

**100 YEARS OF
SERVICE**

Annual Report 2016



100 YEARS OF SERVICE



1882
Thomas Ahearn and Warren Soper launch the Ottawa Electric Company and build Canada's first hydroelectric generating station at Chaudière Falls



1885
Ottawa is the first city in the world to have all of its street lights lit with electricity



1891
Generating Station No. 2 (today owned by Energy Ottawa) is built on Victoria Island - Canada's oldest operating hydroelectric station



1905
Public power begins, as the Municipal Electric Department of the City of Ottawa is born



1916
Ottawa Hydro is founded - the Municipal Electric Department becomes the Ottawa Hydro Electric Commission ("Ottawa Hydro"), and connects to the young provincial grid

1928

Ottawa's first electric traffic light on Sparks Street becomes operational



2003

A massive blackout shuts down the North Eastern United States and Ontario, highlighting the need for ongoing modernization of the North American electricity grid



2000

Hydro Ottawa is formed through amalgamation of Gloucester Hydro, Goulbourn Hydro, Kanata Hydro, Nepean Hydro and Ottawa Hydro



1998

Ice Storm - Hydro crews work around the clock to repair widespread outages caused by more than 85 mm of freezing rain, ice pellets and snow



1978

Ottawa Hydro is the first distribution utility in Ontario to install Supervisory Control and Data Acquisition (SCADA), an important first step toward the "Smart Grid"



1950

Ottawa Hydro purchases the Ottawa Light, Heat and Power Company and becomes the sole distributor of electricity in Ottawa



2004

Another step towards the Smart Grid, as Hydro Ottawa opens a new, modernized control centre with electronic tracking of power outages, field crews and assets

2005

Generating Station No. 4 at Chaudière Falls, built in 1900, is refurbished



2006

The first Smart Meter is installed



2007

Energy Ottawa begins operation of a landfill-gas-to-energy facility at the Trail Road landfill, turning a potent greenhouse gas (methane) into clean renewable energy



2012

Hydro Ottawa dispatches crews to Connecticut and New Jersey to help restore power to approximately half a million residents after Hurricane Sandy

2012

Hydro Ottawa purchases three hydroelectric plants and a 38.3% interest in the Ring Dam and associated water rights at Chaudière Falls from Domtar Corporation



2015

Construction begins on a new state of the art, 29 megawatt below-ground hydroelectric facility at Chaudière Falls



2016

Hydro Ottawa becomes the sole owner of all generation assets at the interprovincial Chaudière Falls site with the purchase of a 27 megawatt station from Hydro Quebec



Our Mission

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

Our Organizational Values

Teamwork, Integrity, Excellence and Service

Our Vision

Hydro Ottawa – a leading partner in a smart energy future

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

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



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



Bryce Conrad
President and Chief Executive Officer

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

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

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

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

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

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

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

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

leveraging our expertise in utility services, in areas such as cable testing and power quality monitoring.

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

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

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



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



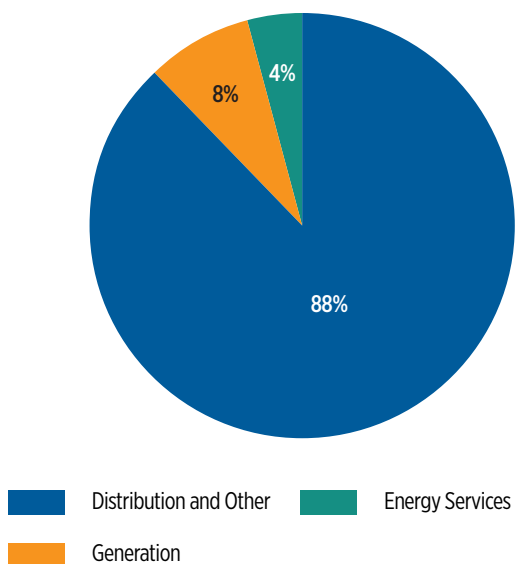
Bryce Conrad
President and Chief Executive Officer

Financial Highlights

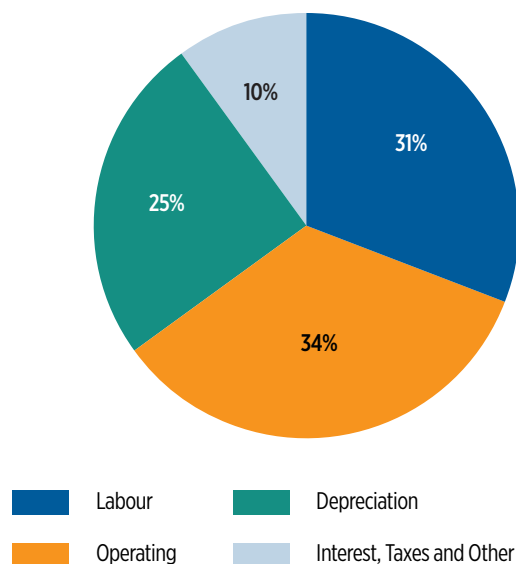
[in thousands of Canadian dollars]

