Hydro Ottawa
Holding Inc.

Annual Report 2019

Our Mission

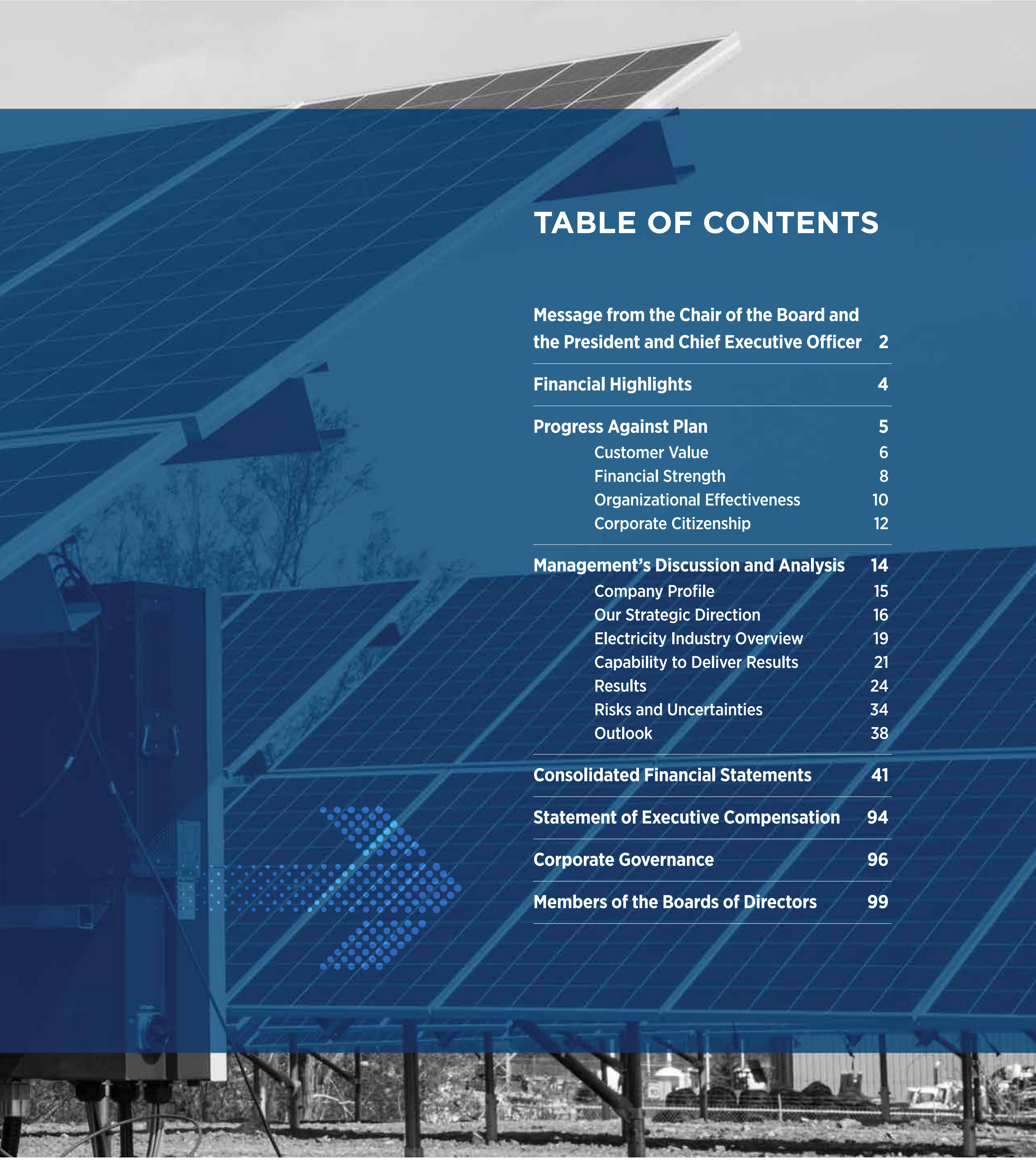
To create long-term value for our shareholder, benefitting our customers and the communities we serve

Our Organizational Values

Teamwork, Integrity, Excellence and Service

Our Vision

Hydro Ottawa – a leading partner in a smart energy future



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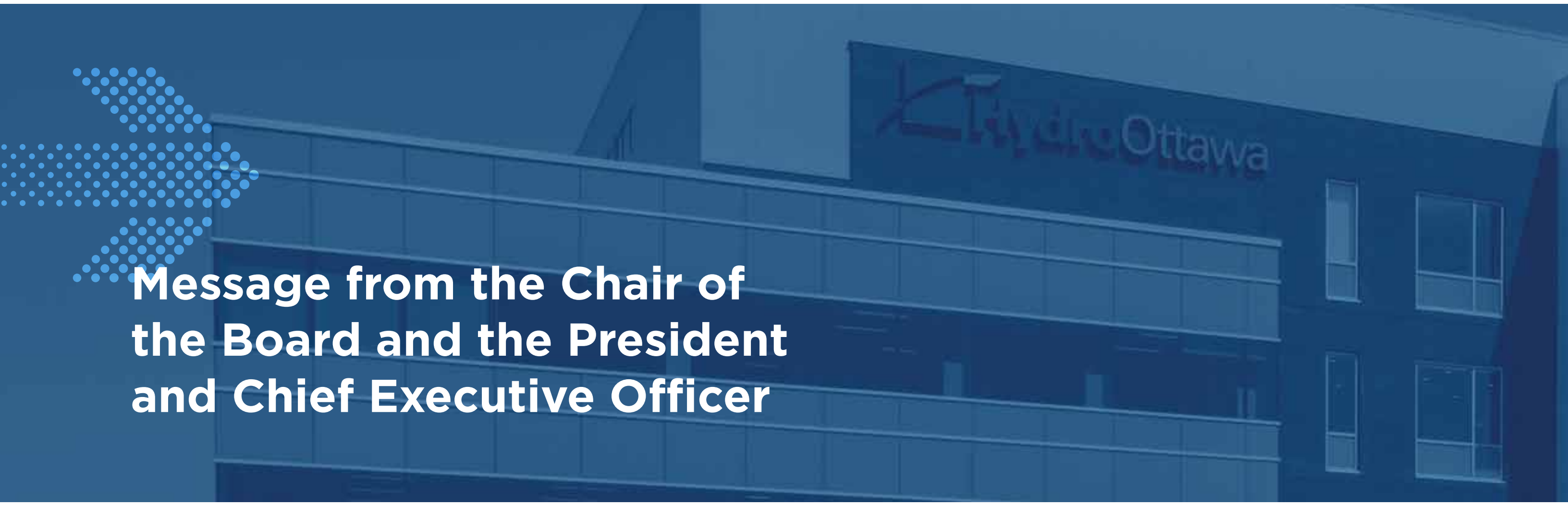


Message from the Chair of the Board and the President and Chief Executive Officer

On behalf of the Board of Directors of Hydro Ottawa Holding Inc., our management and employees, we are pleased to provide this 2019 Annual Report to our shareholder, the City of Ottawa. This report marks our fourth 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. We would be remiss, however, if we did not begin with a brief comment on the extraordinary events of early 2020.

We've never prepared an annual report under conditions like those prevailing as we sign off on this one, with states of emergency in effect throughout our operating jurisdictions and indeed much of the world. The COVID-19 pandemic is impacting all aspects of Hydro Ottawa operations, and the timeframe for a return to more normal conditions – whatever they ultimately consist of – cannot be precisely foreseen.

As dramatic and largely unforeseeable as this development was, we were not caught unprepared at Hydro Ottawa. We are a safety conscious organization, accustomed to responding fast to uncontrollable events with large-scale impacts, albeit usually weather related. Our current Strategic Direction anticipated the need for disruption readiness, and over the last four years we have put in place new facilities, processes and tools that enabled us to respond quickly and effectively.

Guided by our pandemic plan – activated on January 27, 2020 – we enabled hundreds of employees to work remotely, and implemented safeguards for field crews and others whose responsibilities precluded that option. We took all feasible steps to protect the health of our employees and to minimize any potential contribution to community spread, while maintaining the reliable power supplies that become even more vital during a crisis. Working closely with government and regulatory agencies, we also began to provide some relief from the sometimes severe financial hardship the pandemic has already created for many of our customers.

2019 in Review: Consistency Across Multiple Brands

Our regulated distribution operations remained at the core of our business in 2019. But as the cover image of this report reflects, there were important milestones in the pursuit of our diversification strategy. Our energy and utility services were hived off at the start of 2019 from the operations formerly carried out by our Energy Ottawa subsidiary, and are now pursued under our Envari subsidiary and brand. Then in June our multi-jurisdictional Energy Ottawa renewable energy assets – which have grown more than five-fold since 2012 – began operating under the Portage Power brand. While these operations now have distinct identities, they remain very much part of the Hydro Ottawa family with a consistent focus on the four critical areas of performance elaborated on in subsequent sections of this report.

Within our core regulated business, we continued to develop the scale, resilience and technological capacities that will ensure the distribution grid can meet constantly evolving customer expectations, within a context of population and electrification growth. We maintained our focus on operational cost efficiency and achieved our lowest outage duration in the past seven years – to cite just two among the most fundamental of customer expectations.

While we did not suffer weather-related disruptions on the same magnitude of the 2017 floods or 2018 tornadoes, flooding did create significant generation-related mitigation costs and pushed back station refurbishment timeframes. Fortunately, we were also

well served in this regard by previous investments, and the damage was limited by protective measures implemented at our stations after the events of 2017.

Our consolidated net income was $32.5 million in 2019. While that was lower than in 2018, we remain on track relative to the cumulative net income commitment made in our 2016–2020 Strategic Direction. We delivered a consolidated return on equity of 7.0 percent for the benefit of our shareholder, the City of Ottawa, and paid a $22.3 million dividend payment to our shareholder in 2019 (based on 2018 performance).

Capital investments of all types totaled $257.7 million in 2019. While refurbishments and other electricity generation investments made up the largest single category, that total also included $56.5 million in distribution system renewal and sustainment and $49.3 million in support of new demand. Electricity distribution system investments are guided by our Ontario Energy Board-approved capital expenditure plan, and directed to where they will have the greatest value for customers.

2019 in Review: Customer and Community Value

We continued to improve the customer experience, and to remain in step with dynamic expectations relating to ease-of-access, and innovation and continuous improvement in contact points and communications channels. Our customer satisfaction rating remained at a record level of 94 percent.

Our community involvement and investment remained extensive, and through employee charitable fundraising alone we were able to provide hundreds of thousands of dollars to support crucial health care and community-wellbeing initiatives.

The advent of the COVID-19 pandemic in early 2020 dramatically underscored the importance of good practices and programs to safeguard health and safety, within and beyond our operations. It also provided further opportunities to act on our belief in good corporate citizenship, through donations of personal protective equipment for the use of local frontline health workers during the pandemic.

While we ended 2019 on-track relative to Strategic Direction commitments, the pandemic will adversely impact our financial results in 2020 and quite possibly beyond. Distribution revenues in particular stand to be significantly reduced by decreased commercial consumption. The various electricity-related measures already rolled out as part of the provincial government's pandemic response also reinforce the reality that – as a provincially regulated utility – our results are consistently shaped by policy decisions.

We are carefully monitoring liquidity and other implications of the pandemic, mitigating against them by the means we can, and engaging with regulators and others on steps that will need to be taken at the provincial level. We are also fervently hoping for minimal impacts from the pandemic for all of our employees and customers, and for a resumption of more typical business operations and day-to-day living in the near future.

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

Bryce Conrad
President and Chief Executive Officer

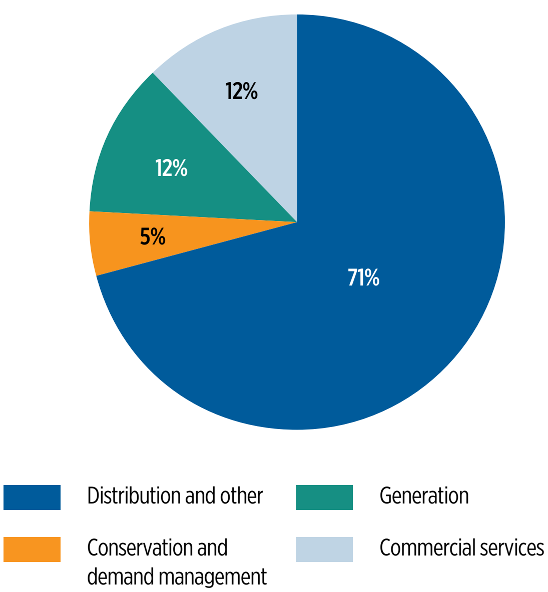
Financial Highlights

(in thousands of Canadian dollars)

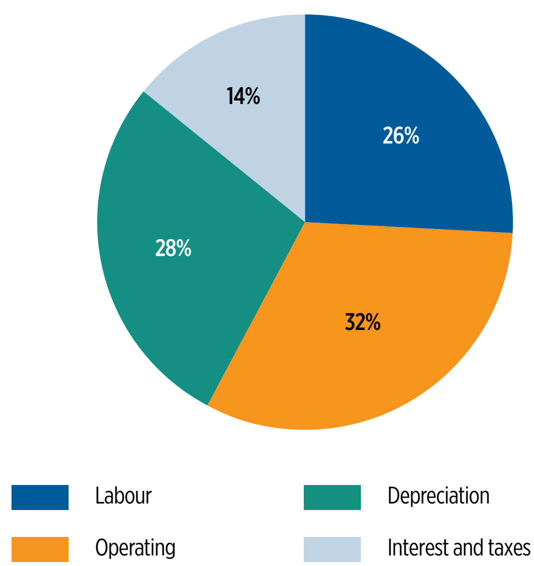
	2019	2018
Operations		
Total revenue [1]	**$ 1,170,063**	$ 1,132,294
Distribution revenue [1]	**$ 187,690**	$ 180,216
Generation revenue	**$ 32,239**	$ 32,325
Commercial services revenue	**$ 33,939**	$ 28,998
Conservation and demand management income	**$ 13,018**	$ 24,865
EBITDA [1]	**$ 137,192**	$ 141,675
Net income	**$ 32,522**	$ 42,138
Dividends	**$ (22,300)**	$ (21,900)
Balance Sheet		
Total assets and regulatory balances	**$ 2,162,484**	$ 1,855,616
Capital assets	**$ 1,746,867**	$ 1,573,661
Debentures	**$ 1,060,733**	$ 773,390
Shareholder's equity	**$ $470,297**	$ 462,882
Cash Flows		
Operating	**$ 100,826**	$ 139,031
Investing	**$ (230,172)**	$ (182,747)
Financing	**$ 264,688**	$ (21,900)

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 2019 Annual Report is the fourth 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

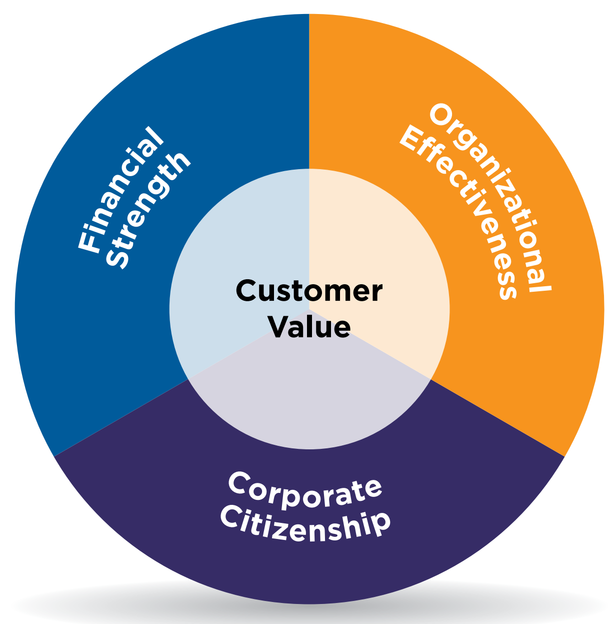
- By cultivating a culture of innovation and continuous improvement

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.

