid in accordance with agreed terms.

4 Assets can be physical or non-physical and include, but are not limited to, cash, properties and their contents, furnishings, corporate, employee and customer information, intellectual property, trademarks, logos, knowhow, ideas, data, software, computing and communication devices, tools and equipment, vehicles, clothing, inventory, supplies and materials, etc.

COMPETING FAIRLY AND PROTECTING COMPETITIVE ADVANTAGE

Hydro Ottawa is committed to running our business in compliance with all competition laws, regulations, standards and practices. Unfair tactics such as bribery, extortion or bid rigging are prohibited.

For instance:

- Protect our competitive advantage by refraining from discussing, with outsiders, our customer lists or product and service development initiatives, except where there is a solid business requirement.
- Protect the competitive advantage of our external business partners by not sharing information contained in their bids or quotations with anyone who does not have a solid business need to know.

OWNERSHIP OF WORK PRODUCT

In the course of employment, employees are called upon to engage in various types of research or problem solving for the company. The product of these work efforts produced within the scope of employment belongs exclusively to Hydro Ottawa, whether some or all of the research or problem solving was undertaken while actually at work or not. Work product includes, but is not limited to, computer programs, technical processes, inventions, research methods, know how, reports or articles and any other form of innovation or development. Patents, rights or copyright, as appropriate, must be assigned to Hydro Ottawa.

APPROPRIATE USE OF LEAVE AND BENEFIT PLANS

Hydro Ottawa provides leave and/or benefit plans for its employees consistent with legislative requirements and respective collective agreements, terms and conditions of employment or contracts. The long-term sustainability of these plans is directly related to the prudent use of each by the employees who participate in the plans. Any misuse may place the plans at risk and may lead to disciplinary action up to and including termination of employment.

For instance:

- Ensure that all leaves are utilized for the reasons they are intended to cover.
- Only call in sick if you are completely unable to work. Always discuss the possibility of performing lighter or other duties on days when you are able to perform some work.
- Always ensure that the benefit expenses and services you claim are accurate and reasonably required.
- Be a smart consumer and shop around for the best value.
- Never ask for or accept a receipt from a service provider that does not accurately reflect the expense that you are claiming.

BUSINESS REPORTING AND RECORDS

To meet our financial and legal obligations, and to effectively manage our affairs, we must maintain and produce accurate and reliable records and reports.

FINANCIAL REPORTING

Any records impacting on financial results – such as time entry, sales reports, financial reports and expense reports - must accurately and clearly reflect the true nature of all business transactions. Revenues, expenses, assets and liabilities must all be disclosed, and documents and records must never be altered, hidden, or falsified. Anyone responsible for accounting must be diligent and insist on proper accounting practices.

For instance:

- Take the necessary steps to ensure there are no errors, misstatements or omissions in accounting documents, systems and analyses.
- Handle all transactions in a manner that avoids any impropriety or perception of impropriety.
- Never report financial transactions in a way that unlawfully evades tax or other charges imposed by government.

OPERATIONAL INFORMATION AND RECORDS

Unless making valid corrections, operational information and records must be left intact. When corrections are made, we must make certain that colleagues who are already in possession of the information/record are advised and provided with an appropriate explanation.

USE OF TECHNOLOGY AND SOCIAL MEDIA

Technology is a resource that we must use carefully and ethically, with consideration of our business needs and reputation and with respect for all those associated with Hydro Ottawa.

Hydro Ottawa's systems and the content (business records, data, information, messages, etc.) in those systems are the property of the company. Hydro Ottawa has the right to access, monitor, read and examine any content transmitted and/or stored on its systems/equipment, to ensure productive, ethical, legal and authorized use. This means content in any part of our systems, including the electronic communications system – Internet, Intranet and Email, shared directories and folders, hard drives and portable or removable electronic storage devices – such as compact discs, DVDs and memory sticks. You should not expect that any of your Email, Internet, Intranet or other technology activities on Hydro Ottawa systems which includes, but is not limited to, computers, laptops, tablets and smartphones, or the corresponding content, is private.

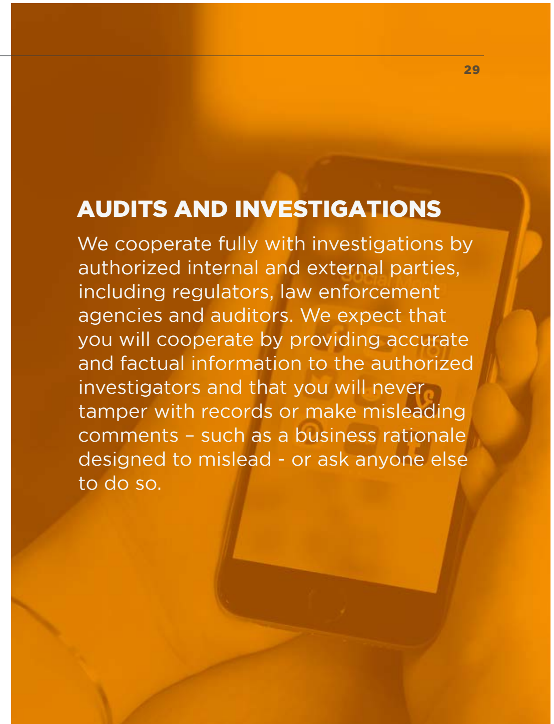
Our systems are intended for business purposes. Limited personal use of the electronic communications system - Internet and Email - is permissible, outside of the time you are expected to be working, provided that the time spent and the content of your electronic communications does not interfere with your productivity or the productivity of your colleagues, damages or have the potential to damage the reputation of Hydro Ottawa, negatively impact any individuals or violate the law.

Under no circumstances are you to use Hydro Ottawa systems and equipment which includes, but is not limited to, computers, laptops, tablets and smartphones to access, download, upload, receive or distribute pornographic content or any content that could be considered sexist, racist, discriminatory or hate-based.

Employees are encouraged to be brand ambassadors and proudly champion the Hydro Ottawa brand. If you choose to participate in social media and identify yourself as a Hydro Ottawa employee, always ensure that you are not acting in any manner that is detrimental to the interests and/or reputation of Hydro Ottawa on Internet forums, blogs and social networking sites, including but not limited to, Facebook, YouTube, LinkedIn, Twitter or Instagram. The company regularly monitors such sites.

For instance:

- Avoid using careless, exaggerated or inaccurate statements in electronic communications, which could be used against Hydro Ottawa.
- Never share passwords or use personal email accounts for conducting company business.
- Do not download software, large electronic files from the Internet or any content such as images, stream video or music, as these could impact the performance of our technology by using bandwidth on the network needed for business activities or by introducing viruses into our systems.
- Pause and think before you post on social media sites and on the Intranet.
- Use social media only for personal reasons and never for business purposes unless you have been authorized to publish content on behalf of Hydro Ottawa.
- Do not associate or affiliate yourself with Hydro Ottawa when sending emails or using social media in a way which could reflect negatively on the company.
- Only install and use software approved by the Information Management and Information Technology Division; and never illegally reproduce software protected by copyright.
- Report suspicious emails and activities to your direct supervisor or the IT Help Desk immediately.



AUDITS AND INVESTIGATIONS

We cooperate fully with investigations by authorized internal and external parties, including regulators, law enforcement agencies and auditors. We expect that you will cooperate by providing accurate and factual information to the authorized investigators and that you will never tamper with records or make misleading comments – such as a business rationale designed to mislead - or ask anyone else to do so.