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

Revenue by type ^{1,2}



Expenses by type ^{1,2}



¹ Pre-IFRS 14

² Excludes Power Recovery and Purchased Power

Progress Against Plan

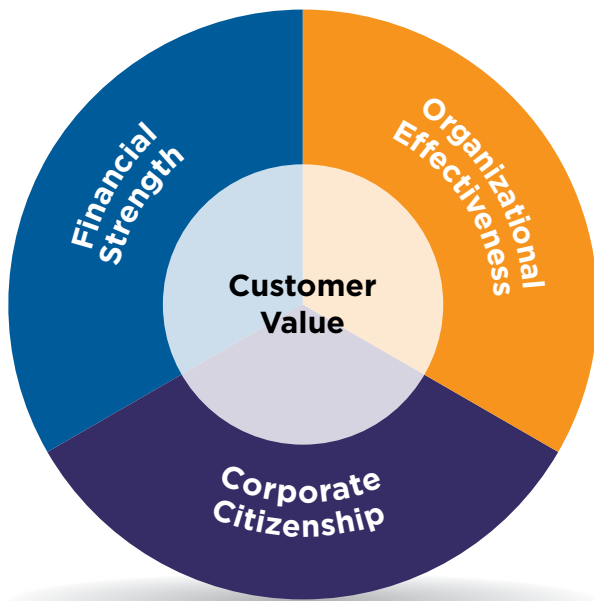
Hydro Ottawa's 2016 Annual Report is the first to report against the Company's 2016-2020 Strategic Direction, which outlines our business strategy and financial projections for the next five years. This strategy retains the core elements of the previous strategic plan [2012-2016 Strategic Direction],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

Financial Strength

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

\$34.8M in net income

\$20.6M dividend to shareholder

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

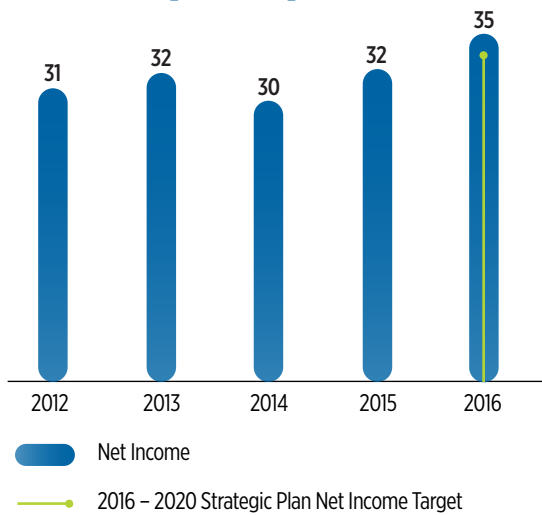
Our 2016 consolidated net income of \$34.8 million exceeds the \$34 million commitment in our 2016-2020 Strategic Direction, and is our highest to date. Notably, this was achieved while undertaking the largest capital project in the company’s history – the Chaudière Falls expansion project – which will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

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

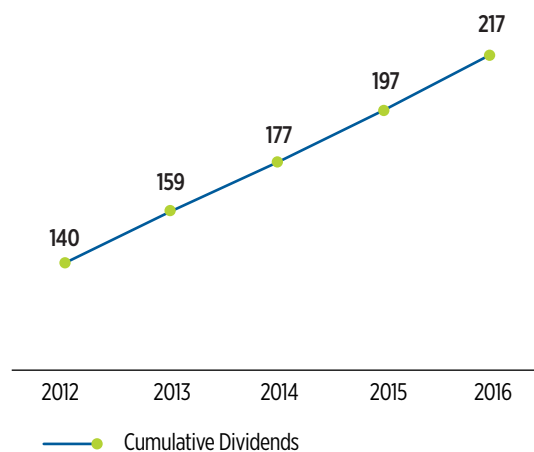
Our 2016 results yielded a dividend payment of \$20.6 million – a record annual dividend, bringing cumulative dividends to \$217 million since 2005.

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

Net Income [\$ millions]



Cumulative Dividends [\$ millions]



Acquired
27 megawatts of
new generation

Became sole owner
of all Chaudière
assets

Launched new
business lines
leveraging our
expertise

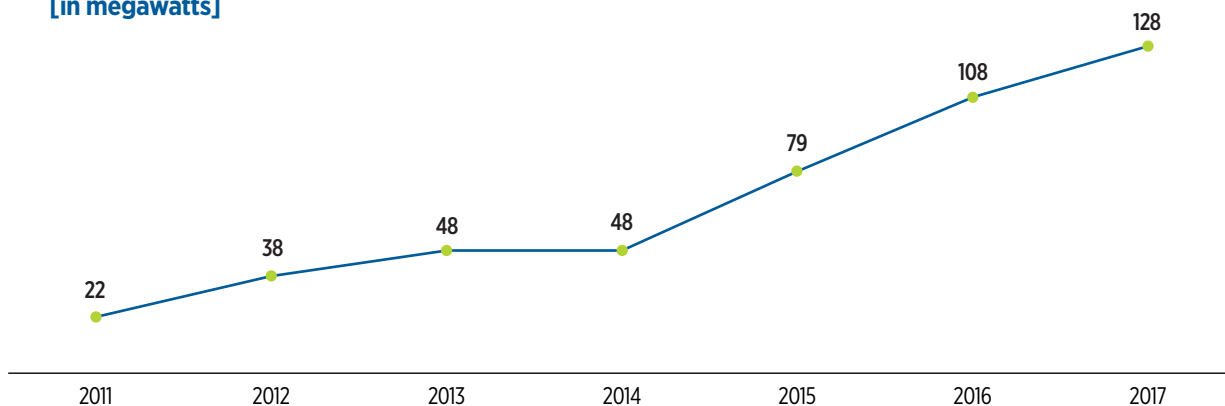
grid. This will alleviate the forecast capacity shortage in Ottawa's downtown core. Most importantly, our Chaudière Falls expansion project, involving the redevelopment and expansion of two stations on the Ontario side of the river, continued to track on-time and on-budget towards a 2017 in-service date.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