$56.5M invested to keep distribution system safe and reliable

Improved quality and capacity of our website

The essence of Hydro Ottawa's business strategy is to put the customer at the centre of everything we do. In 2019, we continued to deliver the core elements of the value proposition customers expect, including assistance in managing energy consumption and costs, meeting rising expectations for service quality and responsiveness, and maintaining the overall reliability of the distribution system.

Capital investments continued, as set out in our OEB-approved 2016–2020 rate plan. These included $56.5 million to renew and sustain the local grid, with a particular focus on aging infrastructure and imminent risks to reliability and service quality. In a reflection in part of the effectiveness of such investments in recent years, and also of the relative absence of major weather events, outage duration in 2019 was at the lowest level in the past seven years.

We invested a further $49.3 million to meet growing demand and to connect new customers. This included work on the interconnection to link our refurbished Quebec electricity generation assets with the Ontario grid, and ongoing infrastructure relocation work as part of the renewal of Elgin Street. Additional grid modernization initiatives – including extending the reach of our Supervisory Control and Data Acquisition System (SCADA) – will further shorten response times when outages do occur.

Maintained 94% customer satisfaction rate

Highest e-billing participation in Ontario

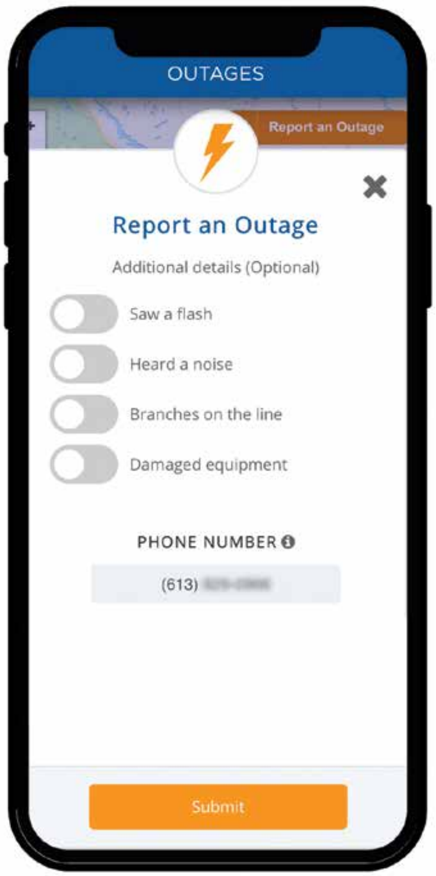
Among top-ranked utilities on operational cost efficiency

An overhaul made our website faster loading, easier to search, and more accessible and mobile friendly – while also ensuring it has the bandwidth to handle the traffic that major weather events can create. Enhancement of our social media and other customer communication channels continued, including the addition of live web chat and the launch of our ThinkEnergy podcasts. In these ways, we continued our advance beyond traditional utility service models.

We continued to offer services and information to support energy conservation, including via the Hydro Ottawa App. Consistent with new provincial policy on Conservation and Demand Management program delivery, we re-focused resources on regional program development, including leadership of a multi-utility PoolSaver program.

Robust engagement opportunities in 2019 enabled our customers to help shape and validate the 2021–2025 Custom Incentive Rate Application that we submitted to the OEB in February 2020. Nearly 21,000 customers participated in this process by a variety of means, with majorities across all customer categories indicating support for the plans incorporated into the application.

We maintained a 94 percent overall customer satisfaction score, which is the highest level in the past decade, and our call centre satisfaction rate rose to 87 percent. Half of our customers now make use of the e-billing option, the highest participation rate among Ontario distribution utilities. Hydro Ottawa ranked within the top three large distribution utilities in Ontario on operating efficiency, measured by total cost per customer.



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.

$32.5M in net income

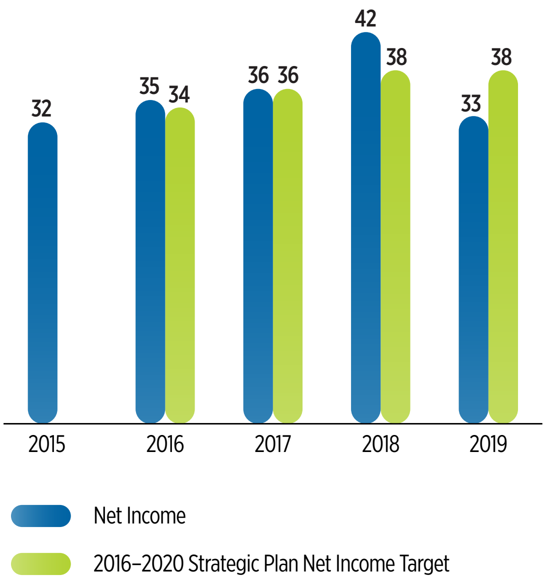
$22.3M dividend to shareholder

Hydro Ottawa achieved financial results in 2019 that safeguarded shareholder value and strengthened the foundation for its continued growth. Financial outcomes during the year were shaped by one-time costs and impacts arising out of such occurrences as weather events, and the centralization of provincial Conservation and Demand Management (CDM) programs previously delivered by Hydro Ottawa and other licensed electricity distributors.

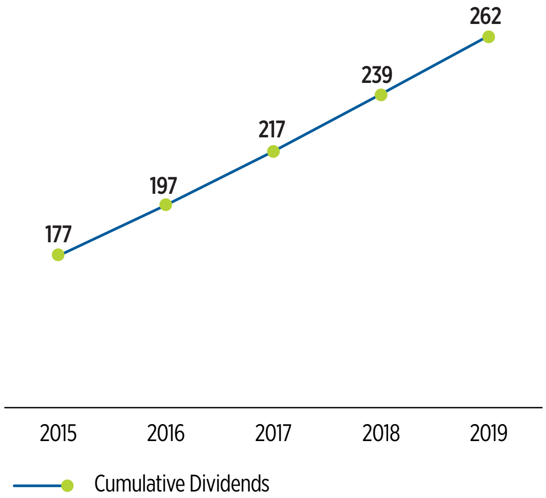
Spring flooding resulted in significant mitigation costs at our Chaudière Falls electricity generation facilities on the Ottawa River, and impacted completion timeframes for refurbishments of two of these stations located in Québec. Flooding in both February and October also impacted one of our New York State generating stations, requiring an extensive re-build.

The wrap up of delivery of some 850 active CDM programs, a line of business which generated a $4.1 million incentive payment for Hydro Ottawa in 2018, was largely completed by the end of 2019. This was in response to the provincial government decision to re-assign delivery of CDM programs to the Independent Electricity System Operator (IESO). Hydro Ottawa and local residents and businesses have been leaders in energy conservation and we will continue to work with the IESO to ensure our customers have access to the remaining programs.

Net Income [$ millions]



Cumulative Dividends [$ millions]



Return on Equity of 7.0%

$103.6M invested to refurbish generation at Chaudière Falls

Diversification under the Envari brand

Our consolidated net income was $32.5 million in 2019. While that was lower than in 2018, we remained on track at year-end relative to the cumulative net income commitment made in our 2016–2020 strategic plan. We delivered a consolidated return on equity of 7.0 percent for the benefit of our shareholder, the City of Ottawa, and paid a $22.3 million dividend payment to our shareholder in 2019 (based on 2018 performance).

While our regulated distribution operations continued to be the largest contributor to our net income, revenue growth under the current regulatory model is expected to be modest, and will be suppressed in 2020 and possibly beyond due to the COVID-19 pandemic. All this adds to the cost containment and productivity imperatives. Since 2016, we have been able to keep the growth rate in our operating costs at an average of one percent despite inflationary and labour pressures.

In keeping with our 2016–2020 Strategic Direction, our Envari energy and utility-services business became increasingly diversified in 2019 and saw revenues grow by approximately 13 percent to $21.1 million. Revenue growth from its CableQ testing technology was particularly strong, and the incubation of new products, services and technologies continued. The first phase of Envari's streetlight conversion and maintenance project for the City of Ottawa was materially completed ahead of schedule, and a contract for streetlight conversion in the Town of Renfrew was awarded. Envari also secured City Council approval to manage a cogeneration-system upgrade at Ottawa's wastewater collection and treatment plant – anticipated to be a $57.2 million, four-year project.

One of two Québec hydroelectric generating stations under refurbishment went into operation in February 2020, slightly ahead of a schedule adjusted to account for the 2019 floods, while completion of the second remains underway (its timeframe was further impacted by the provincially ordered construction shutdown during the COVID-19 epidemic). Once operational, these stations will sell power under 40-year agreements onto the Ontario grid. A $290.5 million Green Bond to finance these refurbishments was also completed in 2019.

Organizational Effectiveness

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

Retained safety as our top priority

Added new apprentices and journeypersons

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. To make this possible, in 2019 we continued to foster 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 on mindful and safe work practices. We provided an average of over 25 hours of safe work practices training per employee, and 43 hours for employees in high 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. And our safety performance was the strongest in the last decade and exceptional in comparison to industry peers.

Like many other utilities, Hydro Ottawa has faced challenging workforce demographics. But with the benefit of proactive recruitment, training, and succession plans, we are successfully renewing our workforce. Robust apprenticeship and internship programs are an important part of our response, with 43 apprentices making up a quarter of our trades workforce in 2019. Five apprentices achieved journeyperson status during the year, and our partnership with Algonquin College to replenish the Powerline Technician trade remained vibrant.

We celebrated both International Women's Day and Lineworker Appreciation Day for a second time, as part of a broader suite of initiatives to advance workforce diversity, inclusion, engagement and recognition.

Contained operating costs through productivity

Invested $11.4M in next-generation technology

Completed facilities renewal program

Innovation, productivity and cost control remained key focal points. Significant initiatives in 2019 included rollout of a new software platform for electrical service requests; continued use of technology to schedule fieldwork more efficiently; and further process digitization. We invested $11.4 million in next-generation technology to support customer service and operational efficiency. This included a proactive cybersecurity program designed to strengthen our risk-readiness and prevention posture.

We completed construction and took occupancy of two new operations centres and an administrative office in 2019, and disposed of two obsolete facilities inherited from pre-amalgamation utilities. The new facilities were 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.

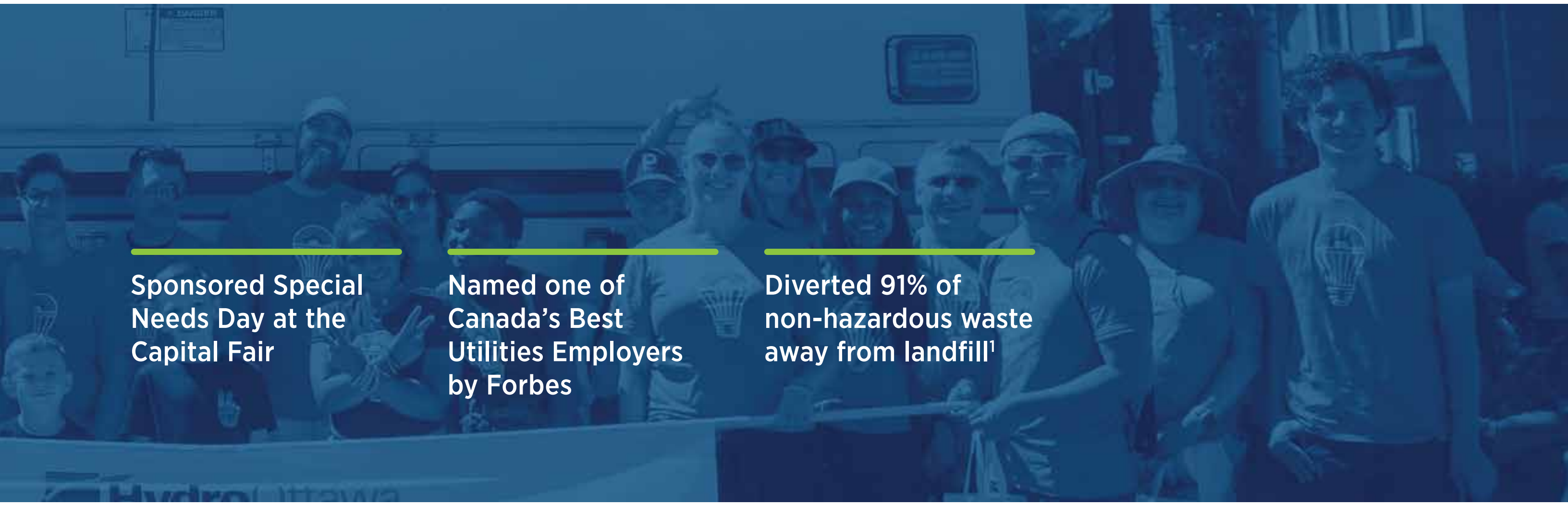
Raised >$390K through employee charitable fundraising

Made educational presentations to >20,000 students

In 2019, Hydro Ottawa remained true to its heritage as a responsible company – one that is well-governed, open and engaged with stakeholders, environmentally responsible, and an active contributor to community wellbeing.

We were highly visible and accessible to our stakeholders, while also providing impactful support in diverse and carefully chosen ways across our communities. 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 and province.