RESPECT FOR INDIVIDUALS

At Hydro Ottawa, we are committed to providing positive, open, collaborative and respectful working environments where:

- *You feel valued and appreciated.*
- *The well-being of employees, customers, and external business partners is safeguarded.*
- *Diversity is welcomed and Inclusion is embraced.*
- *It is safe to discuss what is not working and focus on solutions.*
- *Inappropriate or disrespectful behaviour is dealt with according to clearly established standards and in a timely manner.*

DIGNITY AND FAIRNESS

Employees, customers, and external business partners will be treated with dignity and fairness.

Employees will be provided with fair compensation and working conditions in exchange for their performance.

All work locations – including customer premises and locations of Hydro Ottawa sponsored events - will be free from discrimination (treating someone differently based on a category), personal or sexual harassment (making someone feel intimidated, threatened, anxious or persecuted), and any form of direct or veiled threats of violence.

We will respect the dignity of our colleagues and treat them as they would like to be treated.

For instance:

- Demonstrate respect and dignity by the tone and words you use in writing and in conversation.
- Do not maliciously gossip about colleagues.
- Do not tolerate discrimination, harassment, violence or threats of violence, and report such incidents immediately.

If you are in a leadership role, address any such incidents brought to your attention immediately; or, report the incident to the employee's direct supervisor if they do not report to you.

Allow others to respectfully voice their thoughts and opinions without fear of retribution.

Avoid conduct that creates an uncomfortable situation or an unfriendly work environment such as inappropriate comments, jokes, intimidation, bullying or physical contact.

Recognize that certain actions generally considered inoffensive might trouble some individuals, and respect the wishes of those individuals.

DIVERSITY

Diversity is about recognizing, respecting and valuing differences across an infinite range of unique individual characteristics and experiences. Hydro Ottawa values diverse backgrounds; we appreciate the different perspectives and experiences that everyone brings to the work environment.

For instance:

- Make it easy for our colleagues who reflect the diverse population of the communities we serve to become part of our company.
- Foster an inclusive work environment that embraces the diversity of our colleagues.
- Do not discriminate in hiring and employment practices on grounds prohibited by law.

PROFESSIONALISM

By presenting ourselves professionally, we demonstrate respect for co-workers, customers and business partners, and ensure that Hydro Ottawa's reputation is viewed positively. Professionalism speaks to demeanour, positive attitude, style of dress, tone of voice and use of personal workspace.

For instance:

- Dress appropriately and professionally for work.
- If you have been provided with Hydro Ottawa clothing to perform your duties, ensure that it is used for that purpose, is clean and in good condition and meets all safety standards.
- Speak at a volume that does not impact the productivity of others or result in others hearing confidential information; use collaboration spaces, quiet rooms or meeting rooms as required.
- Promote a clean and tidy work environment, and avoid inappropriate or excessive office decorations.
- Use collaboration spaces, quiet rooms and meeting rooms as per established guidelines.
- Promote the company positively, both internally and externally, in appropriate forums. Do not share personal negative viewpoints about Hydro Ottawa, other employees, our customers or external business partners in any public forum, including, but not limited to, social networking sites such as Facebook, YouTube, LinkedIn, Twitter and Instagram.

ENVIRONMENTAL PROTECTION

We are committed to being a responsible corporate citizen, and making the community in which we do business a better place to live. We believe that business growth and achievements must be shared with respect for and protection of the environment.

As such, we strive to continuously reduce the impact of our own operations on the environment and the communities we serve, as well as improve our environmental performance. We are dedicated to protecting and preserving the environment where we operate by following all applicable laws, regulations, policies, procedures, guidelines and work instructions and reporting any incidents that could impact the environment.

We will design, build and operate our facilities to make efficient use of resources, prevent pollution and reduce environmental effects to the extent that is reasonably achievable.

For instance:

- Look for ways to reduce the company's carbon footprint and improve the company's energy efficiency and waste management and recycling.
- Ensure that you understand the environmental impact of your work activities, and factor that impact into decisions.
- Take responsibility and accountability for contributing individually to reducing our environmental impact.
- Make all efforts to reduce, reuse and recycle.
- Only allow a corporate vehicle to idle when it is absolutely necessary.

MAKE ALL EFFORTS TO REDUCE, REUSE AND RECYCLE.

CONFIDENTIALITY AND PRIVACY

Respecting the privacy of our employees, customers and external business partners is critical to our success and to building effective business relationships; these individuals have entrusted us with sensitive information.

We have a responsibility to effectively manage the collection, access, use and disclosure of all sensitive information, and to only use such information for the purpose for which it was originally collected unless otherwise authorized. We must also safeguard sensitive information against theft, loss, destruction, unauthorized access or misuse.

This obligation and responsibility to protect and not divulge the Company's proprietary and confidential information continues after your employment with Hydro Ottawa ends.

Report breaches of confidentiality and privacy immediately to your direct supervisor.

For instance:

- Know what information must be kept confidential; ask your direct supervisor when in doubt.
- Do not disclose personal and confidential information about customers to anyone inside or outside the company, unless it is authorized for the performance of their work.
- Do not discuss and/or disclose confidential company information except with those who have a solid business need to know.
- Respect and maintain the confidentiality of employees' personal information about compensation, performance, disabilities or illness, etc., disclosing this information only to those who have a solid business reason to know.
- Ensure that personal, sensitive and/or confidential information is not inadvertently distributed to inappropriate parties through access to computer system folders, email, etc.
- Protect personal and confidential information by ensuring it is properly stored and locked when working in an open environment.

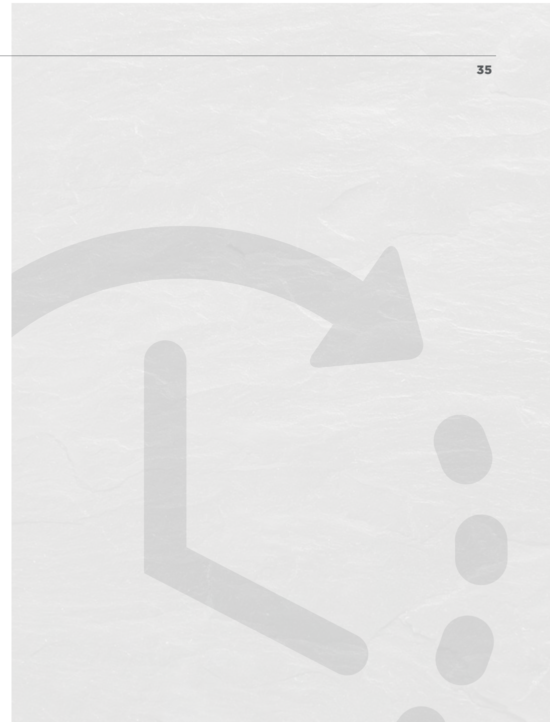
OFF DUTY CONDUCT

We respect the personal lives of employees outside of the workplace.

Employees must be mindful, however, that they are accountable for their actions outside of the workplace to the extent that it can negatively affect Hydro Ottawa's business, reputation or work environment.

For instance:

- Do not use corporate vehicles to do personal errands.
- Do not wear corporately issued work clothing if going out after work.
- Do not wear corporately issued work or branded clothing if working at another company as a second job or if self-employed.
- When wearing corporately branded clothing in public, be a good brand ambassador and refrain from acting in a manner that could be detrimental to the reputation of Hydro Ottawa.



CONFLICT OF INTEREST

Many situations could involve a conflict of interest, or the appearance of such.

Conflict of interest includes any situation or action that places you or could be perceived as placing you in conflict with Hydro Ottawa's interests, or impairs or could be perceived to impair your objectivity.

It is important to place the Company's interests before our personal interests. Also, remember that the perception of a conflict of interest can be just as damaging as an actual conflict of interest.