In keeping with our 2016-2020 Strategic Direction, Hydro Ottawa also took important steps to expand the range of energy and utility

services we provide. The City of Ottawa street light conversion project proceeded ahead of schedule, and will deliver financial benefits for both parties while reducing environmental impacts. All eight City of Ottawa solar rooftop projects were also completed.

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

**Growth in Generation Capacity
[in megawatts]**



Customer Value

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

81% customer satisfaction rate

Highest e-billing participation in Ontario

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

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

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

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

We are working to sustain and improve customer satisfaction through our multi-year Customer Experience Strategy, and through the creation of the role of Chief Customer Officer, who will provide

ONE SMALL CHANGE CAN MAKE A BIG DIFFERENCE

Sign up for Pre-Authorized Payments by December 31st and we'll donate \$5 to help CHEO upgrade its critical (and paperless!) patient monitors.

HELP CHEO #GOPAPERLESS

Madison, age 10

The advertisement features a young girl, Madison, sitting in a hospital room. The background is a blue gradient with a white heartbeat line graphic.

SHARE YOUR OPINION & WIN

Take our online survey to help build a better bill

YOU COULD TAKE HOME 1 OF 3 TABLETS!

hydroottawa.com/billsurvey
Survey ends August 19, 2016

Hydro Ottawa

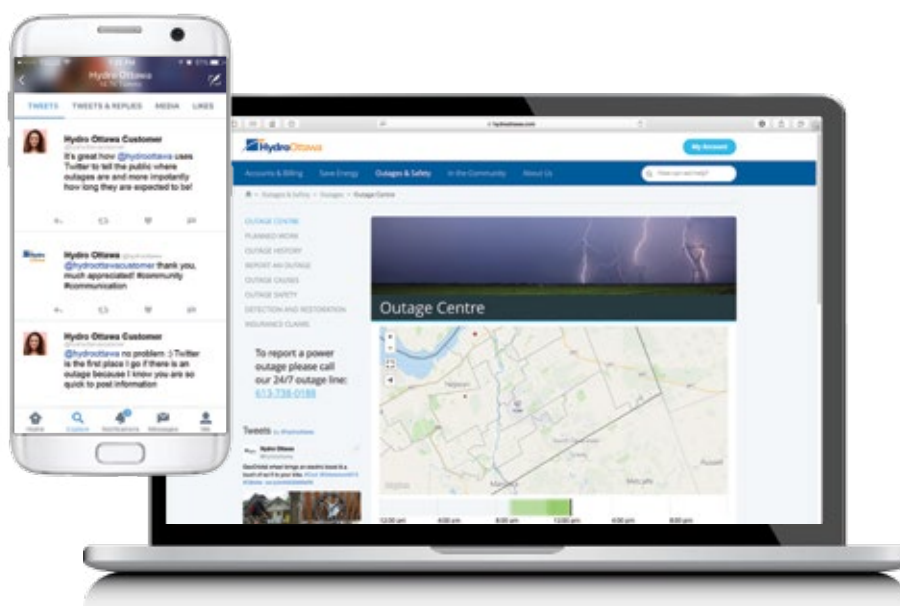
The advertisement shows a 3D illustration of a construction site with workers and a truck, alongside a large tablet displaying a survey. The background is a light blue gradient.

company-wide leadership in this area. Service levels and hours were extended at our contact centre in 2016. We also increased our interaction and communication through social media, which has become a primary contact point for many customers, especially during storms and outages when real-time information is vital. We increased our activity and engagement levels across all major platforms, and expanded our use of video content. A mobile app is under development and scheduled for launch in 2017.

Best reliability in the last five years

\$65M invested to keep distribution system safe and reliable

Real-time storm and outage updates via social media



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

We also continued to help customers manage their energy consumption and costs through conservation and demand

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

Organizational Effectiveness

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

Safety remained our top priority

Hired 13 new apprentices

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

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

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

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





Contained operating costs through productivity

Made crucial technology investments

Facilities Renewal Project on track



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

Pursuit of improved productivity remains a constant, and in 2016 we implemented a number of improvements and cost controls. These included equipment upgrades, crew location and transportation-time improvements, use of remote disconnect meters to reduce field-work, and termination of certain contractual arrangements

in favour of more cost effective alternatives. These productivity gains helped the company to contain operating, maintenance and administration (OM&A) costs to a 2 percent increase year over year.