We communicated regularly in 2019 with the City of Ottawa as our sole shareholder, and with its mayor and councillors; as well as with community associations and business improvement areas, and with Ottawa residents more broadly. We hosted open houses to discuss our planned work and its community impacts; sponsored or participated in more than 460 community events; took part in additional community events along with our shareholder; and educated more than 20,000 local students about electrical safety and the science of energy. We also continued to expand our profile on both traditional and social media channels.



Sponsored Special Needs Day at the Capital Fair

Named one of Canada's Best Utilities Employers by Forbes

Diverted 91% of non-hazardous waste away from landfill[1]

Our Community Investment Program continued to be a leading source of targeted charitable funds in Ottawa. We raised over $390,000 as part of our 2019 employee-driven charitable fundraising campaign. Funds were directed to a five-year, $1 million arrangement with The Ottawa Hospital to help build its Breast Health Centre, as well as to the United Way.

Special Needs Day continued to be an employee-volunteer highlight, making it possible for children and adults with disabilities to experience a day at the Capital Fair. We also renewed 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 focusing on education; on health, safety and wellness; and on renewables and energy efficiency and conservation.

Emissions reductions, waste diversion, local procurement, and enhanced performance measurement were among the efforts that continued to lighten our own environmental footprint. We reduced greenhouse gases per hour worked by four percent and this and other specific achievements contributed to recognition as one of Canada's Greenest Employers for the eighth time.

We were pleased to receive more than a dozen third-party awards and acknowledgments relating to the calibre of the employment experience, diversity, leadership, human resources innovation, customer programs and corporate social responsibility at Hydro Ottawa.

[1] Excluding waste generated in connection with facilities renewal; 86% diversion if that waste is included.

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, 2019. The accompanying consolidated financial statements are prepared in accordance with International Financial Reporting Standards ('IFRS')[1] , as issued by the International Accounting Standards Board, 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 April 16, 2020, 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.

[1] Hydro Ottawa Holding Inc. adopted IFRS, including early adoption of *IFRS 14 Regulatory Deferral Accounts* ('IFRS 14') on January 1, 2015.

CORE BUSINESSES 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 340,000 residential and commercial customers across 1,116 square kilometres. The company's customer base grows by an average of one percent per year.

Energy Ottawa Inc., the second of these subsidiaries, operates under the brand Portage Power and is the largest Ontario-based municipally owned producer of green power. Portage Power 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 16 solar installations across the City of Ottawa. In total, Portage Power 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. Envari provides extensive energy services to the City of Ottawa while also serving a diverse and expanding broader client base. The activities now carried out by Envari were conducted by 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

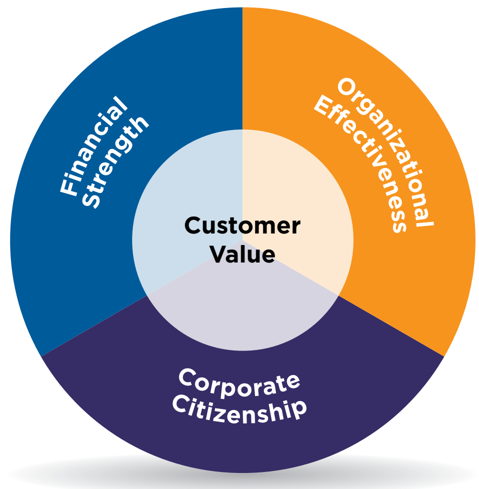
We are financially accountable to our shareholder and to the institutions that underwrite our operations, and communicate to them all matters material to our organization. We protect our shareholder's investment, and manage risks effectively. We communicate to our shareholder all matters that are material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

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, Northern Development and Mines ('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 is less than 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.

Portage Power's hydroelectric, landfill gas-to-energy and solar generation rates are set through facility-specific contracts. For those facilities delivering power to Ontario and Québec, Portage Power 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, Portage Power'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

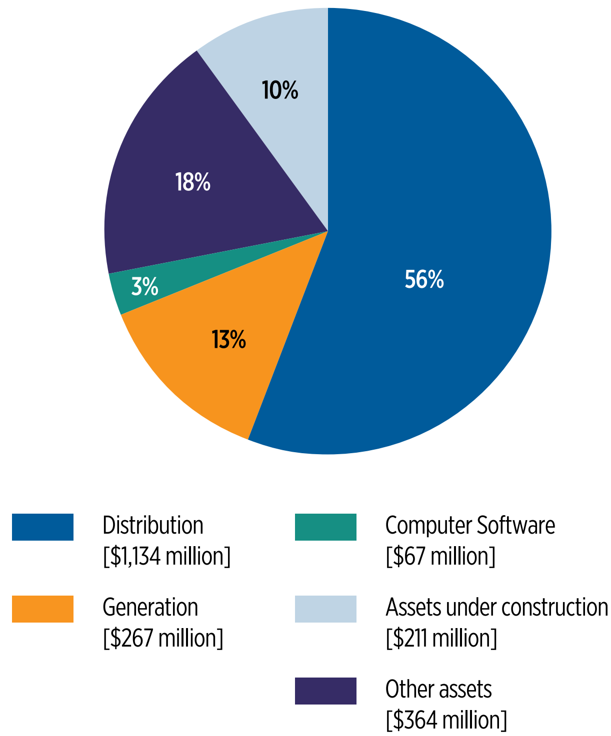
Hydro Ottawa's capability to achieve the objectives set out in its strategic direction is a function of its tangible and intangible assets, expertise, systems, and capital resources across the following areas.

Assets

Hydro Ottawa's gross asset base is $2 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 2019, the Corporation invested $57 million to maintain its distribution system and a further $49 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 impact of weather-related events. Hydro Ottawa has also recognized the need to replace core administrative and operational centres that are at the end of their useful life. In 2019, construction was completed on its operations centres and administrative office. Moreover, Hydro Ottawa completed the sale of two facilities inherited from pre-amalgamation utilities. Hydro Ottawa also continues to grow its renewable generation infrastructure. Investments of $117 million were made in these facilities in 2019, including the ongoing refurbishment of its two generating stations located in Québec (due for completion in 2020).

- ***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 – 5,836 kilometers
  - › Substations – 91
  - › Transformers – 46,491
  - › Poles – 48,911

Gross Tangible and Intangible Assets



- ***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 – 16 (includes 2 behind-the-meter solar installations)

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 716 people at the end of 2019 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 2019 with six new apprentices hired (bringing the total to 43, or 24 percent of our trades workforce). Five apprentices reached journeyperson status in 2019.
- ***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 2019 include:

- rolled out a new software platform (Salesforce) for electrical service requests reducing processing time and improving accuracy;
- continued to leverage technology to more efficiently schedule work in the field;

- relocated to new facilities that significantly improve operational efficiencies, are ideally situated in commercial and light industrial areas, that will improve emergency responsiveness thanks to their proximity to Highways 416 and 417 interchanges; and
- continued to digitize processes and to reduce overall paper footprint by leveraging various technologies such as Workday, Blue Beam and DocuSign.

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 September 19, 2019, the Corporation renewed its credit facility for $340 million, for general operating requirements and annual capital expenditures.

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 17 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. A $290.5-million, project level, 40-year non-recourse Green Bond was issued in 2019 for the refurbishment of the two generating plants located on the Québec side of the Chaudière Falls at a rate of 3.53 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 August 26, 2019, Dominion Bond Rating Service Inc. ('DBRS') reaffirmed Hydro Ottawa's 'A' rating, although it changed the trend on its rating from stable to negative. The rating confirms the continued strength of Hydro Ottawa's regulated electricity distribution operations, while the negative trend reflects the growth in the non-regulated generation business which has now exceeded DBRS's threshold of 20 percent of consolidated EBIT. DBRS noted that it may downgrade its rating by one notch to A (low) and change the trend back to stable following the completion of the Québec generation plant refurbishment projects, expected in the latter half of 2020. On September 25, 2019, Standard & Poor's ('S&P') confirmed its 'BBB+' rating with a stable outlook. S&P noted that Hydro Ottawa continues to have an excellent business risk profile due to its operation under a supportive regulatory regime 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.

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 2019.

KEY AREAS OF FOCUS	ENTERPRISE STRATEGIC OBJECTIVES	2019 PERFORMANCE GOALS	2019 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 & responsiveness Maintain overall distribution system reliability	• Maintained strong reliability throughout 2019 by leveraging technology and automation to ensure quick power restoration and minimal customer impact • Invested $56.5M to keep our distribution system safe and reliable, for a cumulative total of ~$270M of the five-year (2016-2020) Strategic Direction • Achieved 94% customer satisfaction rating, highest in the last decade • Ranked third for operating efficiency (lowest costs per customer) among large distributors in Ontario • Updated our hydroottawa.com website to provide enhanced mobile-friendly user experience, easier search capability, and proper bandwidth in the event of a storm when website traffic is at its peak • Achieved highest e-billing participation rate among Ontario LDCs (50% of customers), saving $1.9M per year
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 $32.5M, for a cumulative total of $145.4M or 79% of the five-year (2016-2020) Strategic Direction commitment • Remained on track for completion in 2020 of the refurbishments at our Chaudière Falls generating stations in Québec despite flooding on the Ottawa River for the second time in three years; once operational, these stations will sell power under 40-year agreements onto the Ontario grid; completed a $290.5M Green Bond to finance these refurbishments • Continued to diversify our revenue streams under the Envari brand: › Converted 14,327 City of Ottawa streetlights to LED for a cumulative total of 50,114 and providing over 60% savings in kWh › Secured approval from the City of Ottawa to project manage a major upgrade of the cogeneration system at the Robert O. Pickard Environmental Centre (ROPEC) › 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	2019 PERFORMANCE GOALS	2019 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 more than 25 hours of safe work practices training for all employees, and worked 1.2 million hours with only two lost work days • Continued our focus on productivity and continuous improvement • Invested $11.4M 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 • Completed construction phase of the facilities renewal project and transitioned workforce into the new facilities; also disposed of two former facilities • 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 $390K as part of our 2019 Employee Charitable Fundraising campaign • Increased our engagement with the community: › Attended more than 400 community events › Educated 20,000 students (K-12) about electricity safety and conservation and renewable energy › Hosted five open houses for planned work › Collected customer feedback for Hydro Ottawa's proposed rate application through three focus groups, two symposiums and a survey (>20,000 responses) › Social media followers grew by 14% across all platforms (Twitter, Facebook and LinkedIn) › Launched ThinkEnergy Podcast • 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 86% of our non-hazardous solid and liquid waste away from landfill • Received 13 awards for performance excellence, including: › Canada's Best Diversity Employers (2nd year) › Canada's Top Employer for Young People (6th year) › One of the National Capital Region's Top Employers (11th year) › Chartwell Best Practices Award in Billing and Payment, Self-Service and Outage Communications and › Canada's Greenest 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, 2019.

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)

	2019	IFRS 14 Impact	2019 (Pre-IFRS 14)(1)	2018	IFRS 14 Impact	2018 (Pre-IFRS 14)(1)	Change (Pre-IFRS 14)(1)
Revenue and other income							
Power recovery	**904,030**	**(11,806)**	**892,224**	857,383	(5,434)	851,949	40,275
Distribution	**184,215**	**3,475**	**187,690**	181,050	(834)	180,216	7,474
Generation	**32,239**	**-**	**32,239**	32,325	-	32,325	(86)
Commercial services	**33,939**	**-**	**33,939**	28,998	-	28,998	4,941
Conservation and demand management	**13,018**	**-**	**13,018**	24,865	-	24,865	(11,847)
Net gain from insurance proceeds	**3,312**	**-**	**3,312**	6,865	-	6,865	(3,553)
Other	**7,641**	**-**	**7,641**	7,076	-	7,076	565
	1,178,394	**(8,331)**	**1,170,063**	1,138,562	(6,268)	1,132,294	37,769
Expenses							
Purchased power	**905,193**	**(17,927)**	**887,266**	857,877	(12,493)	845,384	41,882
Operating costs	**144,883**	**1,391**	**146,274**	145,694	162	145,856	418
Depreciation and amortization	**69,317**	**-**	**69,317**	62,180	-	62,180	7,137
	1,119,393	**(16,536)**	**1,102,857**	1,065,751	(12,331)	1,053,420	49,437
Income before undernoted items	**59,001**	**8,205**	**67,206**	72,811	6,063	78,874	(11,668)
Financing costs, interest income and taxes	**48,155**	**(12,802)**	**35,353**	45,986	(8,629)	37,357	(2,004)
Share of profit from joint ventures	**(669)**	**-**	**(669)**	(621)	-	(621)	(48)
	47,486	**(12,802)**	**34,684**	45,365	(8,629)	36,736	(2,052)
Net income	**11,515**	**21,007**	**32,522**	27,446	14,692	42,138	(9,616)
Net movements in regulatory balances, net of tax	**21,007**	**(21,007)**	**-**	14,692	(14,692)	-	-
Net income after net movements in regulatory balances	**32,522**	**-**	**32,522**	42,138	-	42,138	(9,616)

(1) Non-GAAP financial measure

Net Income

Net income decreased by approximately $9.6 million or 23 percent in 2019 due to the impact of major weather events and other one-time costs. In 2019, flooding at several of Hydro Ottawa's generating stations resulted in significant mitigation and restoration costs. In combination with one-time facility relocation costs and a higher volume of environmental remediation work operating costs excluding CDM were higher than the previous year. Furthermore, in 2018, net income was increased by the achievement of a one-time $4.1 million CDM mid-term incentive, and by lower depreciation and financing costs.

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 2019, Hydro Ottawa's total revenue amounted to approximately $1.2 billion, representing an increase of four percent from the prior year.

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 increased $40.3 million in 2019, mainly due to higher commodity charges.

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. 2019 marks the fourth year of rates approved under Hydro Ottawa Limited's 2016-2020 custom incentive rate application. Distribution sales revenue increased $7.5 million or four percent from 2018.

Portage Power's generation revenues remained flat in 2019. This was largely due to plant shutdowns from high water levels and flooding on the Ottawa River and in upstate New York, and to the suspension of operations (in July 2018) at its two generating stations in Québec. This suspension will enable significant refurbishment in support of a new 40-year Hydroelectric Standard Offer Program (Municipal Steam) contract with the IESO, with both stations due to come back online in 2020. In June 2019 the expanded Chaudière facility reached full capacity. One of its four generating units had previously been out-of-service due to a manufacturer's defect and resulting mechanical failure upon start up in 2017. The Corporation continued to receive compensation from its insurers to mitigate revenue losses relating to the delayed start-up of this unit.