For instance:

- Base any business decision on Hydro Ottawa's best interests.
- Ensure that your primary loyalty in the performance of your duties is to Hydro Ottawa.
- Derive no personal benefit from any business decision made on behalf of Hydro Ottawa.
- Do not use, for your personal gain or reasons, or for the personal gain or reasons of your family, friends or another business, any information obtained while performing duties at Hydro Ottawa which is not available to the public at large.
- Do not participate in any discussion or decision that could have, or be perceived to have, a benefit for you, your family members, your friends or another business in which you have personal interest.
- Inform your direct supervisor when you know that members of your family are employees or advisors of companies that have a business relationship with Hydro Ottawa.
- Decline involvement in awarding contracts to, or purchasing any goods and/or services from, business partners with whom you have a personal relationship.
- Inform your direct supervisor immediately if any new situation or business decision made by Hydro Ottawa places you, has the potential to place you, or could be perceived to place you in a conflict of interest.

PERSONAL INVESTMENTS

When you are aware that you or your family members (spouse, children or other relatives) invest directly in a business that competes with or sells goods and/or services to Hydro Ottawa, including circumstances where there is control or direction over an investment without directly holding it, disclosure is necessary to avoid conflict of interest. Advise your direct supervisor; where the investment or control is significant our legal counsel should also be advised. By disclosing this information, Hydro Ottawa can ensure that you are not placed in a conflict of interest situation such as influencing the awarding of a contract, overseeing work done by that company or participating in any discussions or decisions about that company.

INSIDER INFORMATION

You are not permitted to purchase – either directly or through an agent or associate – any assets or interests based on confidential knowledge gained while performing duties related to Hydro Ottawa.

EXTERNAL EMPLOYMENT

Any employment or services provided outside Hydro Ottawa, i.e., self-employment or work for pay or business interests, must not interfere in any way with your availability, productivity and performance at Hydro Ottawa, nor can it conflict with Hydro Ottawa interests. This would include using Hydro Ottawa assets, soliciting business for your own company from Hydro Ottawa customers or working for a company that competes with or provides services to Hydro Ottawa, without our company giving explicit permission.

For instance:

- Never identify yourself as a Hydro Ottawa employee when performing work for your own company or another company.
- Never refer Hydro Ottawa customers to other companies unless you are referring to a company on an approved Hydro Ottawa list.
- Do not perform paid work for another organization during working hours at Hydro Ottawa.
- Do not allow colleagues or customers from another organization where you work to contact you during working hours at Hydro Ottawa.
- Do not promote the products or services of another organization, including your own company, during working hours at Hydro Ottawa.
- Do not use company tools, vehicles, equipment, clothing, intellectual property and/or supplies for external employment.

EMPLOYMENT OF FAMILY MEMBERS

As with conflicts of monetary interest, Hydro Ottawa employees and Board members must maintain objectivity, and the perception of objectivity, when dealing with human resources issues and immediate family members. An immediate family member is defined as: parent (natural, step, or in-laws), spouse and son or daughter (natural, step, or in-laws).

An employee whose family member is employed by a contractor who performs work for Hydro Ottawa must notify their direct supervisor if the employee is directly or indirectly responsible for the hiring or oversight of the work to be performed by the contractor.

For instance:

- Do not place yourself, or allow yourself to be placed, in a position where you supervise, directly or indirectly, or influence the recruitment, hiring, pay or performance rating of any immediate family member.
- Inform your direct supervisor if you know that a family member is applying for employment with Hydro Ottawa.
- Do not pressure another employee to hire or contract with a family member, friend or relative.
- Maintain a professional relationship during work hours with a family member who also works for Hydro Ottawa.
- Abide by the Guidelines for Employees Dealing With Entities That Employ Family Members.

SERVICE ON BOARDS OF DIRECTORS

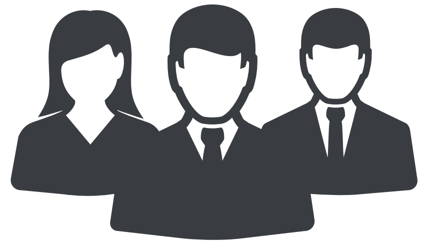
Membership on boards is encouraged, particularly boards of charitable and non-profit organizations or family businesses, when the organization is not in conflict with our company.

In certain cases, Hydro Ottawa will ask an employee to serve on a board as part of their duties, officially representing our company. You may not serve as a director, trustee, consultant or agent of any organization that competes with, provides goods or services to, or buys goods or services from Hydro Ottawa – not including the purchase of electricity services, unless expressly authorized by Hydro Ottawa.

PROFESSIONAL ASSOCIATIONS

Individuals are encouraged to contribute to the promotion and development of their profession. You may be officially representing Hydro Ottawa, as part of your duties, or you may join for personal interest.

While involvement in associations can enhance the reputation of Hydro Ottawa and provide access to innovative solutions and useful information, there are some considerations.



1. *Your direct supervisor must approve any worktime for attendance at association meetings or to complete association work.*
2. *If you are not officially representing Hydro Ottawa, you must make it clear that you are speaking on behalf of yourself and not as a spokesperson or representative of our company.*
3. *Information shared with other members of a professional association cannot include proprietary or confidential information.*

VOLUNTEERISM

Volunteering in the community is encouraged. There may be circumstances where use of Hydro Ottawa time or assets is authorized. Request approval from your direct supervisor, who will need to seek authorization from executive or senior management.

POLITICAL OR CHARITABLE ACTIVITY

As a private citizen, you may participate in any level of political or charitable activity on your own time, but those activities must not interfere or conflict with your duties at Hydro Ottawa or involve the use of any Hydro Ottawa assets unless expressly authorized.

For instance:

- Make it clear, while involved in politics, that your comments and actions are your own, and not those of Hydro Ottawa.
- Apply for a leave of absence, without pay, before running for political office.

ACCEPTING/GIVING GIFTS AND ENTERTAINMENT

Accepting or giving gifts and/or entertainment – including meals, beverages, invitations to social outings, accommodation and travel – may compromise or appear to compromise your ability to make decisions that are in the best interest of Hydro Ottawa.

It is acceptable, on occasion, to accept or give a gift or accept or offer entertainment when there is a business benefit to Hydro Ottawa. It is not acceptable to accept anything from business partners or customers that could be seen as potentially compromising fair decision-making.

Seek the advice of your direct supervisor, your next level of management or Human Resources if you are in any way unsure if you should accept or give any gift or offer of entertainment.

Before you accept or give anything, ask yourself:

Is the gift or entertainment of limited value?

What is the benefit to Hydro Ottawa?

Is the offer infrequent?

Is there a pre-existing business relationship?

Are the value and the reason for the gift or entertainment appropriate considering the situation, the people involved and your role at Hydro Ottawa?

Is there an obligation or reciprocity implied for either party?

Would you be comfortable telling your direct supervisor, peers or family about the gift or entertainment?

Is the gift or entertainment compatible with normal business practices?

Would Hydro Ottawa be embarrassed if the gift or entertainment was publicly disclosed; could it be perceived as a bribe or kickback?

EXAMPLES AND GUIDELINES:

EXAMPLES	GUIDELINES
You are offered a monetary gift – cash, loan or a discount that is not available to all other employees.	Do not accept it. Such an offer should be reported to your direct supervisor in writing.
You are offered sports or cultural events tickets.	If there is a good business case for attending the event with the giver, accepting these tickets is appropriate, provided it is fully disclosed to your direct supervisor, in writing and in advance of the event. If the giver will not be present, do not accept the tickets. If this is not possible, provide the gift to Human Resources as a prize for an employee draw or at a company event.
You are offered a gift or form of entertainment from an external party who is active in the procurement process.	Do not accept it. This is clearly unacceptable. Such an offer should be reported to your direct supervisor immediately, in writing.
You are offered a gift of alcohol or an alcohol-related gift card/certificate.	Do not accept it.
You are offered alcohol at an event or by an external party at a meal.	You may accept it as long as the offer is infrequent and the amount is reasonable.
An external party offers to pay for your expenses, including travel, to a trade show or to view a product.	Do not accept it. If it is appropriate for you to attend, Hydro Ottawa will cover your expenses and arrange for you to attend.