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

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



Corporate Citizenship

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

Employee charitable fundraising of >\$280K

Attended more than 350 community events

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

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

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

Environmental leadership continues to be a high priority for Hydro Ottawa. In 2016, we diverted 92 percent of non-hazardous wastes (liquid and solid) away from landfill, cut our paper consumption and use of physical servers, and continued the conversion of our fleet to lower-impact vehicles. We became a charter member of carbon⁶¹³, contributing to a more sustainable National Capital Region. Through that initiative, we have baselined our greenhouse gas emissions and will target annual improvement. We have also continued to play a leading role in the City of Ottawa’s Energy Evolution initiative.





Increased online engagement by 85%

Earned 12 performance excellence awards

Diverted 92% of non-hazardous wastes from landfill



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

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

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



Management's Discussion and Analysis

INTRODUCTION

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

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

CORE BUSINESS AND STRATEGY

Company Profile

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

Hydro Ottawa Limited, the first of these two subsidiaries, is a regulated electricity local distribution company ['LDC'] operating in the City of Ottawa and the Village of Casselman. As the third-

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

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

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



Our Strategic Direction

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

Strategy

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

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

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

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

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

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

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

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

Mission, Vision & Guiding Principles

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

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

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

OUR GUIDING PRINCIPLES

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

OUR ORGANIZATIONAL VALUES

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

OUR COMMITMENTS TO OUR STAKEHOLDERS

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

Employees

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

Customers

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

Suppliers and Contractors

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

Community and the Environment

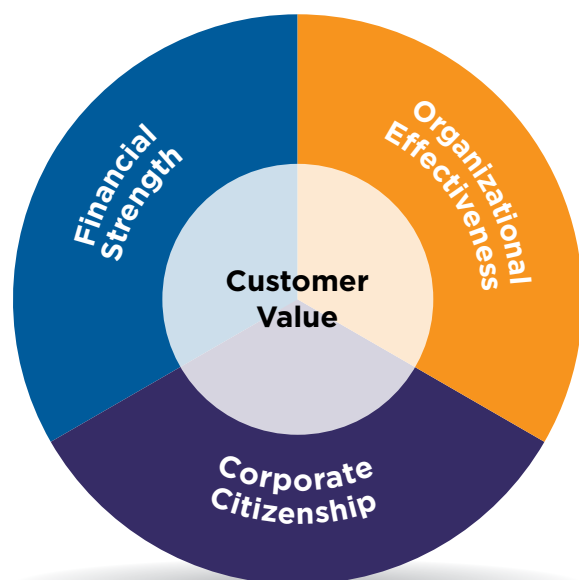
We are committed to being a responsible corporate citizen and will contribute to making the communities in which we operate better places to live and do business. We are sensitive to the community's needs, and dedicated to protecting and preserving the environment where we operate.

Shareholder and Other Suppliers of Finance

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

FOUR KEY AREAS OF FOCUS

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



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

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

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

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

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

Electricity Industry Overview

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

System Operators

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

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

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

Electricity Generation

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

Electricity Transmission

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

Electricity Distribution

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

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

Regulatory Framework

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

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

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

Rates

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

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

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



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

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

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

Capability to Deliver Results

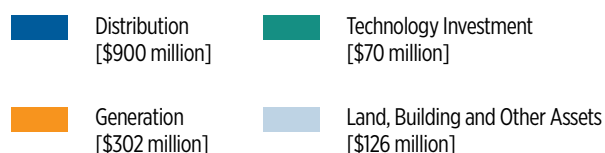
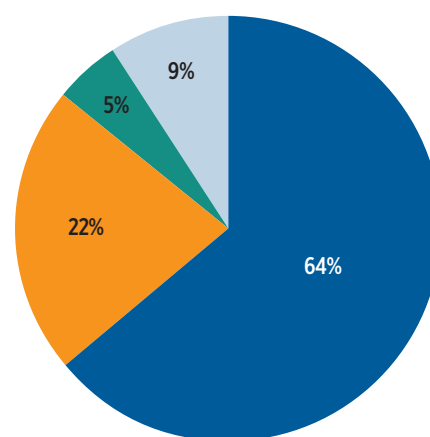
Hydro Ottawa's capability to achieve the objectives set out in its strategic direction is a function of its expertise, assets, both tangible and intangible, systems and capital resources across the following areas.

Assets

Hydro Ottawa's gross asset base is \$1.4 billion, with significant ongoing investments in distribution and generation infrastructure and technology systems. Like all utilities, Hydro Ottawa is affected by the industry-wide reality of aging infrastructure, and continues to manage this through increased infrastructure investments and a detailed Distribution System Plan to target spending where it will have the most benefit. In 2016, the Corporation invested \$65 million to maintain its distribution system and a further \$38 million to expand the system to meet customer needs [see 'Investing Activities' for more details]. These investments are having the desired impact, with electricity service reliability continuing to improve system wide. Hydro Ottawa has also recognized the need for a replacement of core work and operational centres that are at the end of their useful life. In 2016, work progressed on the Company's Facilities Renewal Project, including the contract award to the design builder. Hydro Ottawa also continues to grow its renewable generation infrastructure with \$84 million invested in 2016.