In 2019, commercial services revenue increased by $4.9 million largely due to customer requested service work related to distribution operations (includes design work, electrical vault maintenance, temporary services, service connections, training services, and other electrical related services). The City of Ottawa streetlight conversion project, through which a cumulative total of 50,114 LED streetlights have been installed since 2016, progressed as planned. New endeavors continued to gain momentum, including non-destructive cable testing services provided through an exclusive license with the National Research Council of Canada.

In 2018, 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. Moreover, in March 2019, the provincial government announced its intention to refocus and centralize delivery of CDM programs. The programs that have remained in place are now being delivered by the IESO rather than by LDCs. To facilitate this transition, Hydro Ottawa is responsible for completing the CDM projects that were in place at the time of the announcement, and as of year-end 2019 was still in the process of winding down its CDM activities. This change in delivery responsibility will have a significant impact on Hydro Ottawa, as CDM programs have materially contributed to net income. In 2018, for example, our CDM program successfully achieved its mid-term conservation target and triggered an incentive payment of $4.1 million to the Corporation from the IESO.

In 2019, the Corporation recognized a net gain of $3.3 million from insurance proceeds. The gain related to $3.0 million in lost-revenue compensation resulting from the mechanical failure of a unit at the expanded Chaudière facility that occurred in August 2017, and $0.4 million in business interruption proceeds from the flooding at the Dolgeville generating station in upstate New York. Comparatively in 2018, the Corporation recognized $6.9 million in lost revenue compensation from the mechanical failure.

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 charges, wholesale market service charges, transmission charges and the global adjustment. The cost of purchased power increased $41.9 million in 2019, mainly due to higher commodity charges.

Operating costs in 2019 of $146.3 million were up by $8.5 million (excluding CDM) due in part to flood mitigation and restoration activities that took place at several generating stations as a result of high water levels and flooding on the Ottawa River and in upstate New York. In addition, there were operating costs related to the relocation of staff and supporting infrastructure to the newly constructed operation centres and administrative office, and higher than normal environmental remediation costs.

Depreciation and Amortization

Depreciation and amortization on Hydro Ottawa's property, plant and equipment, and on its intangible assets increased in 2019 by $7.1 million, primarily due to the ongoing investment in the Corporation's electricity distribution infrastructure and to the expansion and refurbishment 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 Dream / Theia to form Zibi Community Utility LP (50.00 percent), which will build, own and operate a district cooling and heating system 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 $3.5 million due to borrowings to finance general operating requirements and the capital program.

The Corporation's effective tax rate slightly increased from 28.92 percent in 2018, to 32.67 percent in 2019, 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 $1.4 million decrease in income tax expense before net movements in regulatory balances is largely the result of a decrease in pre-tax income and taxable income. (There was a $5.5 million decrease in income tax expense after net movements in regulatory balances.) 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, on the consolidated balance sheet, were an increase of $24.0 million (debit) offset by an increase of $2.0 million (credit) respectively. This is equal to the net movement in regulatory balances, net of tax, on the consolidated statements of income and comprehensive income (an increase of $21.0 million and an increase of $1.0 million respectively). The impact of the IFRS 14 adjustments of $21.0 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)

	2019	2018	Change
Current assets	**317,786**	208,337	109,449
Non-current assets	**1,786,029**	1,612,612	173,417
Total assets	**2,103,815**	1,820,949	282,866
Regulatory account balances	**58,669**	34,667	24,002
Total assets and regulatory account balances	**2,162,484**	1,855,616	306,868
Current liabilities	**373,690**	404,994	(31,304)
Non-current liabilities	**1,296,783**	968,048	328,735
Total liabilities	**1,670,473**	1,373,042	297,431
Shareholder's equity	**470,297**	462,882	7,415
Total liabilities and shareholder's equity	**2,140,770**	1,835,924	304,846
Regulatory account balances	**21,714**	19,692	2,022
Total liabilities, shareholder's equity and regulatory account balances	**2,162,484**	1,855,616	306,868

Assets

Total assets increased by approximately $282.9 million in 2019. This increase is largely attributable to property, plant and equipment, and to intangible assets – which have collectively increased by $173.2 million. This collective increase is a result of the refurbishment of the Chaudiere Hydro North L.P. and Hull Energy L.P. generating stations in Québec, the facilities renewal project, and continuing investments in electrical distribution and generation infrastructure. The Corporation also saw a $109.4 million increase in current assets due in large part to increases of $85.5 million and $18.1 million in cash and accounts receivable respectively. The increase in cash is attributable to an external green bond issuance that was completed during the year, while the increase in accounts receivable is largely driven by the Ontario Electricity Rebate to eligible customers, which is owed to Hydro Ottawa by the provincial government.

Liabilities

Total liabilities increased by $304.8 million in 2019. On July 5, 2019, the Corporation completed an offering of senior secured amortizing green bonds totalling $290.5 million to fund the capital refurbishments at its two generating stations in Québec. The Corporation also saw a $22.6 million increase in deferred revenue due to capital contributions received in 2019, net of amortization and of an increase of $14.3 million in deferred income taxes. The Corporation's current liabilities decreased by $31.3 million largely because of a decrease in bank indebtedness of $49.8 million, offset by an increase in accounts payable and accrued liabilities and income taxes payable of $18.5 million.

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, 2019, Hydro Ottawa Limited had recognized $58.7 million in regulatory account debit balances (assets) and $21.7 million in regulatory account credit balances (liabilities).

The $24.0 million increase in regulatory account debit balances is accounted for by various factors, including a $12.3 million increase in the regulatory asset for deferred income taxes, and a $4.1 million increase in settlement variances and in other variances and deferred costs. Contributing factors also included the establishment of a new variance account (amounting to $2.6 million), which records both the revenue requirement impacts arising from capital costs related to the new administrative and operations facilities (for the years 2019 and 2020), and the return of revenue requirement impacts relating to the former facilities. A new deferral account, to record the difference between the forecast and actual loss on disposal of fixed assets (amounting to $3.6 million), was a further contributing factor.

The $2.0 million increase in regulatory account credit balances is largely due to the establishment of a deferral account to record the after tax gain on sale of the former facilities amounting to $2.2 million, offset by a $0.4 million decrease in settlement variances, and in other variances and deferred costs.

Consolidated Statement of Cash Flows (Summary)

(in thousands of Canadian dollars)

	2019	2018	Change
Bank indebtedness, beginning of year	**(210,106)**	(144,490)	**(65,616)**
Cash provided by Operating Activities	**100,826**	139,031	**(38,205)**
Cash used in Investing Activities	**(230,172)**	(182,747)	**(47,425)**
Cash provided by Financing Activities	**264,688**	(21,900)	**286,588**
Bank indebtedness, end of year	**(74,764)**	(210,106)	**135,342**

Cash (bank indebtedness) consists of:			
Cash	**102,231**	16,737	**85,494**
Bank indebtedness	**(176,995)**	(226,843)	**49,848**
	(74,764)	(210,106)	**135,342**

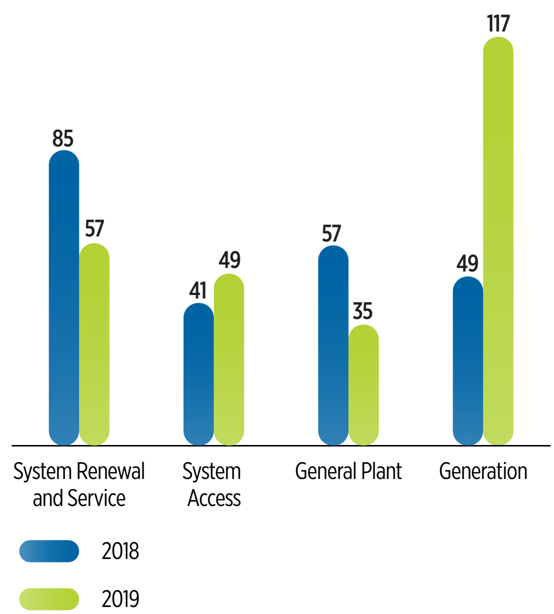
Operating Activities

Cash generated by operating activities decreased by $38.2 million in 2019. The majority of this decrease relates to the drop in net income before net movements in regulatory balances of $15.9 million, and to the net change in non-cash working capital and other operating balances of $11.0 million. In addition, the Corporation saw an increase in income taxes paid (net of refunds received) of $5.4 million.

Investing Activities

Cash used in investing activities increased by $47.4 million in 2019. This variance was largely due to the decrease in investing activities in 2018 resulting from the release of restricted cash held in-trust, in accordance with the Chaudière expansion project financing trust indenture. The Corporation continued to invest in the refurbishment of the Chaudiere Hydro North L.P. and Hull Energy L.P. generating stations, and of its electrical distribution and generation infrastructure. In 2019, construction was completed on its new east-end administration office and operations centre, and south-end operations centre. Moreover, Hydro Ottawa completed the sale of two facilities inherited from pre-amalgamation utilities. Total investment in property, plant and equipment and in intangible assets was $257.7 million in 2019. The following chart shows Hydro Ottawa's capital investments by category for both 2019 and 2018.

Gross Capital Expenditures [$ millions]



Capital investments in 2019 included: $57 million on system renewal and service capital to replace aging infrastructure and to modify the existing distribution system; $49 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; $35 million on general plant, including the facilities renewal project, information technology infrastructure, and fleet; and $117 million on generating plants, of which 88 percent relates to the refurbishment of the Chaudiere Hydro North L.P. and Hull Energy L.P. generating stations.

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.

- On July 5, 2019, the Corporation completed an offering of senior secured amortizing green bonds totaling $290.5 million. The bonds were obtained to fund the refurbishment projects undertaken by Chaudiere Hydro North L.P. and Hull Energy L.P. at their respective hydroelectric generation facilities. The bonds carry an interest rate of 3.525 percent and are due on December 31, 2059.

Dividends were paid to the Shareholder in 2019 in accordance with the approved dividend policy. The 2019 payment totaled $22.3 million based on 2018 results, and the 2018 payment totaled $21.9 million based on 2017 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

On January 1, 2019, the Corporation adopted IFRS 16 – *Leases* ('IFRS 16') using the modified retrospective approach. This approach 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 thereby provides greater comparability between companies who lease assets and those who purchase assets. Under IFRS 16, all leases from the lessee's perspective are recognized on the balance sheet, with exemptions such as short-term (12 months or less) and low-value leases. Lessor accounting remains substantially unchanged.

On transition to IFRS 16, the Corporation elected to use a practical expedient permitting the Corporation to not apply IFRS 16 to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4. The Corporation applied the definition of a lease under IFRS 16 to contracts entered into or changed on or after January 1, 2019. Additionally, the Corporation elected to use the following practical expedients: (1) to exclude short-term (12 months or less) and low-value leases; (2) to not separate non-lease components, and instead to account for any lease and associated non-lease components as a single arrangement; (3) to apply a single discount rate to a portfolio of leases with reasonably similar characteristics; and (4) to measure the initial value of right-of-use assets equal to the related lease liability, adjusted for any prepaid or accrued lease payments recognized at the date of initial application.

The adoption of IFRS 16 resulted in the recognition of $2.4 million and $2.1 million in new right-of-use assets and lease liabilities, respectively, and had no impact on opening retained earnings as at January 1, 2019.

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 and long-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; the course and consequences of events such as pandemics and natural disasters, which could affect the socio-economic and physical environment in which the Corporation functions in deep and diverse ways; 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 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.

Subsequent to December 31, 2019, additional policy measures directly impacting the Corporation and other local distribution companies were implemented by the provincial government as part of its response to the COVID-19 pandemic. These included an extended moratorium on customer disconnections and adjustments to time-of-use pricing intended to provide cost relief to customers.

Custom Incentive Rate Application

On February 10, 2020, Hydro Ottawa Limited filed a custom incentive rate application with the OEB for the period from 2021-2025. Rate applications for revenue recovery are subject to the OEB's review process, which could involve multiple intervenors, public hearings, and an extended period of time before a rate decision is handed down.

There can be no assurance that the OEB's rate decisions or orders will allow Hydro Ottawa Limited to recover in full its planned or incurred costs, or that it will be able to earn a particular return on equity. Should the OEB disallow a material amount of funding for planned capital expenditures and/or for operating, maintenance and administrative costs, Hydro Ottawa Limited may not be able to deliver on its planned capital programs, which could in turn affect its capacity to provide safe and reliable electricity to its customers.

COVID-19 Pandemic

Subsequent to December 31, 2019, the COVID-19 outbreak was declared a pandemic by the World Health Organization. Governments worldwide, at both national and sub-national levels, have enacted travel bans, self-quarantine and social distancing, and other emergency measures intended to slow the spread of the virus. These measures have profoundly disrupted the conduct of business globally and in all of Hydro Ottawa's operating jurisdictions, at the same time that the pandemic creates the risk of wide-scale illness and mortality.

The extent and duration of pandemic impacts were impossible to foresee with any certainty at the time of preparing this report and will materialize over time. The degree to which extensive fiscal, monetary and liquidity-related relief measures will be successful in offsetting economic losses to firms and individuals was similarly unforeseeable. The Corporation therefore faces pandemic-related risks relating to various financial metrics, as well as to workforce availability, asset management and service continuity.

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.

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 into account the impact of climate change, in particular 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 85 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.