EXAMPLES	GUIDELINES
A holiday gift basket or gift card/certificate from an external party arrives for you, either at work or at home.	Share the gift with your colleagues within your work group, or provide the gift to Human Resources as a prize for an employee draw or at a company event.
An external party's representative calls and offers to take you and your spouse or "plus one" out to dinner that evening to discuss their newest products.	You may accept the invitation for yourself only so long as the invitation is reasonable and infrequent.
You understand that an external party is willing to provide gifts to support a Hydro Ottawa holiday party, golf tournament, etc.	You should neither solicit nor accept gifts from an external party unless the event is directly benefiting a charitable organization; written permission from your Division Chief should be obtained.
You are asked to solicit support for a local sports team or local event by using your position at Hydro Ottawa.	You should not use your position at Hydro Ottawa to influence others. Any requests for support should be discussed with your direct supervisor.
You are asked by your direct supervisor to support a cause or event that is not sanctioned by Hydro Ottawa.	Do not feel compelled to support the cause or event.
You are speaking publicly at a conference on behalf of Hydro Ottawa to an external organization or professional association.	Only accept reasonable honorariums or gifts. It may be acceptable for the organization to pay for travel and/or accommodations, provided the purpose of the event is not to solicit business from Hydro Ottawa.

EXAMPLES	GUIDELINES
You are invited to attend a golf tournament or other similar type of event.	You should discuss the invitation with your direct supervisor. If there is a good business reason, your attendance may be approved. Where possible and appropriate, Hydro Ottawa may pay for your fees.
You are attending a golf tournament on behalf of Hydro Ottawa and win the tournament or a prize for some other accomplishment.	Only accept prizes of a limited value. Otherwise, decline the prize.
You attend a golf tournament, trade show, conference, etc. during working hours and there is a raffle for prizes/cash.	Only accept prizes of a limited value. Otherwise, decline the prize.
You are offered a free fishing trip, ski trip, etc by an external party.	You are not permitted to accept such offers.
You are offered promotional items from an external party.	You may only accept promotional items with a limited value.
You will be entertaining an external party.	Only Senior Management Team and Executive Management Team members are permitted to host external clients and will be reimbursed as per company policy.
You are offered to attend free training.	You should discuss the invitation with your direct supervisor. If there is a good business reason, your attendance may be approved. If approved, Hydro Ottawa will pay for the transportation and accommodation, if any. The invitation should be declined if it is during a tendering process.

DEALING WITH THE MEDIA

Hydro Ottawa respects the right of the public to know what we do and how we do it.

The Chief Customer Officer is responsible for Hydro Ottawa's relationship with the media (or designate). As a general rule they are the corporate spokesperson for the company.

For instance:

- Refer all media enquiries to the Chief Customer Officer and do not speak on behalf of Hydro Ottawa unless expressly authorized to do so.
- Do not discuss Hydro Ottawa matters with a member of the media "off the record" or "for background purposes" unless expressly authorized to do so by the Chief Customer Officer.
- Have external communications, such as advertising and articles for publication in journals, reviewed by the Chief Customer Officer before release.


NCE
CODE
IV.

COMPLIANCE WITH THE CODE

Hydro Ottawa is committed to holding itself to the highest standard. All employees and members of the Board of Directors are expected to uphold the standards in the Code.

REPORTING NON-COMPLIANCE/ POTENTIAL NON-COMPLIANCE

Hydro Ottawa expects its employees to be honest in every situation. If you inadvertently fail to comply with the Code, report it to your direct supervisor immediately.

You must report any non-compliance immediately, and you must be willing to cooperate during any resulting investigation. Advise your direct supervisor immediately if you witness non-compliance, or suspect non-compliance has occurred.

Should the witnessed/suspected non-compliance involve your direct supervisor, you should endeavour to speak with him/her first to clarify the situation; but if you are not comfortable with that course of action, or it does not result in satisfaction, then report the situation to a higher level of management.

Individuals are encouraged to always address non-compliance internally before taking further action. Speak to your direct supervisor, your next level of management, or Human Resources.

If you feel that your attempts to address the non-compliance internally have not been responded to appropriately or you are not comfortable with such an approach, you may access the **Business Conduct Hotline**, the external reporting mechanism established by Hydro Ottawa through an independent third party provider. The third party provider will keep the identity of individuals who make a report confidential, except where prohibited by law.

Mischievous, frivolous or malicious allegations are, in themselves, breaches of the Code.

Hydro Ottawa will not tolerate any reprisal, retaliation or disciplinary action against an employee or Board member who responsibly reported, in good faith, a breach or suspected breach.

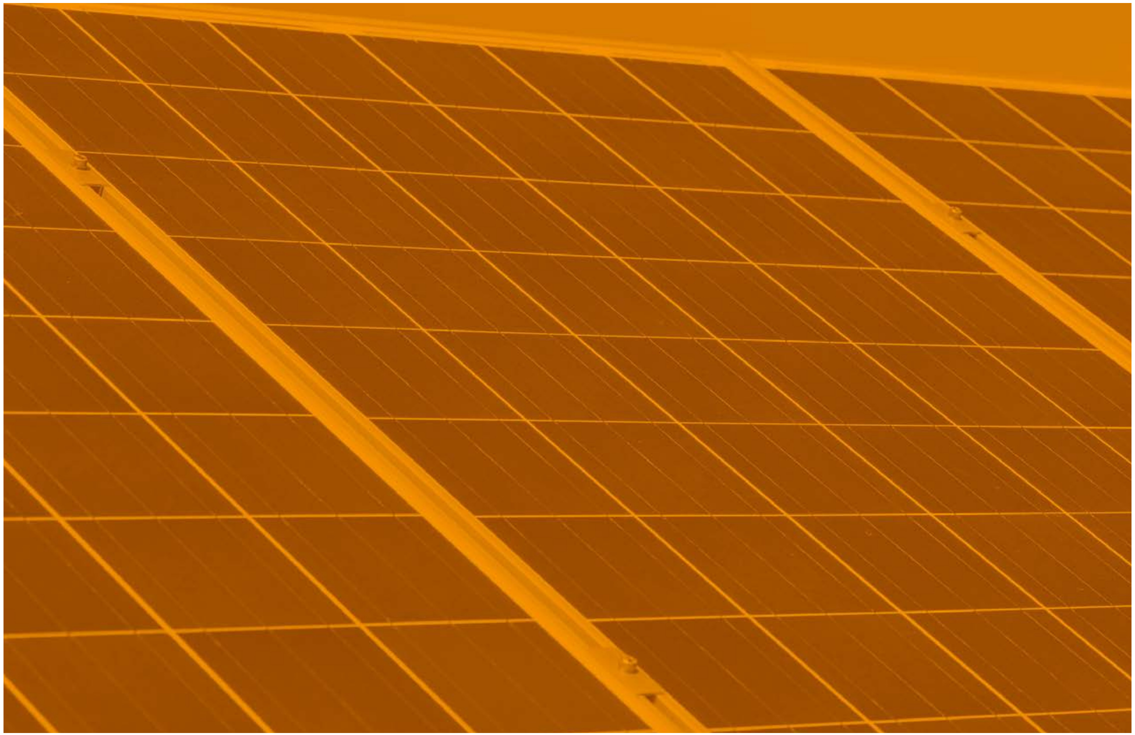
Employees who bring forward cases of suspected non-compliance will be informed at the conclusion of the investigation that the matter was looked into, whether or not a violation occurred and that appropriate action was taken, if any, however, the details of the action taken may not always be shared.