- **Electricity Distribution Assets** – For more than 100 years, Hydro Ottawa and its predecessor companies have delivered a reliable supply of electricity to homes and businesses.
 - › Service Area – 1,116 square kilometers
 - › Circuitry – 5,609 kilometers
 - › Substations – 88
 - › Transformers – 45,414
 - › Poles – 49,247
- **Renewable Generation Assets** – Largest municipally-owned producer of green power in Ontario with 128 megawatts [upon completion of Chaudière Falls expansion] of installed generation capacity, enough to power 107,000 homes.
 - › Run-of-the-River Hydroelectric Generating Stations – 16
 - › Landfill Gas-to-Energy Plants – 2
 - › Solar Installations – 14

Gross Tangible and Intangible Assets



Workforce

A highly skilled, properly trained and knowledgeable workforce, and a safe and healthy work environment are essential to Hydro Ottawa's continued success. Achieving the company's strategic objectives will require an effective and constantly learning organization, with the right skill sets to deliver on existing and new business lines.

Hydro Ottawa employed approximately 720 people at the end of 2016 across the enterprise; Hydro Ottawa Limited accounted for 89 percent of this workforce.

Like many other utilities, Hydro Ottawa faces challenging workforce demographics that require a concerted response. The Company has put in place a comprehensive and integrated talent management strategy aimed at anticipating and meeting talent needs, through planning, talent attraction and acquisition, effective deployment of resources, and performance management and development. This includes:

- Extensive in-house apprenticeship programs, and an engineering intern training and development program, to ensure the

availability of qualified journeypersons and professional engineers. Our programs continued to grow in 2016 with 13 new apprentices hired (bringing the total to 39, or 22 percent of our trades workforce). Fourteen apprentices reached journeyperson status in 2016.

- Programs for succession planning and management, as well as training and development, to ensure that there are qualified employees in the talent pipeline for key positions.
- A proactive approach to knowledge management and knowledge transfer for key positions, including an older worker and retiree engagement strategy so that work is seamlessly transitioned from our veteran workforce to the next generations.
- A Diversity Plan, which fosters an inclusive culture that leverages diversity and enhances employee engagement and innovation.
- Partnerships with industry and educational institutions to support the implementation of the talent management strategy. These include, most notably, collaborations with Algonquin College to deliver the College's Powerline Technician programs in the eastern Ontario region, and with Carleton University's Sustainable and Renewable Energy Engineering Department for the establishment of a smart grid laboratory. The latter fosters innovative research on electrical power systems and promote the training of engineers in the smart grid environment.

The Company's employee compensation programs continued to support a high-performance culture, and include market-driven and performance-based components to attract and retain key employees.

As our business is changing, the profile of our workforce is changing as well. It is increasingly diverse in age, skills, background, belief, ethnicity, sexual orientation, and in many other ways. We aim to create a thriving and respectful workplace for all.

A fundamental component of Hydro Ottawa's commitment to operating efficiently and effectively is the very high priority we place on protecting the health and safety of our employees and our community. Hydro Ottawa has established an integrated health, safety and environment management system that has achieved and maintained certification to the international standards of Occupational Health and Safety Assessment Series 18001 and International Organization for Standardization 14001 since November 2007.

Systems and Processes

Hydro Ottawa has made significant investments in technology systems to enhance the Company's effectiveness. These include customer information and billing systems, advanced metering, and information and operational technologies such as geographic information systems, system control, outage management, and mobile workforce management systems. We take seriously the security of our critical infrastructure against cyber threats is a very important priority for Hydro Ottawa, and we collaborate proactively with government, regulators and private sector partners across North America to manage this risk. Our technology decisions continue to be based on three basic considerations: enhancing service to our customers; creating efficiencies that will increase our competitiveness; and improving functionality to be more agile and resilient in the face of industry disruption.

Hydro Ottawa is also focused on maximizing the efficiency and effectiveness of our operations by optimizing productivity at every opportunity. Examples of initiatives undertaken in 2016 include:

- Introduced innovative equipment into our fleet to enable crews to work more safely and efficiently on distribution assets located in rear lots;
- Installed 2,500 remote disconnect meters eliminating the need to dispatch vehicles and helping to reduce our carbon footprint;
- Initiated online payment options for service requests;
- Completed the procurement of a new customer contact centre to increase service levels and reduce annual costs; and
- Continued implementation of a Mobile Workforce Management system [a comprehensive scheduling and dispatch tool] that improves resource productivity, reduces overtime costs, and increases the ability to meet customer service commitments.

Capital Resources

Liquidity and Capital Resources

The Corporation's primary sources of liquidity and capital resources are operating activities, banking facilities, and proceeds from bond issuances as and when required. Liquidity and capital resource requirements are primarily for: capital expenditures to maintain the Hydro Ottawa Limited electricity distribution system; investments in generation assets; cost of power; interest expense; and prudential requirements.



On July 12, 2016, the Corporation renewed its credit facility for \$341 million. The Corporation may use up to \$75 million of the facility for general operating requirements and annual capital expenditures. A further \$100 million, three-year revolving term credit line remains available for larger capital expenditures and acquisitions. To ensure appropriate liquidity, an additional \$150 million, one-year revolving term credit line was also placed to provide short-term bridge financing for large capital projects and acquisitions. In 2016, the \$150 million facility was mainly used to finance the Chaudière expansion project until long-term financing was placed.