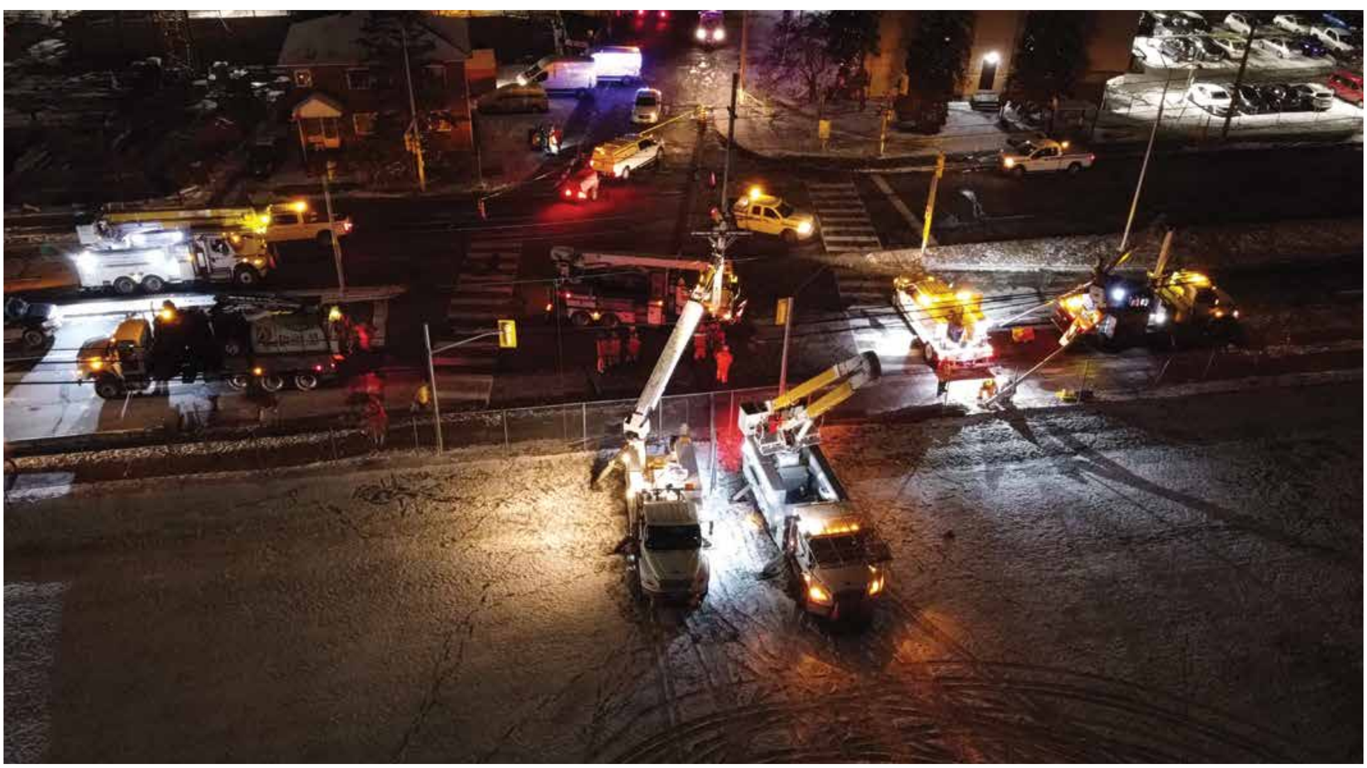
Consolidation of Labour Bargaining Power

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.

Impact of Severe Weather Events

Severe weather events, increasingly exacerbated because of climate change, 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.

Such events have also impacted the market for insurance, especially in relation to power and electrical utilities. The power and utilities sector is likely to see a substantial increase in its insurance premiums, even as there is a reduction in the insurance industry's willingness to offer coverage.



OUTLOOK

Based on its 2019 results, Hydro Ottawa foresees continued stability in returns from its core distribution business, and timely completion of its current capital investment plan, consistent with the provisions of its previously approved rate application covering 2016-2020. It further anticipates – subject to the impact of the subsequent event noted immediately below – successful achievement of the objectives and performance goals set out in its corporate strategy covering the same period.

On March 11, 2020 the COVID-19 outbreak was declared a pandemic by the World Health Organization. Considerable financial and operational uncertainty arises both from the direct human-health impacts, as well as from the economic impact of the unprecedented economic shutdown mandated by governments in an attempt to slow the spread of the virus. The effectiveness of the fiscal and other measures implemented to offset economic losses to firms and individuals will not be known for some time. The degree of the pandemic's impact on Hydro Ottawa's future performance was therefore impossible to foresee with any certainty at the time of approval of this report and the consolidated financial statements, and will materialize over time.

On February 10, 2020, Hydro Ottawa Limited filed its custom incentive rate application for the period 2021-2025 with the OEB, and the conduct and completion of the application process will be a major focal point throughout the coming year. The application foresees a capital requirement of $500 million, predominantly for end-of-life and emergency asset replacement, and for reliability and capacity upgrades. In combination with proposed increases in customer distribution rates, the plan is intended to enable Hydro Ottawa to continue to meet the fundamental imperatives of providing safe, reliable and competitively priced electricity

within our service territory; while at the same time effectively managing for impacts such as aging infrastructure, sustained population and economic growth, an increasing number of severe weather events, technological evolution, cybersecurity threats, and workforce retirements. Our 2021-2025 plan has been specifically designed to support customer-relevant benefits, including but by no means limited to greater personalization, choice and convenience of contact points and service.

Hydro Ottawa will continue to leverage the commercial advantages associated with its extensive and diversified non-regulated business, including both the multi-jurisdictional portfolio of green generating assets operated under the Portage Power brand, and the expanding range of energy solutions and services marketed and provided by Envari. The now full-capacity operations of our expanded Chaudière generating station will be complemented by the enhanced capacity of our two Québec stations when they return to operation upon refurbishment-completion later in 2020. These facilities will continue to benefit from the stability of existing contractual arrangements for the sale of their power. Envari, meanwhile, will seek to position itself favourably for business opportunities that may arise out of such developments as the municipal and federal governments' stated intent to move toward net-zero carbon emissions locally and nationally by 2050, respectively.

Potential impacts for Hydro Ottawa may originate from further regulatory and policy reform at the provincial level over the course of 2020, including policy measures enacted in specific response to the pandemic. Of note are expected measures in support of the provincial government's commitment to reduce residential electricity rates by 12 percent (and to achieve greater efficiencies in the distribution sector, including through consolidations); along with further modernization and streamlining of OEB regulatory processes and requirements. Various policy and regulatory issues relating to distributed energy resources are also under active consideration on the part of the OEB and IESO. The outcomes may have a bearing on Hydro Ottawa's ongoing engagement in green generation (and electricity conservation service offerings), and the piloting of technology

and infrastructure designed to enable transformations such as transportation electrification and transactive grid development. Through continued leadership in such areas, Hydro Ottawa will seek to position itself for long-term success across commercial and other metrics – to the fullest extent that post-pandemic conditions may allow – within an electricity system that is becoming increasingly decarbonized and decentralized, and with which customers are interacting in dramatically different ways.

Hydro Ottawa Holding Inc.

Consolidated Financial Statements

December 31, 2019

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, 2019
- 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, 2019, 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 or prior to 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, 2020

Hydro Ottawa Holding Inc.

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

	2019	2018
	$	$
Revenue and other income		
Power recovery revenue	**904,030**	857,383
Distribution revenue [Note 21]	**184,215**	181,050
Generation revenue	**32,239**	32,325
Commercial services revenue [Note 21]	**33,939**	28,998
Other revenue [Note 21]	**7,641**	7,076
Conservation and demand management income	**13,018**	24,865
Business interruption proceeds [Notes 5 and 22]	**3,312**	6,865
	1,178,394	1,138,562
Expenses		
Purchased power	**905,193**	857,877
Operating costs [Note 22]	**144,883**	145,694
Depreciation [Notes 7 and 9]	**58,598**	50,273
Amortization [Note 8]	**10,719**	11,907
	1,119,393	1,065,751
Income before the undernoted items	**59,001**	72,811
Financing costs [Note 23]	**33,766**	30,372
Interest income	**(1,394)**	(1,530)
Share of profit from joint ventures [Note 10(a)]	**(669)**	(577)
Income before income taxes	**27,298**	44,546
Income tax expense [Note 24]	**15,783**	17,144
Net income	**11,515**	27,402
Net movements in regulatory balances, net of tax [Note 6]	**21,007**	14,692
Net income after net movements in regulatory balances	**32,522**	42,094
Attributable to non-controlling interest	**-**	(44)
Net income after net movements in regulatory balances attributable to equity shareholder	**32,522**	42,138

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, 2019
[in thousands of Canadian dollars]

	2019 $	2018 $
Net income after net movements in regulatory balances attributable to equity shareholder	**32,522**	42,138
Other comprehensive income		
Items that may be subsequently reclassified to net income		
Exchange differences on translation of foreign operations, net of tax	**(2,527)**	4,415
Items that will not be subsequently reclassified to net income		
Actuarial (loss) gain on post-employment benefits, net of tax	**(1,253)**	806
Net movement in regulatory balances related to other comprehensive income, net of tax	**973**	(674)
Total comprehensive income	**29,715**	46,685

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

Hydro Ottawa Holding Inc.

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

	2019	2018
	$	$
Assets		
Current assets		
Cash	**102,231**	16,737
Accounts receivable [Note 5]	**197,146**	179,049
Income taxes receivable	**2,199**	147
Prepaid expenses	**6,518**	4,394
Inventory [Note 11(b)]	**1,128**	1,435
Current portion of notes receivable from related parties [Note 11]	**8,564**	6,575
	317,786	208,337
Non-current assets		
Property, plant and equipment [Note 7]	**1,622,257**	1,449,791
Intangible assets [Note 8]	**124,610**	123,870
Investment properties [Note 9]	**4,262**	2,482
Investments in joint ventures [Note 10(a)]	**15,273**	11,690
Other asset [Note 5]	**-**	5,771
Notes receivable from related parties [Note 11]	**6,942**	9,386
Restricted cash [Note 16(b)]	**2,550**	1,350
Deferred income tax asset [Note 24]	**10,135**	8,272
Total assets	**2,103,815**	1,820,949
Regulatory balances [Note 6]	**58,669**	34,667
Total assets and regulatory balances	**2,162,484**	1,855,616
Liabilities and equity		
Current liabilities		
Bank indebtedness [Note 12]	**176,995**	226,843
Accounts payable and accrued liabilities [Note 13]	**196,658**	173,727
Income taxes payable	**37**	4,424
	373,690	404,994
Non-current liabilities		
Deferred revenue [Note 14]	**130,993**	108,395
Employee future benefits [Note 15]	**15,740**	13,412
Customer deposits	**26,888**	26,503
Long-term debt [Notes 16 and 26]	**1,060,733**	773,390
Deferred income tax liability [Note 24]	**59,503**	45,213
Other liabilities [Note 17]	**2,926**	1,135
Total liabilities	**1,670,473**	1,373,042
Equity		
Share capital [Note 19]	**228,453**	228,453
Accumulated other comprehensive income	**2,397**	5,204
Retained earnings	**239,447**	229,318
Non-controlling interest	**-**	(93)
Total liabilities and equity	**2,140,770**	1,835,924
Regulatory balances [Note 6]	**21,714**	19,692
Total liabilities, equity and regulatory balances	**2,162,484**	1,855,616

Contingent liabilities, commitments and subsequent event [Notes 27, 28 and 31]

On behalf of the Board:

Lori O'Neill

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, 2019
[in thousands of Canadian dollars]

	Share capital $	Accumulated other comprehensive income $	Non-controlling interest $	Retained earnings $	Total $
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
Net income after net movements in regulatory balances	-	-	-	32,522	32,522
Other comprehensive income	-	(2,807)	-	-	(2,807)
Reclassification of non-controlling interest on sales of shares [Note 19(c)]	-	-	93	(93)	-
Dividends [Note 19(b)]	-	-	-	(22,300)	(22,300)
Balance at December 31, 2019	**228,453**	**2,397**	**-**	**239,447**	**470,297**

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, 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	**32,522**	42,094
Adjustments for:		
Depreciation	**58,598**	50,273
Amortization	**10,719**	11,907
(Gain) loss on disposal of non-financial assets	**(563)**	131
Amortization of debt-issuance costs	**270**	222
Share of profit from joint ventures	**(669)**	(577)
Amortization of deferred revenue [Note 21]	**(3,567)**	(2,811)
Employee future benefits	**421**	205
Financing costs, net of interest income	**32,372**	28,842
Income tax expense	**15,783**	17,144
Other	**(17)**	(511)
Changes in non-cash working capital and other operating balances [Note 25]	**(8,983)**	2,000
Income taxes paid, net of refunds received	**(8,285)**	(2,929)
Financing costs paid, net of interest income received	**(32,160)**	(28,654)
Capital contributions from customers	**12,520**	10,985
Capital contributions from developers	**13,645**	11,651
Change in customer deposits	**(773)**	13,751
Net movements in regulatory balances	**(21,007)**	(14,692)
	100,826	139,031
Investing		
Acquisition of property, plant and equipment	**(233,588)**	(239,993)
Acquisition of intangible assets	**(7,743)**	(4,190)
Proceeds from disposal of property, plant and equipment	**19,059**	573
Investment in joint venture	**(2,920)**	(2,276)
Financing costs paid	**(5,438)**	(2,639)
Restricted cash held in-trust	**(1,200)**	64,448
Repayment of notes receivable from joint ventures	**1,658**	1,330
	(230,172)	(182,747)
Financing		
Proceeds from issuance of long-term debt, net of debt-issuance costs	**287,073**	-
Repayments of lease liabilities	**(85)**	-
Dividends paid [Note 19(b)]	**(22,300)**	(21,900)
	264,688	(21,900)
Net change in cash	**135,342**	(65,616)
Bank indebtedness, net of cash, beginning of year	**(210,106)**	(144,490)
Bank indebtedness, net of cash, end of year	**(74,764)**	(210,106)

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

[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 2711 Hunt Club Road, Ottawa, Ontario, K1G 5Z9.

Significant subsidiaries, each of which is wholly-owned by the Corporation as at December 31, 2019, 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'], EO Generation LP ['EO Gen'] and Chaudiere Financial L.P. ['CFLP'].
Envari Holding Inc. ['Envari']	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']

The Corporation is currently undergoing a significant refurbishment of the generating facilities held by Hull Energy LP and CHLP North [the 'refurbishment projects']. Upon completion of the refurbishment projects, both facilities will sell all electricity produced to the Province of Ontario under forty-year Hydroelectric Standard Offer Program - Municipal Steam Contracts ['HESOP contracts'] with the Independent Electrical System Operator ['IESO']. CFLP was formed by the Corporation on May 3, 2019 to administer long-term project-financing activities for Hull Energy LP and CHLP North.

Joint ventures the Corporation is a party of as at December 31, 2019, 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.

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, 2020.

(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 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.

(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 Corporation 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) Revenue recognition

The Corporation uses the percentage-of-completion method in accounting for 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.

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, 2019 pertaining to the energy market prices in New York State. 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)] and details regarding management's 2019 value-in-use analysis are presented in Note 8 of these consolidated financial statements.

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. 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.

(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, as applicable.

(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.

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, 2019, 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. 2019 rates were set based on the Company's Year 4 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.

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.
- 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.
- Other Post employment Benefits cash versus accrual account ['OPEB cash vs accrual'] tracks the interest on the differential of the Company's contributions to other post-employment benefit plans versus the accrued other post-employment benefit expense recorded in Hydro Ottawa Limited's statement of income.
- Lost Revenue Adjustment Mechanism ['LRAM'] account tracks and disposes of lost electricity distribution revenues that result from Conservation and Demand Management ['CDM'] programs.

3. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

(d) Regulation – Hydro Ottawa [continued]

- 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.
- Gains/losses 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 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.
- 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

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.

3. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

(e) Revenue recognition [continued]

(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.

(iv) Commercial services

Commercial services revenue comprise revenue earned under contracts for service work related to distribution operations, turnkey energy management and analysis 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 energy management projects and streetlight 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 and the Corporation has an enforceable right to payment for performance completed to date. 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 – *Revenue from Contracts with Customers*. 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.

Rental income from investment property is also considered out of scope of IFRS 15, and is accordingly classified as revenue from other sources and recognized 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.

3. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

(f) Interest income and financing costs [continued]

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.

(g) Government grant income

Income from government programs such as CDM is 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. On March 21, 2019, the Ministry of Ontario announced that the CDM program is to be phased out through the end of 2021.

(h) Income taxes

The Corporation, Hydro Ottawa, Energy Ottawa and Envari are each 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, Energy Ottawa, and Envari 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.

The Corporation evaluates the realizability of its deferred tax assets at the end of each reporting period. To the extent that it is not probable that taxable profit will be available against which the unused tax losses can be utilized, the deferred tax asset is not recognized. The Corporation takes into account the history of tax losses, the economic conditions in which it operates, its forecasts and projections to determine whether a valuation allowance is needed.

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, Hull Energy LP, CFLP and ZCU 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 that is restricted as to withdrawal or use under the terms of certain contractual agreements is classified as restricted cash.

3. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

(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.

(k) 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 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.

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 receivables 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.

[in thousands of Canadian dollars]

3. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

(k) 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.

(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. Right-of-use assets under *IFRS 16 – Leases*, as described in Note 3(u), are classified within property, plant and equipment in these consolidated financial statements.

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	10 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 40 years
Rolling stock	7 to 15 years

Assets under construction and land are not subject to depreciation.

3. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

(l) Property, plant and equipment [continued]

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 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 15 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 depreciable investment properties 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.

3. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

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

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

(p) Employee future benefits [continued]

(i) Pension plans [continued]

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.

(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.

3. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

(p) Employee future benefits [continued]

(ii) Other post-employment benefits [continued]

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.

(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.

3. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

(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(e)(v)].

(t) Debt-issuance costs

Debt-issuance costs that are external, direct and incremental arising from its debenture and bond offerings are netted against the proceeds of the debt and amortized over the life of the related instrument using the effective interest method.

(u) Leases

Effective January 1, 2019, the Corporation has adopted *IFRS 16 – Leases* ['IFRS 16'] as described in Note 4(a)(i) of these consolidated financial statements.

At the inception of a contract, the Corporation 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. Right-of-use assets are classified within property, plant and equipment in these consolidated financial statements.

Lease liabilities are initially measured at the present value of lease payments that are not paid at the commencement date. The lease payments are discounted using the rate implicit in the lease or, if that rate cannot be readily determined, the Corporation's incremental borrowing rate which reflects the Corporation'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 Corporation's estimate of the amount expected to be payable under a residual value guarantee, or if the Corporation 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 right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero. Payments under lease liabilities are apportioned between interest expense and a reduction of the outstanding lease liability.

Where the Corporation 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 Corporation is reasonably certain to exercise that option. Initial direct costs incurred prior to the commencement of the lease are not depreciated.

3. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

(u) Leases [continued]

(i) As a lessee [continued]

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

Leases in which the Corporation assumes all of the risks and rewards of ownership are classified as finance leases. The Corporation has a lease agreement as a lessor with respect to land and buildings. The terms of the lease arrangement does not transfer substantially all the risks and rewards of ownership to the lessee, and therefore has been classified as an operating lease. Rental income from operating leases is recognised on a straight-line basis over the term of the applicable lease.

Prior to January 1, 2019, all other leases outside of finance leases were classified as operating leases and the leased assets were not recognized on the Corporation's consolidated balance sheet. Payments made under operating leases were recognized in net income on a straight-line basis over the term of the lease.

(v) Inventory

Inventory consists of materials and supplies 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. Under the weighted average cost formula, the cost of each item is determined from the weighted average of the cost of similar items at the beginning of a period and the cost of similar items purchased during the period. Net realizable value is the estimated selling price in the ordinary course of business less any applicable selling expenses.

4. NEW ACCOUNTING PRONOUNCEMENTS

On January 1, 2019, the Corporation adopted 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 such as short-term [12 months or less] and low-value leases. Lessor accounting remains substantially unchanged.

On transition to IFRS 16, the Corporation elected to use a practical expedient permitting the Corporation to not apply IFRS 16 to contracts that were not previously identified as containing a lease. The Corporation applied the definition of a lease under IFRS 16 to contracts entered into or changed on or after January 1, 2019. Additionally, the Corporation elected to use the following practical expedients: (1) to exclude leases with terms ending within twelve months of the date of entering into the contract; (2) to not separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement; (3) to apply a single discount rate to a portfolio of leases with reasonably similar characteristics; and (4) to measure the initial value of right-of-use assets equal to the related lease liability, adjusted for any prepaid or accrued lease payments recognized at the date of initial application.

[in thousands of Canadian dollars]

4. NEW ACCOUNTING PRONOUNCEMENTS [CONTINUED]

The adoption of IFRS 16 resulted in the recognition of $2,389 and $2,092 in new ROU assets and lease liabilities, respectively, and had no impact on opening retained earnings as at January 1, 2019. The new ROU assets relate to leased land and rooftop space for purposes of hydroelectric and solar generation. The following table reconciles the difference between the operating lease commitments disclosed applying IAS 17 at December 31, 2018, discounted using the incremental borrowing rate at the date of initial application and with the lease liabilities recognized in the consolidated balance sheet as at January 1, 2019:

	$
Operating lease commitments [including contingent payments] as at December 31, 2018	**39,994**
Add: application of IFRS 16 to include extension options in lease term	**60**
Less: contingent payments not meeting definition of variable lease payment under IFRS 16	**(36,173)**
Less: payments re: leases with terms < 1 year	**(715)**
Gross lease liabilities as at January 1, 2019	**3,166**
Discounting effects using incremental borrowing rate	**(1,074)**
Lease liabilities as at January 1,2019	**2,092**

The initial value of the ROU assets upon transition to IFRS 16 comprise the $2,092 lease liability in the table above, $227 of costs previously recognized as intangible assets that now qualify as initial direct costs of a land-based ROU asset, and $70 of costs previously recognized as prepaid expenses that now are included in a land-based ROU asset.

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
Trade and other receivables	**34,325**	18,336
Amounts due from related parties [Note 29]	**18,036**	15,009
Less: loss allowance [Note 20(c)]	**(2,046)**	(2,541)
	186,950	170,917
Receivables from other sources		
Conservation and demand management	**2,472**	1,503
Sales tax receivable	**3,974**	6,164
Insurance proceeds recoverable - Unit 1 Event	**2,554**	465
Insurance proceeds recoverable - Flood [Note 22]	**1,196**	-
	197,146	179,049

[in thousands of Canadian dollars]

5. ACCOUNTS RECEIVABLE [CONTINUED]

On August 19, 2017, the Unit 1 turbine-generator [of 4 Units] of CHLP experienced a failure due to a manufacturer defect and sustained significant damage, requiring a complete overhaul [the 'Unit 1 Event']. The Company recognized a warranty asset of $5,771 at December 31, 2018 with respect to the repair of Unit 1 by a subcontractor, which was completed during the year. The Corporation's contract with said subcontractor and its insurance policy relating to the construction of its generating facility provides business interruption compensation in circumstances such as the Unit 1 Event. In 2019, the Corporation recognized $2,887 [2018 – $6,865] in compensation from its insurance policy for lost generation revenues bringing its total claim to $11,352 [2018 – $8,465]. At December 31, 2019, the Corporation has received $8,798 [2018 – $8,000] in cash proceeds from its insurance provider pertaining to these lost revenues, and has accrued business interruption proceeds of $2,554 [2018 – $465]. Unit 1 went back into service on June 9, 2019, at which time the Corporation stopped making claims for lost revenues under this contract and its insurance policy.

6. REGULATORY BALANCES

Information about the Corporation'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 vs accrual	1 - 5	6	1,522	-	(278)	**1,250**
LRAM	1 - 5	3,100	1,436	-	-	**4,536**
Regulatory asset for deferred income taxes	[2]	25,806	12,253	-	-	**38,059**
Loss on asset disposal	1 - 5	1,383	2,218	-	-	**3,601**
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 variances 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(h)]

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 above regulatory debit and credit accounts are disclosed in Note 3(d) 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, 2017	195,994	898,832	236,025	80,136	1,410,987
Additions, net of transfers	8,662	110,378	13,666	67,084	199,790
Additions re: refurbishment projects	-	-	-	35,476	35,476
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
Additions, net of transfers	79,002	130,865	25,462	(82,869)	152,460
Additions re: refurbishment projects	-	-	-	99,663	99,663
Right-of-use assets: January 1, 2019 [Note 4]	2,389	-	-	-	2,389
Disposals	(20,641)	(5,260)	(8,738)	-	(34,639)
Transfer to investment properties	(1,827)	-	-	-	(1,827)
Exchange differences	(863)	-	(1,937)	(20)	(2,820)
Balance as at December 31, 2019	**264,192**	**1,134,252**	**267,047**	**199,256**	**1,864,747**
Accumulated depreciation					
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)
Depreciation	(7,527)	(36,358)	(14,584)	-	(58,469)
Disposals	7,310	2,530	5,517	-	15,357
Exchange differences	98	-	254	-	352
Balance as at December 31, 2019	**(18,338)**	**(171,287)**	**(52,865)**	**-**	**(242,490)**
Net book value					
As at December 31, 2018	187,913	871,188	208,208	182,482	1,449,791
As at December 31, 2019	**245,854**	**962,965**	**214,182**	**199,256**	**1,622,257**

At January 1, 2019 upon transition to IFRS 16, the Company recognized $2,389 in right-of-use assets as described in Note 4. At December 31, 2019, land and buildings include $2,406 of right-of-use assets with lease terms ranging between 14 and 21 years, comprising of a cost of $2,530 and accumulated depreciation incurred in the current year of $124 [2018 - N/A].

At December 31, 2019, assets under construction comprises primarily of the refurbishment projects as described in Note 1 of these consolidated financial statements. During the year, the Corporation completed the construction of new administrative and operations buildings which was classified as under construction in the previous year.

[in thousands of Canadian dollars]

7. PROPERTY, PLANT AND EQUIPMENT [CONTINUED]

During the year, the Corporation sold two facilities [including land and buildings] inherited from pre-amalgamation utilities [i.e. prior to October 3, 2000] to third parties for total cash proceeds of $16,000. In addition, the Corporation reclassified a parcel of vacant land with a carrying value of $1,827 from property, plant and equipment to investment property, as it is no longer used in operations.

During the year, the Corporation incurred a loss on disposal of property, plant and equipment of $1,209 with respect to a flooding event as described in Note 22 of these consolidated financial statements.

During the year, the Corporation capitalized borrowing costs of $5,122 [2018 – $2,639] to property, plant and equipment. The average annual interest rate for 2019 was 3.4% [2018 – 3.4%].

8. INTANGIBLE ASSETS

	Land rights and water rights $	Computer software $	Other contractual rights $	Assets under development $	Total $
Cost					
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
Additions, net of transfers	438	1,972	11,710	(1,529)	12,591
IFRS 16 transfer to property, plant and equipment [Note 4]	-	-	-	(227)	(227)
Exchange differences	(1,263)	(19)	-	-	(1,282)
Disposals	-	(1,969)	-	-	(1,969)
Balance as at December 31, 2019	**61,635**	**67,324**	**38,007**	**11,628**	**178,594**
Accumulated amortization					
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)
Balance as at December 31, 2018	(8,058)	(35,464)	(2,089)	-	(45,611)
Amortization	(3,656)	(6,305)	(758)	-	(10,719)
Exchange differences	373	14	-	-	387
Disposals	-	1,959	-	-	1,959
Balance as at December 31, 2019	**(11,341)**	**(39,796)**	**(2,847)**	**-**	**(53,984)**
Net book value					
As at December 31, 2018	54,402	31,876	24,208	13,384	123,870
As at December 31, 2019	**50,294**	**27,528**	**35,160**	**11,628**	**124,610**

8. INTANGIBLE ASSETS [CONTINUED]

Other contractual rights includes connection and cost recovery agreements ['capital contribution agreements'] that govern the construction by Hydro One Networks Inc. ['HONI'] of new or modified transformer stations for the purpose of serving Hydro Ottawa's customers, including anticipated electricity load growth. Each of Hydro Ottawa's capital contribution agreements has a term of 25 years. 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 Corporation'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 Corporation capitalized borrowing costs of $316 [2018 – $79] to intangible assets. The average annual interest rate for 2019 was 3.4% [2018 – 3.4%].

A significant portion of the Corporation's water rights with indefinite lives [79% 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 [21% or $4,634 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. 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 to complete the refurbishment projects. The key assumption in each VIU calculation was a weighted average cost of capital ['WACC'] of 4.0% [2018 – 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. Management's VIU calculation involved third-party consultation in the forecasting of New York energy prices and supplementary revenue. Other key assumptions in the VIU calculation were a discount rate via a weighted average cost of capital ['WACC'] of 6.1% [2018 – 6.9%], a US inflation rate of 2.3% [2018 – 2.2%], and a terminal capitalization rate of 6.2% [2018 – 6.7%]. Historical production and future capital and maintenance plans are also important assumptions in the VIU analysis.

After conducting its impairment tests, Management has concluded that the carrying value of the aforementioned generating assets exceeds its value-in-use by an immaterial amount. This amount is included in depreciation and amortization in these consolidated financial statements. The Corporation's 2018 impairment test did not result in any impairment charge.

[in thousands of Canadian dollars]

9. INVESTMENT PROPERTIES

	2019 $	2018 $
Net book value, beginning of year	**2,482**	2,602
Additions	**82**	-
Transfer from property, plant and equipment [Note 7]	**1,827**	-
Depreciation	**(129)**	(120)
Net book value, end of year	**4,262**	2,482

The fair value of investment properties is $7,471. The fair value is based on a combination of the latest Municipal Property Assessment Corporation valuation dated May 19, 2019, and a third party appraisal for the parcel of land that was transferred from property, plant and equipment [Note 7].