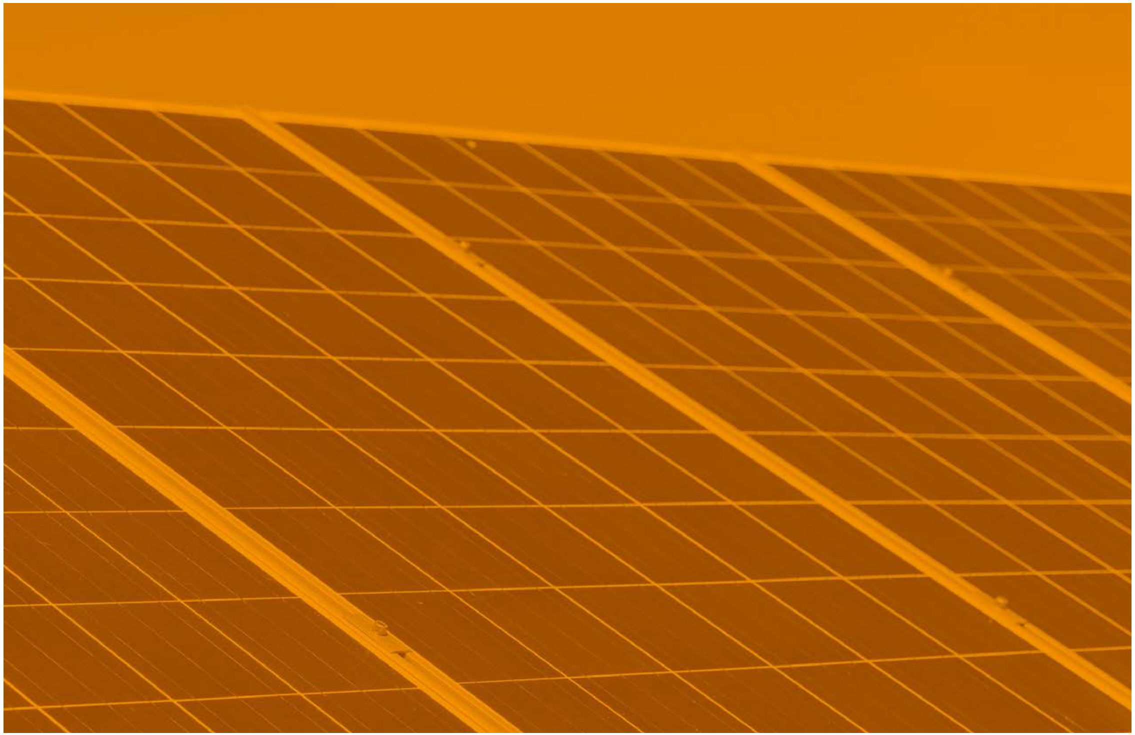
CONSEQUENCES FOR NON-COMPLIANCE

Non-compliance with the Code will be assessed on a case-by-case basis, and may lead to disciplinary action, up to and including termination of employment.

When a violation of law has occurred, or is thought to have occurred, the appropriate law-enforcement authority will be notified.

Effective January, 1, 2019, any prior Codes of Conduct, as well as any prior agreements which contradict the intent of the standards described and implied in this Code of Business Conduct, where the agreements were written or oral, expressed or implied, are terminated and cancelled, and superseded by this Code of Business Conduct. In the event that any provision or section in this Code, in part or whole, is deemed invalid or unenforceable by a court of competent jurisdiction, such invalidity or unenforceability shall attach only to the said provision or section, or part thereof, and the remainder of this Code shall be in full force and effect.






HydroOttawa

Société de portefeuille Hydro Ottawa Holding Inc.

Approved by the Board of Directors:
April 15, 2005
Revised on: None

HYDRO OTTAWA HOLDING INC
(HOHI)

Directors
Conflict of Interest and Conduct Guidelines

Hydro Ottawa relies upon the high ethical standards and good judgment of its Directors to uphold the values of Hydro Ottawa Holding Inc and it's subsidiary companies: Hydro Ottawa Limited, Energy Ottawa Inc. and Telecom Ottawa, to be known herein, collectively, as 'Hydro Ottawa' or 'the Company'. Conflict of interest can take several forms, not all of which are listed in this document. These guidelines are intended to provide support for Directors in regards to a conflict of interest and provide direction regarding conduct as related to corporate values and ethical standards. The Board of Directors of Hydro Ottawa Holding Inc. and all of its subsidiaries hereby adopts the following Directors Conflict of Interest and Conduct Guidelines. These guidelines apply in conjunction with the Hydro Ottawa Code of Conduct. The Board's Governance and Management Resources Committee is to oversee the review and revision of these Guidelines, and the Code of Conduct.

Principles

All Directors shall act in accordance with the provisions of the Ontario Business Corporations Act, the Shareholder's Declaration and common law. They shall:

a) demonstrate an understanding of their specific roles and act upon them,
b) serve, and be observed to be acting honestly and in good faith,
c) demonstrate loyalty to the Company and act only to enhance its reputation,
d) demonstrate an interest in and a commitment to the goals of the Company,
e) respect and preserve the confidentiality of corporate information, and
f) uphold the spirit and letter of all applicable federal and provincial statutes and regulations, the Code of Conduct and the policies of the Company.

Provisions Governing Director's Conduct:

a) The Business Corporations Act - Section 132
b) Shareholder's Declaration - Section 3.7
c) Hydro Ottawa by-law - Section 3.11

Confidentiality

1. Directors shall maintain the confidentiality of information related to the Company or which comes to them through their professional duties with the Company, unless required to disclose by law.

2. Directors shall act at all times to uphold the standards of confidentiality set for all employees and Directors of the Company. This includes reporting any employee or Director known to be

sharing information regarding Company affairs outside of that which is made available to the public or demanded by law, and alerting management to potential sources of inappropriate corporate disclosure.

3. Board members shall not disclose any business discussed within their capacity as a Director, nor shall they offer personal opinion to the media or to the shareholder of Hydro Ottawa regarding its business dealings or personnel, outside of that approved by the Chairman of the Board of Directors.

Business and Personal Conduct

All Directors shall demonstrate an appreciation of the fiduciary duties of a Director by acting in good faith, and demonstrating the highest standards of business conduct. They shall enhance the reputation of Hydro Ottawa through their timeliness, accuracy of their input and openness in the appropriate sharing of their knowledge and skills. Directors shall devote sufficient time to their duties. Directors shall treat each other, Hydro Ottawa staff and shareholders with respect and courtesy.

To ensure accuracy of information and safeguard corporate interests all dealings with the media should be through designated Company spokespersons. Directors designated as spokespersons shall work with the Director, Shareholder and Investor Relations to finalize message content.

Conflicts of Interest

Conflict of Interest
A broad definition of ‘conflict of interest’ is any action or condition that compromises the objectivity of decision-making in relation to the Company. A conflict of interest can occur when a Director’s personal, professional or business interest is adverse to, or appears to be adverse to the best interests of the Company. A conflict can occur where there is an opportunity to further the Director’s private interests, or those of a member of his or her family, through the Director’s relationship with Hydro Ottawa. Any situation that involves, or may involve, a conflict of interest with Hydro Ottawa should be promptly disclosed to the Governance Committee and dealt with in the manner described below.

The perception of wrongdoing can be as damaging as an actual transgression. Therefore, Directors shall take all possible steps to ensure the public cannot be given the impression of any benefit ascribing to a Director or a member of his or her family through the Director’s association with Hydro Ottawa regardless of any real or anticipated benefit to the Company.