Capital expenditure requirements in excess of the credit facility, if any, will be funded through future bond issuances. The utility sector continues to be a very attractive investment in the capital markets with strong demand across all bond tenures. This provides the Corporation access to significant market capacity to support its ongoing investment requirements. The Corporation's existing corporate bond profile is very strong with a weighted average maturity of 20 years at an average weighted cost of 3.49 percent. The Corporation demonstrated its ability to raise financing again in 2016 with the issuance of a \$204 million non-recourse project bond for the expansion at Chaudière Falls at a rate of 4.08 percent. For additional details regarding the Corporation's sources of liquidity and capital resources, see Notes 13, 16 and 17 to the consolidated financial statements.

Credit Ratings

On May 27, 2016 Dominion Bond Rating Service Inc. ['DBRS'] reaffirmed Hydro Ottawa's rating at 'A' with a stable trend during the year. On June 21, 2016, DBRS commented that the mid-year acquisition of a 27 megawatt hydroelectric generation station at Chaudière Falls, and the remaining 33 percent interest in the Ring Dam from Hydro-Québec, did not warrant any negative rating action, but noted that Hydro Ottawa's business risk profile may be negatively affected if earnings from the non-regulated segment exceeds 20 percent. On August 25, 2016, Standard & Poor's ['S&P'] lowered its rating from 'A-' to 'BBB+' with a stable outlook due to the increasing proportion of forecast cash flows coming from the non-regulated segment following the acquisition of the Hydro-Québec generation assets. S&P noted that Hydro Ottawa continues to have an excellent business risk profile due to its operation under a transparent, consistent, and predictable regulatory framework for electricity distribution, its large and diverse customer base, and the quality of its government-backed power purchase agreements for generation assets, which provide steady, predictable and stable cash flows. The majority of Hydro Ottawa's generation operations [82 percent] are supported by fixed rate long-term power purchase agreements. As demonstrated by the \$204 million project financing raised on September 7, 2016, this downgrade has not impaired the Corporation's access to capital.

Results – Progress against Plan

To ensure Hydro Ottawa makes steady progress towards achieving the corporate strategy set out in our 2016-2020 Strategic Direction, the Company has set enterprise strategic objectives in each

of its four key areas of focus, and establishes Board-approved performance goals in relation to these strategic objectives each year. The table below summarizes Hydro Ottawa's performance in relation to its goals for 2016.

KEY AREAS OF FOCUS	ENTERPRISE STRATEGIC OBJECTIVES	2016 PERFORMANCE GOALS	2016 PERFORMANCE HIGHLIGHTS
FINANCIAL STRENGTH	We will create sustainable growth in our business and our earnings <i>by improving productivity and pursuing business growth opportunities that leverage our strengths – our core capabilities, our assets and our people</i>	<p>Grow revenues from new sources</p> <p>Enhance / protect revenues from existing business lines</p>	<ul style="list-style-type: none"> Achieved consolidated net income of \$34.8M, exceeding 2016-2020 Strategic Direction commitment by \$0.8M Increased our generation capacity by 27 megawatts [MW] with the acquisition of a generating station from Hydro-Québec Chaudière Falls expansion project continued on schedule and on budget <ul style="list-style-type: none"> > Largest project in the Company's history > Will bring total generation capacity to 128 MWs [500% growth since 2012] > Secured 40-year non-recourse project bond financing at 4.08% Secured two 40-year power purchase agreements [PPAs] to sell power from Chaudière Falls [Québec plants] into the Ontario grid <ul style="list-style-type: none"> > Will alleviate the forecast capacity shortage in Ottawa's downtown core 82% of our 128 MW generation capacity is contracted through long-term PPA rates All eight City of Ottawa solar rooftop projects met their IESO commercial operation dates Continued to diversify revenue streams – launched Cable Testing and Power Quality businesses
CUSTOMER VALUE	We will deliver value across the entire customer experience <i>by providing reliable, responsive and innovative services at competitive rates</i>	<p>Assist customers in managing their energy consumption and electricity costs</p> <p>Deliver on customer expectations for service quality and responsiveness</p> <p>Maintain overall distribution system reliability</p>	<ul style="list-style-type: none"> Achieved our best reliability results in the past five years, and invested \$65M to keep our distribution system safe and reliable Extended the hours and increased the service levels of our customer contact centre Ranked 18th out of 71 utilities in terms of lowest operating costs per customer 81% customer satisfaction rate – industry context continues to put pressure on customer satisfaction numbers, as public concern over electricity prices is high Highest e-billing participation in Ontario [38% of customers], saving \$1.3M per year Increased our social media presence – including real-time information during storms and outages