10. INVESTMENTS IN JOINT VENTURES

(a) Investment in joint ventures summary

	2019 $	2018 $
Moose Creek LP [50.05%]		
Investment in joint venture, beginning of year	**4,734**	4,503
Share of profit	**506**	231
Investment in joint venture, end of year	**5,240**	4,734
PowerTrail [60%]		
Investment in joint venture, beginning of year	**4,737**	4,366
Share of profit, net of tax	**214**	382
Other adjusting items related to profit	**8**	21
Non-cash distribution	**(6)**	(32)
Investment in joint venture, end of year	**4,953**	4,737
Zibi Community Utility LP [50%]		
Investment in joint venture, beginning of year	**2,219**	-
Capital investments	**2,920**	2,276
Share of loss	**(59)**	(57)
Investment in joint venture, end of year	**5,080**	2,219
Total investments in joint ventures	**15,273**	11,690

[in thousands of Canadian dollars]

10. INVESTMENTS IN JOINT VENTURES [CONTINUED]

(b) Balance sheet and statement of income summary

	2019 $	2018 $
Moose Creek LP		
Current assets	**623**	946
Non-current assets	**11,932**	12,625
Total assets	**12,555**	13,571
Current liabilities	**1,063**	2,271
Non-current liabilities	**780**	1,600
Total liabilities	**1,843**	3,871
Revenue	**3,676**	3,590
PowerTrail		
Current assets	**954**	1,192
Non-current assets	**10,397**	11,134
Total assets	**11,351**	12,326
Current liabilities	**460**	1,557
Non-current liabilities	**2,298**	2,523
Total liabilities	**2,758**	4,080
Revenue	**3,717**	3,638
Zibi Community Utility LP		
Current assets	**3,715**	3,168
Non-current assets	**8,881**	3,453
Total assets	**12,596**	6,621
Current liabilities	**1,517**	1,980
Non-current liabilities	**928**	212
Total liabilities	**2,445**	2,192
Revenue	**160**	122

(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 [2018 – $200] to provide standby letters of credit to the IESO. As at December 31, 2019, PowerTrail had drawn an amount of $133 [December 31, 2018 – $133] in standby letters of credit and had no outstanding balances drawn against its operating revolving line of credit [December 31, 2018 – $nil]. Both facilities contain customary covenants and events of default, including a covenant to maintain a tangible net worth of $1,000.

[in thousands of Canadian dollars]

11. NOTES RECEIVABLE FROM RELATED PARTIES

	2019 **$**	2018 $
Moose Creek LP promissory note, 6.0%, due January 1, 2025	**793**	1,653
PowerTrail promissory notes, non-interest bearing, repaid during the year	**-**	798
City of Ottawa note, 3.0%	**14,713**	13,510
	15,506	15,961
Less: current portion	**(8,564)**	(6,575)
	6,942	9,386

(a) Moose Creek LP

The note receivable from Moose Creek LP is an unsecured ten-year promissory note with quarterly blended repayments. Board-approved accelerated principal payments of $500 were made in addition to the regular quarterly blended payments in 2019. Future principal and interest payments on the notes payable are as follows: 2020 – $401 and 2021 – $392.

(b) City of Ottawa

The Corporation is party to two agreements with the City of Ottawa [the 'City'] regarding the provision of streetlight services. 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 quarterly payments due under the S/L maintenance contract are under standard 30-day terms, amounts with respect to the S/L conversion contract are facilitated through an interest-bearing long-term open note at a fixed rate of 3%. Amounts billed to the City under the S/L conversion contract are added to the note receivable as progress towards ultimate completion occurs. As stipulated in the S/L conversion contract, the City is to make quarterly payments to the Corporation based on a combination of electricity savings, maintenance savings and capital expenditure savings the City has realized as result of the more efficient LED streetlights installed to date, until the note is repaid in full. Of the total note receivable outstanding at December 31, 2019, $1,818 represents work-in-progress billed in early 2020 [December 31, 2018 – $2,412 billed in early 2019. The Company estimates that $8,163 will be repaid in 2020 and expects the remaining $6,551 to be collected in 2021.

The Corporation carries inventory of $1,128 relating to City of Ottawa streetlight conversion and maintenance endeavours at December 31, 2019 [December 31, 2018 – $1,435]. During the year, the Corporation expensed $4,338 of inventory as cost of goods sold which is included in operating costs [2018 – $5,423].

12. CREDIT FACILITY

The Corporation continues to maintain a credit facility for an amount of $340,750 and US$200 at December 31, 2019 [December 31, 2018 – $340,750 and US$200]. The facility consists of a $190,000 [2018 – $190,000] revolving operating line maturing on August 1, 2022, a $150,000 [2018 – $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 [2018 – $750 and US$200] commercial card facility – all of which matures on August 1, 2022. 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]

12. CREDIT FACILITY [CONTINUED]

At December 31, 2019, the Corporation had drawn $25,300 in direct advances against the revolving operating line of credit [2018 – $33,400], $nil in bankers' acceptances against the $190,000 revolving operating line [2018 – $42,000] and $150,000 in bankers' acceptances against the $150,000 revolving operating term line [2018 – $150,000].

At December 31, 2019, the Corporation has drawn $14,738 [December 31, 2018 – $14,738] against its facilities in standby letters of credit. Drawings include a $10,000 [December 31, 2018 – $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, 2018 – $538] in connection with a generating facility at Chaudière Falls; and a letter of credit to BNY Trust Company of Canada of $4,200 [December 31, 2018 – $4,200] in connection with the Trust Indenture relating to the Series 2016-1 debentures as described in Note 16. No amounts have been drawn on any of these letters of credit.

13. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2019 **$**	2018 $
Purchased power payable	**88,494**	74,747
Trade accounts payable and accrued liabilities	**60,448**	57,733
Customer deposits	**18,944**	20,092
Customer credit balances	**11,739**	10,964
Construction holdbacks: refurbishment projects	**9,051**	2,328
Accrued interest on long-term debt	**7,812**	7,809
Due to related parties [Note 29]	**170**	54
	196,658	173,727

In 2019, the Corporation conducted a true-up calculation in connection with one of its cost recovery agreements with HONI as described in Note 27. As a result, the Corporation 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.

14. DEFERRED REVENUE

	2019 **$**	2018 $
Capital contributions from customers	**65,186**	54,514
Capital contributions from developers	**65,807**	53,881
	130,993	108,395

[in thousands of Canadian dollars]

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, 2019 amounted to $6,650 [2018 – $6,726]. The Corporation also provides retirement benefits to certain employees through the Chaudiere Hydro Pension Plan.

Information about the Chaudiere Hydro Pension Plan is as follows:

(i) Defined benefit obligation

	2019 **$**	2018 $
Balance, beginning of year	**6,293**	6,549
Current service cost	**106**	222
Interest cost	**243**	222
Benefits paid	**(237)**	(279)
Employee contributions	**66**	59
Actuarial loss (gain)	**817**	(480)
Balance, end of year	**7,288**	6,293

(ii) Plan assets

	2019 **$**	2018 $
Fair value, beginning of year	**6,220**	6,432
Interest credit	**244**	221
Employer contributions	**269**	209
Benefits paid	**(237)**	(279)
Non-investment expenses	**(80)**	(40)
Employee contributions	**66**	59
Actuarial gain (loss)	**539**	(382)
Fair value, end of year	**7,021**	6,220

(iii) Funded status

	2019 **$**	2018 $
Defined benefit obligation, beginning of year	**(73)**	(117)
Change in defined benefit obligation	**(194)**	44
Defined benefit obligation, end of year	**(267)**	(73)

[in thousands of Canadian dollars]

15. 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, 2019, the Chaudiere Hydro Pension Plan's assets were comprised of 90.4% [2018 – 90.5%] fixed income Canadian bonds, 6.3% [2018 – 5.9%] Canadian and international equities and 3.3% [2018 – 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% [2018 – 2.0%], an inflation rate of 2.0% [2018 – 2.0%] and a discount rate of 3.1% [2018 – 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 at December 31, 2019 and December 31, 2018 and no valuation allowance has been recorded by the Corporation with respect to the retirement benefit liability in either year. 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 $1,295 or 36.1% [2018 – $1,067 or 34.6%], while a 1.0% increase in salary scale would increase the defined benefit obligation by $250 or 7.5% [2018 – $187 or 6.6%].

(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% [2018 – 2.0%] and a discount rate of 3.1% [2018 – 3.9%]. Cost trends for health are estimated to increase [at a declining rate from 6.75% 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:

	2019 **$**	2018 $
Defined benefit obligation, beginning of year	**13,339**	14,322
Current service costs	**353**	392
Interest on defined benefit obligation	**897**	434
Benefits paid	**(738)**	(672)
Actuarial loss (gain)	**1,622**	(1,137)
Defined benefit obligation, end of year	**15,473**	13,339

An actuarial valuation was performed as at December 31, 2019. As a result of this exercise, the Corporation increased the accumulated liability by $2,134 [December 31, 2018 – decreased by $983 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]

16. LONG-TERM DEBT

	2019 $	2018 $
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 2019-1, 3.53%, due December 31, 2059	**290,514**	-
Series 2016-1, 4.08%, due March 31, 2057	**203,802**	203,802
	1,069,316	778,802
Less: unamortized debt-issuance costs	**(8,583)**	(5,412)
	1,060,733	773,390

(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 July 5, 2019, the Corporation [via CFLP] completed an offering of Series 2019-1 [the '2019-1 bonds'] senior secured amortizing green bonds totalling $290,514 on behalf of Hull Energy LP and CHLP North [the 'project owners']. The Series 2019-1 bonds carry an interest rate of 3.53% and mature on December 31, 2059. Equal semi-annual interest-only payments are due and payable on June 30 and December 31 each year until and including June 30, 2024. Thereafter, semi-annual blended repayments of principal and interest will be due and payable on June 30 and December 31 each year commencing on December 31, 2024 until and including the maturity date. In addition, a balloon payment of $43,577 [15% of the principal] will be due and payable on the maturity date. Debt-issuance costs of $3,440 were netted against the bond proceeds.

The Corporation's senior secured amortizing bonds [the '2016-1 bonds'] carry an interest rate of 4.08% and mature on March 31, 2057. 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.

[in thousands of Canadian dollars]

16. LONG-TERM DEBT [CONTINUED]

(b) Senior secured amortizing bonds [continued]

The 2019-1 bonds are secured by the total refurbishment project assets, whereby the project assets of Hull Energy LP and CHLP North represent 76.8% and 23.2% of the security, respectively. Until such time each project owner has met its Recourse Release Date in accordance with the Trust Indenture [i.e. achievement of commercial operation, engineering signoffs etc.], the Corporation has guaranteed the payment of pro-rata principal and outstanding interest on behalf of each project owner. Should one project owner achieve its Recourse Release Date before the other, the Corporation's guarantee becomes limited to the pro-rata portion of bonds payable related to the uncompleted project. The Corporation has guaranteed the principal and outstanding interest throughout the life of the bonds, as limited to the project assets of the project owners. The 2016-1 bonds are secured by a first-charge interest on the assets of CHLP, and CHLP 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 2016-1 bonds Trust Indenture] by the current interest and principal repayments due within the next calendar year. CFLP will be subject to the same DCSR in due course once commercial operations begin. The Company was in compliance with all financial covenants associated with the 2019-1 and 2016-1 bonds at December 31, 2019 and 2018, as applicable.

As required by the applicable 2016-1 bonds Trust Indenture, CHLP 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. CFLP will be subject to the same conditions in due course once commercial operations begin.

17. OTHER LIABILITIES

	2019	2018
	$	$
Lease liabilities	**1,960**	-
Other	**966**	1,135
	2,926	1,135

The Corporation's lease liabilities are calculated under the assumption that all applicable renewal periods at the Corporation's option will be exercised, and thus have lease terms ranging between 2033 and 2040. As at December 31, 2019, the weighted average lessee incremental borrowing rate applied to the lease liabilities is 4.6% [January 1, 2019 - 4.6%].

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.

[in thousands of Canadian dollars]

18. CAPITAL DISCLOSURES [CONTINUED]

The Corporation's capital consists of the following:

	2019 **$**	2018 $
Bank indebtedness, net of cash	**74,764**	210,106
Long-term debt	**1,060,733**	773,390
Total debt	**1,135,497**	983,496
Equity	**470,297**	462,882
Total capital	**1,605,794**	1,446,378

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, 2019, the Corporation's debt capitalization ratio, the calculation of which takes into account outstanding letters of credit, was 71.6% [December 31, 2018 – 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

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

	2019 **$**	2018 $
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.

19. SHARE CAPITAL [CONTINUED]

(b) Issued [continued]

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 16, 2019, the Board of Directors declared a $22,300 dividend to the City of Ottawa, which was paid on April 23, 2019 [April 19, 2018 the Board of Directors declared a $21,900 dividend to the City of Ottawa, which was paid on April 26, 2018].

(c) Non-controlling interest

On January 31, 2019, the Corporation acquired the remaining capital of a subsidiary [which is no longer operating] from a third party for $1. Effective that date, the Corporation no longer has a non-controlling interest.

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, 2019 as amounting to $809 [December 31, 2018 – $2,488]. 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 4.9% [December 31, 2018 – 5.7%] that would be available to Moose Creek LP on December 31, 2019 [and includes PowerTrail at December 31, 2018].

The Corporation has estimated the fair value of the senior unsecured debentures as at December 31, 2019 as amounting to $636,214 [December 31, 2018 – $575,912]. 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 2.9% [December 31, 2018 – 3.7%] that would be available to the Corporation on December 31, 2019.

The Corporation has estimated the fair value of its senior secured amortizing bonds as at December 31, 2019 as amounting to $513,467 [December 31, 2018 – $203,802]. The fair value has been determined based on discounting all estimated future repayments of principal and interest required to fully repay the bonds at the estimated interest rate of 3.5% [December 31, 2018 – 4.0%] that would be available to the Corporation at December 31, 2019.

(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 little exposure to commodity price risk.

20. 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.

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

(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 $0.77 as at December 31, 2019 would increase or decrease the equity of the Corporation by approximately $2,852.

(c) Credit risk

Credit risk is the risk that a counterparty 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 340,000 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, 2019, the Corporation held security deposits related to power recovery and distribution revenue in the amount of $14,713 [December 31, 2018 – $16,009] 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 – Financial Instruments* 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]

20. 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	**110,339**	0.00 %	-	110,339
Outstanding for more than 30 days but no more than 120 days	**7,543**	6.70 %	506	7,037
Outstanding for more than 120 days	**2,893**	48.60 %	1,407	1,486
Unbilled receivables relating to electricity	**78,417**	0.17 %	133	78,284
	199,192		2,046	197,146
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 receivables relating to electricity	**80,180**	0.19 %	151	80,029
	181,590		2,541	179,049

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

	2019 $
Opening loss allowance at December 31, 2018	**2,541**
Net remeasurement of loss allowance	**779**
Write-offs	**(1,496)**
Recoveries of amounts previously written-off	**222**
Loss allowance at December 31, 2019	**2,046**

Impairment losses on trade and other receivables are presented as net impairment losses within the consolidated 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 consolidated 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 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]

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 12, are maintained to meet obligations as they come due while minimizing standby fees and interest.