Although it would not be possible to describe every situation in which a conflict of interest may arise, the Board of Directors have adopted the following guidelines for dealing with specific situations:

1. Except for approved expenses for Board or Board related activities, no amounts are to be paid to Directors beyond the amount stipulated by the Shareholder Declaration as fair compensation for the role of Director. Expenses for Board or Board related activities shall be subject to the same guidelines as apply to management.

2. Directors and their spouses shall not be involved in either the actual performance of services or direct supervision of performance of services or the manufacture of goods, of anyone else under contract to Hydro Ottawa while they are serving as a Director of Hydro Ottawa.

3. Where a Director is involved with a charity that receives money from Hydro Ottawa they shall excuse themselves from any vote or presentation that could result in a benefit to the charity.

4. Directors shall not use Hydro Ottawa corporate assets, resources or information except in connection with Company business.

Reporting of Interests by Directors

1. Directors, and nominees for the position of Director, must declare to the Hydro Ottawa Board of Directors:

   a. if they are receiving compensation from any contract or transaction with Hydro Ottawa outside of their relationship as a Director (for example as an investor in a company supplying a service to Hydro Ottawa);
   b. if they could receive compensation in the future from any contract or transaction with Hydro Ottawa outside of their relationship as a Director. (This includes any organizations that are potential targets for acquisition or organizations that are potential acquirers of one of the Hydro Ottawa subsidiaries, or any portion thereof);
   c. the nature and extent of any financial interest they hold, or that they are aware is held by a family member, in any party that is known to have applied to, or is entering into, or is currently in a business relationship with Hydro Ottawa; and
   d. all other boards and advisory councils they serve upon.

2. This information shall be restated by all Directors annually and updated as they become aware of new business relationships.

3. Directors must keep the Board informed of any corporate or charitable/non-profit Directorships they accept during their tenure with Hydro Ottawa as they occur.

4. It is the responsibility of each Director to declare a conflict of interest or the potential for the perception of a conflict of interest as soon as they are aware of it.

Governance and Management Resources Committee

1. In the event of any inconsistency between the provisions of these Guidelines and the Code of Conduct, these Guidelines shall prevail.

2. Any matter that could be perceived as a conflict of interest will be considered by the Governance and Management Resources Committee who will review the situation and recommend an appropriate course of action.

3. The Governance and Management Resources Committee may determine that a conflict of interest exists based on more stringent standards than the preceding guidelines where the Governance and Management Resources Committee considers it to be appropriate.

4. The Governance and Management Resources Committee will report to the Board of Directors in regards to the facts they were presented with and their recommendations. The contract or transaction must then be considered and the Governance and Management Resources Committee's recommendations approved by the Board of Directors. The interested Director, after providing the Board of Directors and/or Governance and Management Resources Committee with any required information, shall remove himself or herself from the room when the matter is discussed and voted upon.

Compliance

Signature of this document shall indicate a willingness to abide by its contents.

____
Signature

____
Name (in print)

____
Date

Société de portefeuille Hydro Ottawa Holding Inc.

1 **Approved by the Board of Directors on:
April 13, 2006
Basis of Reporting Approved by Shareholder on:
June 29, 2006**

HYDRO OTTAWA HOLDING INC
(HOHI)

**Related Party Transaction Disclosure
Policy and Process**

<u>Process</u>

1. Directors and their spouses are not to be involved in the performance or supervision of the performance of any work undertaken for Hydro Ottawa or its subsidiaries. The *Directors Conflict of Interest and Conduct Guidelines* require that directors declare to the Board of Directors if they receive any compensation or could receive any compensation in the future from any contract or transaction with Hydro. The required disclosure also relates to any transactions involving family members as well as any interest that they or a family member holds in an entity involved in a business relationship with Hydro Ottawa and its subsidiaries. Any matter that could be contrary to the Guidelines is to be reported by the director and is addressed to the Governance and Management Resources Committee for consideration. A report of the recommendation made by the Governance and Management Resources Committee is required to be provided to the Board of Directors for consideration and approval;
2. At each meeting of the Board of Directors and each of its committees an agenda item shall be included that requires that Board members make declarations of interest. At this time directors shall be asked to disclose any transactions in which they could have an interest but also to disclose any entities in which they have come to have a financial interest that could be involved in transactions with HOHI or its subsidiary companies;
3. On a semi-annual basis, directors and officers shall asked to provide to the General Counsel a list of all entities in which they, their spouse or dependant children have an interest either by virtue of the director's employment with the entity or by virtue of being a director, officer or shareholder in such entity. This list shall be provided to the external auditor as part of the annual audit of the company and its subsidiaries. The list of entities created by the disclosure made by directors (including subsequent disclosures made at meetings of the Board of Directors and its committees) shall be placed in the company's enterprise business system and provided to the procurement section of the organization. Any proposed contract with or payment to one of the listed entitiesshall be reported to the General Counsel and to the Chief Financial Officer to determine compliance with the company's *Code of Conduct* or the *Directors Conflict of Interest and Conduct Guidelines* prior to the transaction being completed or the payment being made. Any transactions or proposed transactions that could infringe these requirements shall be reported to the Governance and Management Resources Committee for consideration.

No identified transaction is approved and no payment made unless the General Counsel represents that the *Code of Business Conduct* and the *Directors Conflict of Interest and Conduct Guidelines* do not apply to the transaction or, in the event of any uncertainty, that the Board of Directors has approved the transaction based on a determination that the transaction complies with the requirements;

4. Material related party transactions involving directors, as defined pursuant to Generally Accepted Accounting Principles (GAAP) shall be reported annually to the Audit Committee and to the Board of Directors as part of the presentation of annual financial statements. Notice of the existence of any material related party transactions would also appear as a note in the consolidated financial statements for the company that are presented to the shareholder as represented by the Council of the City of Ottawa.

Policy: Disclosure to the Shareholder

Hydro Ottawa Holding Inc. will disclose annually to the shareholder, through the City Manager, notice of the following related party transactions involving directors of Hydro Ottawa Holding Inc. and of its subsidiary companies. The notice shall include certification by the company of compliance with the restrictions contained in the Shareholder Declaration relating to restrictions on payments to directors, their family members and entities in which directors have a substantive ownership interest:

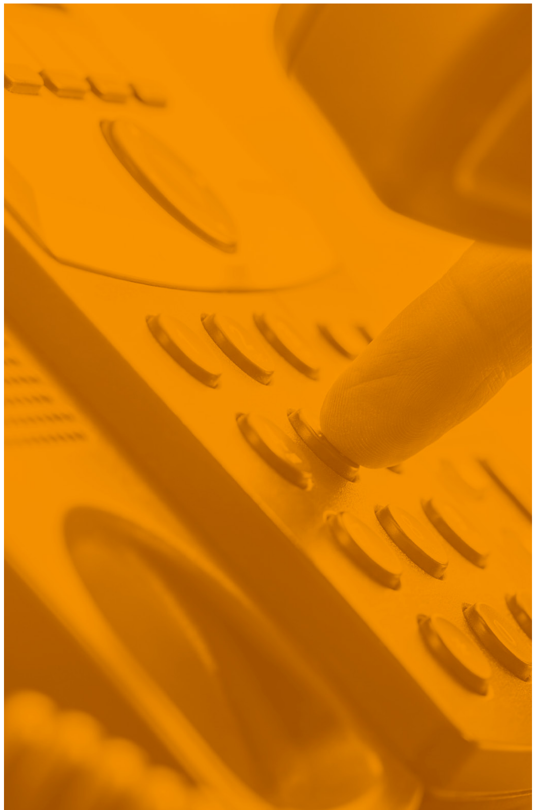
(1) Contracts and other transactions in which a director was involved in the delivery of services or the supervision of the delivery of goods or services for Hydro Ottawa Holding Inc. or a subsidiary company outside of the individual's role as a director of Hydro Ottawa Holding Inc. or of a subsidiary;
(2) Contracts or other transactions with an entity for which a director was a director, officer, shareholder (holding a substantive ownership interest) or otherwise holds a substantive ownership interest in the entity;
(3) Contracts and other transactions in which the spouse or dependent child of a director was involved in the delivery of goods or services or the supervision of the delivery of goods and services for Hydro Ottawa Holding Inc. or a subsidiary; and
(4) Contracts and other transactions with an entity for which a director's spouse or dependent child was a director, officer or shareholder (the latter, holding a substantive ownership interest).