KEY AREAS OF FOCUS	ENTERPRISE STRATEGIC OBJECTIVES	2016 PERFORMANCE GOALS	2016 PERFORMANCE HIGHLIGHTS
ORGANIZATIONAL EFFECTIVENESS	We will achieve performance excellence <i>by cultivating a culture of innovation and continuous improvement</i>	<p>Continue to enhance operational performance and productivity</p> <p>Maintain leading health and safety record</p> <p>Enhance organizational and employee capability</p>	<ul style="list-style-type: none"> • Safety remained our top priority – provided an average of 23 hours of safe work practices training for all employees • Continued our heavy focus on productivity • Invested \$9.8M in next generation technology systems to support customer service, operational efficiency, grid modernization, and cybersecurity • Maintained certifications for our Occupational Health, Safety and Environment Management System to internationally-recognized standards • Substantial progress on Facilities Renewal Project, including selection and contracting of the design builder • Continued our workforce renewal – hired 13 new apprentices without increasing position complement, and implemented comprehensive talent management programs
CORPORATE CITIZENSHIP	We will contribute to the well-being of the community <i>by acting at all times as a responsible and engaged corporate citizen</i>	<p>Enhance our brand image in the community and the industry</p> <p>Continue to improve our environmental performance and reduce our impact on the environment</p>	<ul style="list-style-type: none"> • Provided community support through our Community Investment Program, employee volunteer efforts, and delivering provincial programs in our community • Raised over \$282,000 as part of our 2016 Employee Charitable Fundraising campaign • Increased our engagement with the community <ul style="list-style-type: none"> > Attended more than 350 community events > Launched newsletters for Community Associations and BIAs > Hosted our first Community Forum > Online engagement increased by 85%; Twitter followers rose by 18%, Facebook by 174% and LinkedIn by 30% • Became a catalyst member of carbon⁶¹³, contributing to a more sustainable National Capital Region • Diverted 92% of non-hazardous solid and liquid waste away from landfill • Received 12 awards for performance excellence, including as one of Canada's Greenest Employers [6th year] and one of the National Capital Region's Top Employers [8th year]

Financial Results

The selected consolidated financial results of the Corporation presented below should be viewed in conjunction with the audited consolidated financial statements and accompanying notes for the year ended December 31, 2016.

Consolidated Statement of Income [Summary]

As a result of the adoption of International Financial Reporting Standards ['IFRS'] in 2015 – including the early adoption of IFRS 14 – several of the Corporation's line items in its audited consolidated statement of income are subject to high volatility. Specifically, IFRS 14 requires a one-line separate presentation of the net movement within the Corporation's regulatory deferral accounts related to income [i.e. the debit and credit balances, net of taxes] within its consolidated

statement of income. This net movement of regulatory balances primarily arises when there is a timing difference between the cost of power purchased and the cost of power recovered. This difference is recorded as a settlement variance, representing future amounts to be recovered from or refunded to customers through future billing rates approved by the OEB. Consequently, the Corporation's power recovery and purchased power line items can be significantly impacted by these timing differences. For the purposes of the analysis and interpretation of financial variances presented below, management has identified and excluded impacts resulting from the adoption of IFRS 14, and used 'pre-IFRS 14' results as the basis for its discussion unless otherwise noted. Management believes this more accurately represents the true financial performance of the Corporation, given its rate-regulated environment as prescribed by the Ontario Energy Board ['OEB'].

[in thousands of Canadian dollars]

	2016	IFRS 14 Impact	2016 (Pre- IFRS 14)	2015	IFRS 14 Impact	2015 (Pre- IFRS 14)	Change (Pre- IFRS 14)
Revenue							
Power recovery	974,207	(14,021)	960,186	890,116	(22,365)	867,751	92,435
Distribution sales	165,729	986	166,715	162,037	(2,528)	159,509	7,206
Other	62,459	-	62,459	59,921	-	59,921	2,538
	1,202,395	(13,035)	1,189,360	1,112,074	(24,893)	1,087,181	102,179
Expenses							
Purchased power	966,072	(7,883)	958,189	865,178	(154)	865,024	93,165
Operating costs	128,072	(242)	127,830	126,138	(375)	125,763	2,067
	1,094,144	(8,125)	1,086,019	991,316	(529)	990,787	95,232
Earnings before Interest, Taxes, Depreciation and Amortization [EBITDA]	108,251	(4,910)	103,341	120,758	(24,364)	96,394	6,947
Depreciation and amortization	49,642	-	49,642	42,632	-	42,632	7,010
Financing costs, interest income and taxes	28,172	(8,250)	19,922	33,458	(11,557)	21,901	(1,979)
Share of profit from joint ventures	(1,059)	-	(1,059)	(509)	-	(509)	(550)
	76,755	(8,250)	68,505	75,581	(11,557)	64,024	4,481
Net income	31,496	3,340	34,836	45,177	(12,807)	32,370	2,466
Net movements in regulatory balances, net of tax	3,340	(3,340)	-	(12,807)	12,807	-	-
Net income after net movements in regulatory balances	34,836	-	34,836	32,370	-	32,370	2,466

Net Income

Net income increased by approximately \$2.5 million or 8 percent in 2016. This increase was primarily due to a \$7.2 million increase in distribution sales, a \$2.5 million increase in generation and other revenue, and a \$3.1 million decrease in income tax expense. These positive variances were partially offset by increases in operating costs and in depreciation and amortization of \$2.1 million and \$7.0 million, respectively, and by a \$0.8 million decrease in interest income.

Revenue

Revenue is earned from electricity distribution, renewable energy generation, energy management and utility services, as well as from conservation and demand management [“CDM”] programs and sundry activities. In 2016, Hydro Ottawa’s total revenue amounted to approximately \$1.2 billion, an increase of 9 percent.