Liquidity risks associated with financial commitments are as follows:

	2019		
	Due within one year $	**Due between one and five years $**	**Due after five years $**
Bank indebtedness	**176,995**	**-**	**-**
Accounts payable and accrued liabilities	**188,846**	**-**	**-**
Senior unsecured debentures			
Series 2006-1, 4.97%, due December 19, 2036	**-**	**-**	**50,000**
Series 2013-1, 3.99%, due May 14, 2043	**-**	**-**	**150,000**
Series 2015-1, 2.61% due February 3, 2025	**-**	**-**	**200,000**
Series 2015-2, 3.64%, due on February 2, 2045	**-**	**-**	**175,000**
Senior secured amortizing bonds			
Series 2016-1, 4.08%, due March 31, 2057	**-**	**5,977**	**197,825**
Series 2019-1, 3.53%, due December 31, 2059	**-**	**1,347**	**289,167**
Interest to be paid on long-term debt	**38,623**	**154,251**	**684,429**
	404,464	**161,575**	**1,746,421**

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]

21. REVENUE FROM CONTRACTS WITH CUSTOMERS AND OTHER SOURCES

The Corporation'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
Generation	**32,239**	32,325
Commercial services		
Streetlight installation and maintenance	**13,179**	12,565
Turnkey and energy management services	**7,435**	5,822
Service work related to distribution operations	**9,073**	6,171
Pole attachment and duct rental	**4,454**	4,440
Other		
Account-related charges	**3,022**	3,332
Capital contributions from customers amortized to revenue	**1,848**	1,416
	1,159,495	1,104,504
Revenue from other sources		
Other		
Investment property rentals	**850**	933
Capital contributions from developers amortized to revenue	**1,719**	1,395
	1,162,064	1,106,832

[(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]

22. OPERATING COSTS

	2019	2018
	$	$
Salaries, wages and benefits	**87,405**	88,756
Contracted services - distribution system maintenance	**11,097**	10,828
Contracted services - customer owned plant	**15,669**	19,340
Contracted services - other	**11,651**	10,292
General and administrative	**34,682**	34,777
Other electricity distribution costs	**9,570**	8,331
Inventory expensed as cost of goods sold and other	**4,338**	5,504
Capital recovery	**(30,989)**	(32,134)
Flood loss - disposal of property, plant and equipment	**1,209**	-
Flood loss - repair, cleanup and mitigation expenses	**2,388**	-
Gain on property insurance proceeds from third party	**(2,137)**	-
	144,883	145,694

On February 28, 2019, EONY's Dolgeville generating station in New York State was seriously damaged by a flood. Moreover, in November 2019, the Town of Dolgeville sustained a second flood which caused a significant amount of debris to clog the station's intake – requiring significant dredging of waterways. As a result of the floods, the Corporation wrote-off $1,209 of property, plant and equipment and incurred $1,352 of repair and cleanup costs during the year. The Corporation has recognized a gain on property insurance proceeds of $2,137 based on claims made to date with its insurer, net of a $995 deductible, which has been classified within operating expenses in these consolidated financial statements. As the Dolgeville station has been off-line since February 2019, the Company has recognized $425 in business interruption proceeds from its insurer which has been recorded as other income in these consolidated financial statements. The Company continues to make claims for lost revenues to the maximum allowable amount under its insurance policy until such time the station is expected to be back in service in the spring of 2020.

In April and May of 2019, significant flooding occurred on the Ottawa River impacting several of the Corporation's generating stations in Ontario, particularly at Chaudière Falls. As a result, $1,036 of cleanup and mitigation expenses were incurred by the Corporation. No insurance claim was filed by the Corporation with respect to this event.

23. FINANCING COSTS

	2019	2018
	$	$
Interest on long-term debt	**32,815**	28,470
Short-term interest and fees relating to credit facility	**6,290**	4,541
Interest on lease liabilities	**99**	-
Less: capitalized borrowing costs	**(5,438)**	(2,639)
	33,766	30,372

[in thousands of Canadian dollars]

24. INCOME TAXES

Income tax expense recognized in net income comprises the following:

	2019 $	2018 $
Current tax expense		
Current income tax expense	**2,440**	6,102
Deferred tax expense		
Origination and reversal of temporary differences	**13,343**	11,042
Income tax expense recognized in net income	**15,783**	17,144

Income tax (recovery) expense recognized in OCI comprises the following:

	2019 $	2018 $
Income tax effect on exchange differences on translation of foreign subsidiary	**(912)**	1,983
Other	**(623)**	-
Income tax (recovery) expense recognized in other comprehensive income	**(1,535)**	1,983

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 attributable to equity shareholder before income taxes	**48,305**	59,982
Income taxes at statutory rate	**12,801**	15,710
Increase (decrease) in income taxes resulting from:		
Permanent differences	**1,141**	4,603
Tax rate differential	**(263)**	(928)
Reverse tax reserve	**-**	(2,168)
Impact on foreign exchange translation on subsidiary	**(330)**	492
Foreign tax rate differential	**38**	14
Unrecognized tax benefit	**1,651**	-
Tax impact on joint venture	**(193)**	(168)
Other	**938**	(411)
	15,783	17,144
Effective income tax rate	**32.67 %**	28.92 %

[in thousands of Canadian dollars]

24. INCOME TAXES [CONTINUED]

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:

	2019	2018
	$	$
Property, plant and equipment and intangible assets	**2,918**	2,009
Employee future benefits	**76**	95
Non-capital loss carryforwards	**6,705**	6,350
Other temporary differences	**436**	(182)
	10,135	8,272

Significant components of the Corporation's net deferred income tax liability are as follows:

	2019	2018
	$	$
Property, plant and equipment and intangible assets	**(63,655)**	(47,306)
Tax recognized in OCI related to foreign subsidiary translation	**(1,161)**	(2,073)
Exchange differences and other	**(142)**	(586)
Non-capital loss carryforwards	**1**	183
Employee future benefits	**5,266**	4,561
Other	**188**	8
	(59,503)	(45,213)

Movements in the net deferred tax asset balances during the year were as follows:

	2019	2018
	$	$
Deferred tax asset, beginning of year	**8,272**	5,498
Impact of foreign exchange rate change on opening deferred tax asset balance	**(292)**	1,859
Recognized in net income	**2,110**	466
Recognized in OCI	**45**	(9)
Other	**-**	458
Deferred tax asset, end of year	**10,135**	8,272

[in thousands of Canadian dollars]

24. INCOME TAXES [CONTINUED]

Movements in the net deferred tax liability balances during the year were as follows:

	2019 **$**	2018 $
Deferred tax liability, beginning of year	**(45,213)**	(30,133)
Recognized in net income	**(15,637)**	(13,106)
Recognized in OCI	**1,490**	(1,974)
Other	**(143)**	-
Deferred tax liability, end of year	**(59,503)**	(45,213)

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 $38,059 [2018 – $25,806].

As at December 31, 2019, the Corporation had Canadian capital losses of $708 [December 31, 2018 – $708], Canadian non-capital losses of $1,199 [December 31, 2018 – $1,052] and U.S. losses of $6,062 [December 31, 2018 – $nil] 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 $25,948, of which $15,724 expires between 2035 and 2037. The remaining losses of $10,224 can be carried forward indefinitely. Losses of $19,886 are considered more likely than not to be realized, resulting in a recognized deferred tax asset of $5,197.

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 $6,577 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.

[in thousands of Canadian dollars]

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

	2019 **$**	2018 $
Accounts receivable	**(17,326)**	13,658
Prepaid expenses	**(2,200)**	(698)
Note receivable from parent	**(792)**	(3,764)
Accounts payable and accrued liabilities	**22,232**	3,175
Inventory	**307**	727
Customer deposits in accounts receivable	**1,158**	(18,671)
Net change in accruals related to property, plant and equipment	**(7,562)**	7,030
Net change in accruals related to intangible assets	**(4,800)**	543
	(8,983)	2,000

26. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

	2019 **$**	2018 $
Long-term debt, beginning of year	**773,390**	773,168
Amortization of debt-issuance costs expensed	**270**	222
Proceeds from issuance of long-term debt	**290,513**	-
Debt-issuance costs	**(3,440)**	-
Long-term debt, end of year	**1,060,733**	773,390

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, 2019, the Corporation 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 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.

27. CONTINGENT LIABILITIES [CONTINUED]

The Corporation is party to connection and cost recovery agreements with HONI as described in Note 8 of these consolidated financial statements. Each of the Corporation's CCRAs has a term of 25 years. 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. 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 are 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 is greater than 20%.

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, 2019, the Corporation has $139,637 in total open commitments spanning between 2020 and 2026. These include commitments relating to a call centre services agreement, distribution-related construction projects, overhead and underground services and other services relating to the Corporation's operations. In addition, the Corporation has $68,627 in outstanding purchase commitments relating to the refurbishment projects at Chaudière Falls as described in Note 1 of these consolidated financial statements.

The Company 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 September 30, 2022 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 and are not factored in the calculation of the Corporation's lease liability or effective lease term. The Corporation's anticipated future minimum lease payments will be: 2020 to 2024 – $562 and $36,769 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.

(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 $455 [2018 – $387] via its regulated subsidiary, Hydro Ottawa, and $18,192 [2018 – $15,997] via Envari [2018 - Energy Ottawa]. During the year, the Corporation also received $4,268 [2018 – $3,580] in contributions relating to the upgrade and/or expansion of the Corporation's existing electricity distribution infrastructure; earned $357 [2018 – $310] in interest revenue with respect to the note receivable from the City of Ottawa; and incurred $40 in lease interest expense with respect to a long-term lease outstanding with the City of Ottawa [2018 – N/A] at December 31, 2019.

[in thousands of Canadian dollars]

29. RELATED PARTY TRANSACTIONS [CONTINUED]

(a) Transactions and balances outstanding with parent [continued]

The Corporation incurred $4,651 [2018 – $3,067] of operating costs to the City of Ottawa. The Corporation also incurred $504 [2018 – $269] in building permit costs and development charges, which are included in property, plant and equipment.

As at December 31, 2019, the Corporation's accounts receivable and customer deposits include $16,965 [December 31, 2018 – $14,980] and $1,053 [December 31, 2018 – $652], respectively, while the Corporation's accounts payable and accrued liabilities include $170 [December 31, 2018 – $54] 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 11 of these consolidated financial statements and the Corporation's long-term lease liability to the City of Ottawa included in Note 17 at December 31, 2019 is $931.

(b) Transactions and balances outstanding with joint ventures

(i) Moose Creek LP

During the year, the Corporation earned interest income in the amount of $72 [2018 – $112] on its note receivable from the Moose Creek LP joint venture, as well as $24 [2018 – $25] in other revenue for the provision of administrative services. As at December 31, 2019, the Corporation's accounts receivable include $16 [December 31, 2018 – $27] 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 11 of these consolidated financial statements.

(ii) PowerTrail

During the year, the Corporation earned imputed interest income in the amount of $36 [2018 – $87] on its note receivable from the PowerTrail joint venture that was repaid during the year, as well as $26 [2018 – $25] in other revenue for the provision of administrative services. As at December 31, 2019, the Corporation's accounts receivable include $2 [December 31, 2018 – $2] due in respect of the transactions described.

(c) Compensation of key management personnel

	2019 **$**	2018 $
Salaries, director fees and other short-term benefits	**1,660**	1,545
Employee future benefits	**195**	181
Other long-term benefits	**17**	15
	1,872	1,741

30. COMPARATIVE INFORMATION

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

31. 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 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 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 Corporation'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.

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	2019	394,719	N/A	51,599
President and Chief Executive Officer	2018	387,037	N/A	44,843
	2017	380,957	N/A	43,797
Geoff Simpson	2019	190,491	63,899	8,603
Chief Financial Officer	2018	186,783	61,790	8,548
	2017	183,839	61,842	8,491
Guillaume Paradis	2019	157,009[4]	34,175[5]	10,060
Chief Electricity Distribution Officer				
Gregory Clarke	2019	193,380	63,730	8,616
Chief Electricity Generation Officer	2018	189,616	62,727	9,267
	2017	186,627	62,780	8,501
Adnan Khokhar	2019	194,732	41,272	8,731
Chief Energy and Infrastructure Services Officer	2018	121,211[6]	N/A	15,550

1 Officers whose earnings are reported are those who occupied the position at December 31, 2019.

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 Mr. Paradis assumed the position of Chief Electricity Distribution Officer on June 1, 2019. Had Mr. Paradis been employed in this position for the entire year, his base salary would have been $165,000.

5 Given that Mr. Paradis assumed the position on June 1, 2019, the at risk performance incentive for 2018, paid in 2019, is based on his previous position with the Corporation.

6 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; engineering experience; 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	16/16
Bryce Conrad (President and CEO)	5/5	N/A
Yaprak Baltacioglu	5/5	7/8
Stephen Blais	3/5	4/6
Kim Butler	5/5	7/7
Dale Craig	5/5	7/8
Matt Davies	5/5	6/6
Jan Harder	4/5	5/5
Andrea Johnson	4/5	6/6
Cyril Leeder	4/5	7/9
Lori O'Neill	5/5	7/7

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 *	1/1	N/A
Guillaume Paradis **	3/3	N/A

* Depicts outgoing Board member whose term ended on May 31, 2019

** Depicts incoming Board member whose term took effect June 1, 2019

Members of the Boards of Directors

HYDRO OTTAWA HOLDING INC.


Jim Durrell, C.M., ICD.D (Chair)


Bryce Conrad


Yaprak Baltacioglu


Stephen Blais


Kim Butler


Dale Craig


Matt Davies


Jan Harder


Andrea Johnson


Cyril Leeder


Lori O’Neill

HYDRO OTTAWA LIMITED


Jim Durrell, C.M., ICD.D (Chair)


Bryce Conrad


Lance Jefferies


Guillaume Paradis

Award for Most Innovative
Use of HR Technology

Innovation Excellence Award

MDM/R Data Excellence Award

Public Relations Excellence Award

Expanding Excellence Award for Innovation in People and Process

Awards for Billing and Payment, Self-Service, and Outage Communications

Communicator of the Year Award

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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