The disclosure provided to the City of Ottawa will not include the following contracts and transactions:

(a) Contracts or transactions that arise because Hydro Ottawa Holding Inc. or its subsidiary provides goods or services in like manner and subject to like conditions applicable to other customers. Examples of such contracts and transactions include electricity distribution goods and services, electricity connection service, energy audits, energy conservation and demand management consulting services, and broadband telecommunications services;

(b) Transactions with a charitable or not-for-profit entity where the director, the director's spouse or the director's spouse or dependent child is a director or officer of the entity provided that the director, the director's spouse or dependent child receives no remuneration for being a director or officer of the entity; and

(c) Membership dues incurred in the course of business paid by Hydro Ottawa Holding Inc. or its subsidiary for membership in an entity on which a director or officer is a member of the board of directors of the entity



BUSINESS CONDUCT HOTLINE

HydroOttawa

The Business Conduct Hotline allows all Employees and Board Members to express concerns regarding perceived non-compliance with our Code of Business Conduct in a secure and confidential manner.

The Business Conduct Hotline is operated by an external independent third party provider. All reports to the Hotline are taken seriously and will be investigated if they are deemed to have merit.

You can express concerns by telephone, online and by regular mail.

Phone
1-866-505-5037
Live operator or voice mail

Online
clearviewconnects.com

Mail
**P.O. Box 11017
Toronto, Ontario
M1E 1N0**

The Hotline is not meant to replace common sense practices; such as speaking to colleagues, your immediate supervisor or Human Resources about concerns. The Hotline is meant to allow Employees and Board Members to anonymously report concerns when internal channels are not an option.

ANNEX "B"

What is the Business Conduct Hotline?

Hydro Ottawa[1] is committed to fostering an open environment that ensures ethical business conduct at all levels and reflects our shared values of teamwork, integrity, excellence and service. Every employee must lead by example in this endeavor.

For this reason, we have established our Business Conduct Hotline, a third party service that allows Employees and Board Members to anonymously report any concerns they might have related to perceived improper activities in the workplace and/or non-compliance with our Code of Business Conduct.

Why Have a Hotline?

A Hotline provides a supplement to the internal reporting process.

Who Operates the Hotline?

The Hotline is operated by Clearview Strategic Partners, an external and independent third party with extensive experience providing similar services to leading companies in Canada.

Who Can Use the Hotline?

All employees and members of the Board can use the Hotline to express a concern.

Is It Anonymous?

There is no requirement for those using the Hotline to identify themselves in any way, and no attempt will be made to identify anyone accessing the Hotline.

How Do I Use the Hotline?

You can contact the Hotline and express a concern by telephone, with the option of either speaking to a live operator or leaving a voicemail. You can also submit your concern securely online or in writing by mail.

[1]The reference to Hydro Ottawa and/or company should be read as referring to Hydro Ottawa Holding Inc., and all of its subsidiaries and/or affiliates.

What Kinds of Concerns Can I Report on the Hotline?

You can report on all matters relating to the business conduct of Hydro Ottawa, including:

- Safety
- Financial Accountability
- Business Reporting and Records
- Use of Technology and Social Media
- Audits and Investigations
- Respect for Individuals
- Off Duty Conduct
- Conflict of Interest
- Accepting/Giving Gifts and Entertainment
- Dealing with the Media

When Should I Use the Hotline?

Everyone is encouraged to report instances of perceived impropriety and/or non-compliance internally, by speaking with your immediate supervisor or higher levels of management. You may also speak to Human Resources. However, if you feel your attempts to address your concern through internal channels are not being responded to appropriately, or you are not comfortable with that approach, use the Hotline.

What Happens When I Make a Report?

Your confidential report on the Clearview system automatically triggers an email to one of two individuals: Hydro Ottawa's Director, Internal Audit, Risk and Advisory Services for matters involving all employees; or the Chair of the Audit Committee for matters involving the President and CEO or members of the Board.

Matters Involving Those At or Below the Manager Level

These confidential reports are forwarded by the Director, Internal Audit, Risk and Advisory Services to the Chief Human Resources Officer. Together the Director, Internal Audit, Risk and Advisory Services and the Chief Human Resources Officer determine if an investigation is required, direct the investigation and decide upon action to be taken.

Matters Involving Those Above the Manager Level

These confidential reports are forwarded by the Director, Internal Audit, Risk and Advisory Services to the President and CEO. The President and CEO determines if an investigation is required, directs the investigation and decides upon action to be taken, in consultation with the Director, Internal Audit, Risk and Advisory Services and the Chief Human Resources Officer.

Matters Involving the President and CEO or Board Members

These confidential reports are forwarded by Clearview to the Chair of the Audit Committee. The Audit Committee Chair reviews the report and recommends to the Chair of the Board whether or not an investigation should take place. The Audit Committee Chair recommends to the Board Chair what actions should be taken based on the results of the investigation.

Matters Involving the Audit Committee Chair

The Board Chair oversees all aspects of confidential reports involving the Audit Committee Chair.

If it is determined that a report warrants further investigation, the following applies:

Who Investigates Reports?

If a report is deemed worthy of investigation, an investigator will be appointed; this could be an internal or external investigator.

What Happens If It Becomes Known That I Made a Report?

There will be no reprisal, retaliation or disciplinary action taken against any employee or Board Member who responsibly reports in good faith.

Can I Find Out What Happens to My Report?

Yes, but only if your report is submitted online or to a live operator. You will be assigned a reference number that you can use when following up. With the reference number you can contact Clearview by telephone or online and find out the status of your report.

What If I Am Falsely Accused?

Mischievous, frivolous and malicious allegations made via the Hotline or any other means are in themselves considered breaches of our Code of Business Conduct. As outlined above, there is a systematic process for reviewing the merit of all reports, and for dealing with each report individually and thoroughly.

Will There Be Oversight of the Process?

Yes, the Audit Committee and the Board receive an annual report summarizing all matters raised through the Hotline and the action taken in response.

Effective January 1, 2019

COMPLIANCE PROGRAM

1. INTRODUCTION

As the electricity industry continues to grow and diversify, the volume and scope of compliance and reporting requirements continues to evolve. The compliance divisions of both the OEB and the Independent Electricity System Operator ("IESO") have identified the need for regulated entities and market participants to establish proactive internal compliance programs. In response to this need, in step with the Public Policy Responsiveness performance outcome under the Renewed Regulatory Framework ("RRF"), and in recognition of the organizational efficiencies and customer benefits that would be generated by a well-organized and strategically-deployed compliance program, Hydro Ottawa embarked upon the development and implementation of a comprehensive internal Regulatory Compliance Program ("Program"). This initiative focused on designing a Program that would be effective to manage, informative to the business, and adaptive and resilient to ongoing changes within the business and regulatory environments. A fundamental change was also introduced with respect to how compliance obligations would be managed internally in the future. The former Regulatory Affairs-driven model would be shifted to a company-wide model, wherein compliance monitoring and management would be embedded in day-to-day operations and performance outcomes.

Hydro Ottawa established the following objectives to guide this initiative:

- A fully-integrated, automated, and efficient compliance management platform;
- Clarity in the roles and responsibilities of stakeholders;
- Transparent, understandable, documentable, consistent, and resilient compliance management program and processes;
- Clear links between compliance requirements and associated business processes;
- Proactive, efficient, targeted, and insightful compliance monitoring, assessments, and reports;
- Responsive, adaptive, and effective compliance program;
- Early detection and resolution of compliance risks; and

- A visibly strong compliance culture at all levels of the organization.

In late 2016, Hydro Ottawa's Program began with the identification of the current state of compliance within the organization. Complementary to this process was the establishment of a catalogue of all existing OEB and annual IESO compliance requirements that could be accessed by internal stakeholders.

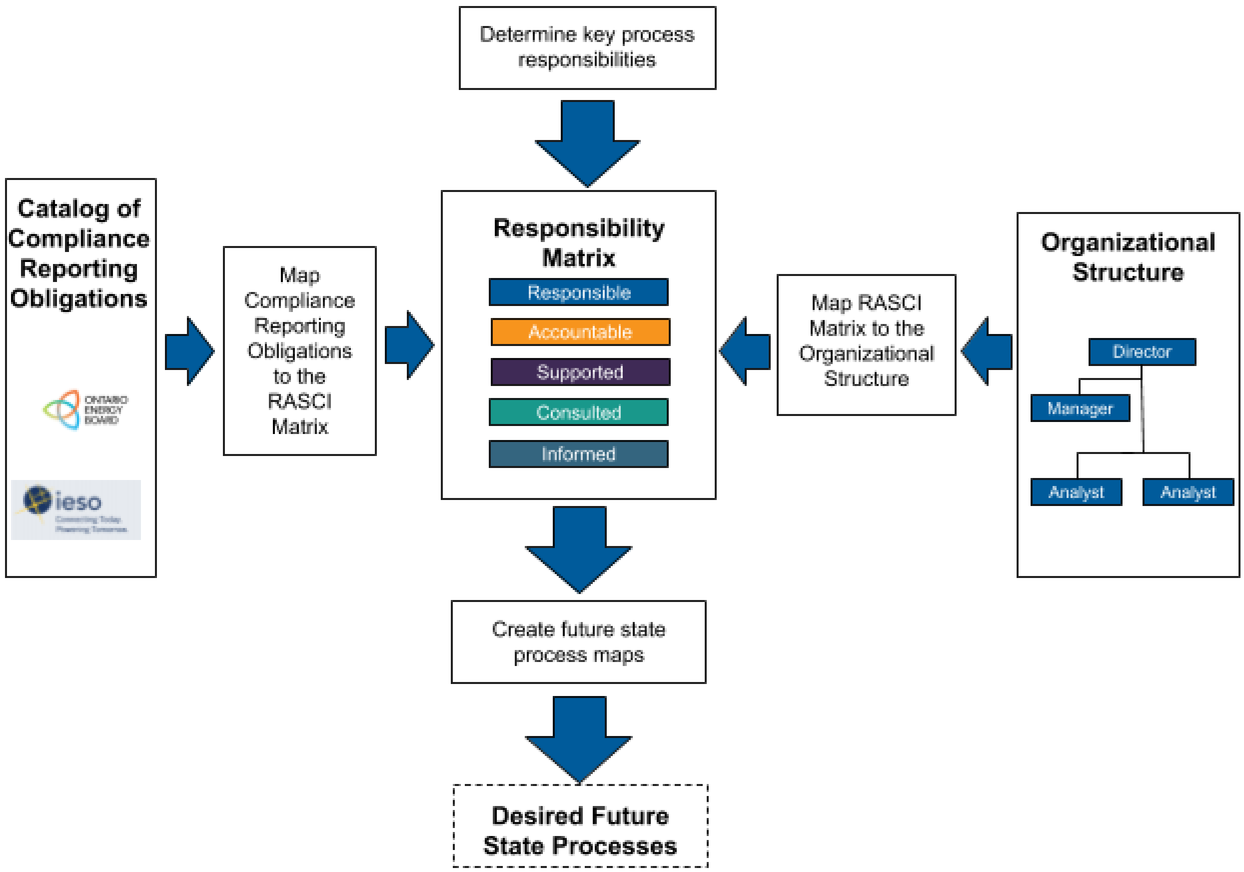
After a fulsome assessment of Hydro Ottawa's then-current compliance practices, the development of the Program began in collaboration with an external consultant. The consultant engaged with internal stakeholders to assess business practices and outcomes, identify gaps, and make recommendations. Within the six-month time frame allotted for the initial assessment, best practices were identified and incorporated into test compliance scenarios cross-functionally as a pilot. This phase of the Program enabled stakeholders to identify further potential opportunities for improvement and, in turn, envision the operational benefits of a well-documented and monitored Program.

2. PROGRAM DETAILS

An inventory was taken of existing OEB and annual IESO compliance requirements, accountabilities for the various compliance requirements were assigned, and the compliance status of each requirement was assessed. Internal stakeholder feedback sessions were also held to discuss Program requirements and obtain feedback on the effectiveness of the proposed process and supporting tools. The insights gained from this exercise informed the Program's design. Additionally, ongoing engagement with internal stakeholders identified potential challenges or barriers to success early on in the process and resulted in more effective outcomes and stakeholder support of the Program objectives and framework.

Figure 1 illustrates the Program design elements:

Figure 1 – Compliance Program Elements



With the draft Program approach in place, a cross-functional pilot was undertaken to test the Program framework across various functions. Utilizing the catalogue of requirements previously developed, internal stakeholders selected a compliance requirement to test. One-on-one meetings were held with individual business units to review the specific regulatory compliance requirements and Hydro Ottawa's proposed approach for managing compliance within the utility. Detailed analysis of data sourcing, documentation, record keeping practices, and employee roles enabled Hydro Ottawa to refine the Program, while at the same time effectively balancing stakeholder and regulatory compliance needs. For example, a key element of the Program that was introduced was the adoption of a Responsible, Accountable, Supporting, Consulted, and Informed matrix ("RASCI matrix") to identify compliance management roles. In consultation with internal stakeholders, each compliance requirement under review established a RASCI matrix, confirming the positions that were Responsible, Accountable, Supporting, Consulted, and Informed. This approach provided clarity and transparency as to operational compliance roles and requirements, while mitigating the risk of oversights when organizational or business needs changed. A description of the responsibilities within the RASCI matrix is provided in Figure 2 below.

Figure 2 – Compliance Program Best Practices RASCI Matrix

Responsible	Defines who is responsible for completing the process
Accountable	Defines who makes the final decision and has ultimate ownership
Supporting	Defines who will provide help to the responsible members
Consulted	Defines who is not directly involved, but who must be consulted before a decision or action is taken
Informed	Defines those who receive output from the task or who need to be aware that a decision or action has been taken

3. NEXT STEPS

With the Program framework in place, Hydro Ottawa will be focusing on fully implementing and operationalizing the Program across all business functions. A key factor towards achieving an effective and efficient Program is the utilization of appropriate software. As part of Hydro Ottawa's Information Management/Information Technology strategy, Regulatory Affairs plans to examine the feasibility of utilizing new, in-house collaboration platforms as a first and preferred step. Automation of the Program will improve efficiencies and outcomes in the short and longer term. It is expected that fully automating the Program will ensure the objectives underpinning this initiative will be optimized. The introduction of automated compliance tools and the integration of employee education and support materials are examples of enhancements to the Program which Hydro Ottawa intends to pursue during the 2021-2025 rate period.

4. CONCLUSION

Hydro Ottawa is committed to the continued evolution and success of the Program and to ensuring that business practices continue to align with regulatory compliance obligations in a timely, efficient, and effective manner. Guiding this effort are the principles of consistency, continuous improvement, transparency, and the promotion of a strong compliance culture.