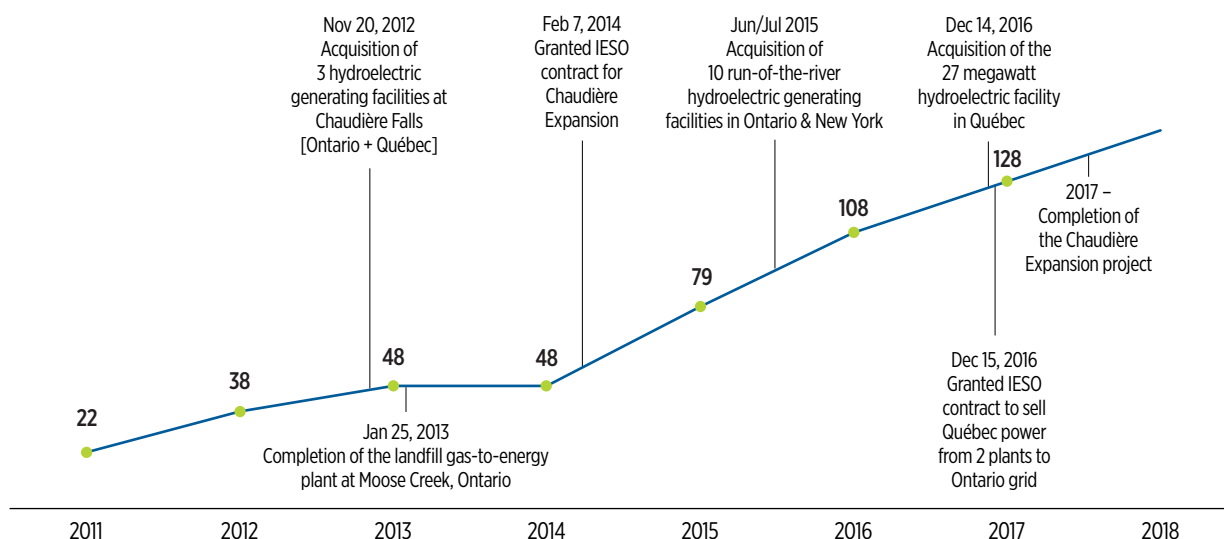
The largest component of Hydro Ottawa’s total revenue is the cost of power recovered from customers through provincially-established rates. The cost of power is a flow-through amount, which poses limited risk to Hydro Ottawa’s financial performance. However, variances arise between the cost of power purchased and the cost of power recovered, due to timing differences in invoicing from the Independent Electricity System Operator [“IESO”] for the former, and receipt of payment from customers for the latter. This difference is recorded as a settlement variance. Hydro Ottawa Limited’s power recovery revenue increased by \$92.4 million,

mainly due to increased commodity and global adjustment rates included in purchased power costs.

Distribution sales are recorded based on OEB-approved distribution rates, set at a level intended to recover the costs incurred by Hydro Ottawa Limited in delivering electricity to customers, and they include revenue related to the collection of OEB-approved rate riders. 2016 marks the first year of rates approved under Hydro Ottawa Limited’s 2016-2020 custom incentive rate-application. Distribution sales revenue increased \$7.2 million or 4 percent from 2015 largely due to this application and the associated recovery of large investments in capital infrastructure.

Energy Ottawa’s generation revenues continued to grow. The Company made significant strides in the past few years to grow its generation capacity as detailed in the chart below. The most notable addition in 2016 was the purchase of a 27 megawatt hydroelectric generating station on the Québec side of Chaudière Falls along with the remaining 33 percent interest in the Ottawa River Ring Dam, giving Energy Ottawa full ownership of all hydroelectric facilities on both sides of the river at the Chaudière site as of December 14, 2016 [see Note 5 in the consolidated financial statements for more information]. Generation revenues, however, increased by a relatively modest \$1.2 million over 2015, due to the full year shutdown of two generating stations on the Ontario side of Chaudière Falls to enable completion of the expansion project.

Generation Capacity Growth [in megawatts]



The expansion is scheduled to be completed in 2017, resulting in a further increase in generation revenues in 2017, with a full-year revenue impact in 2018. In addition, Energy Ottawa had a full year's operation of the 10 run-of-the-river facilities in Ontario and upstate New York, which were acquired in 2015. The New York facilities were, however, impacted by depressed energy prices and did not yield as much revenue as expected.

Other revenues also increased by \$1.3 million as a result of the streetlight maintenance and conversion projects commencing in 2016 for the City of Ottawa, as well as new endeavors such as the cable and power quality testing business lines. This increase was achieved despite a decrease in CDM revenues which were \$5.1 million lower than in 2015. That was due in large part to the \$2.3 million cost-efficiency incentive, recognized in 2015, for achievement of the Company's performance objectives at the conclusion of its 2011-2014 CDM program.

Expenses

Purchased Power and Operating Costs

Purchased power represents the cost of electricity delivered to customers within Hydro Ottawa Limited's distribution service territory. These costs consist of the commodity, wholesale market service charges, transmission charges and the global adjustment. The cost of purchased power increased by \$93.2 million in 2016, mainly due to increased commodity and global adjustment rates. The global adjustment accounts for differences between the market price and the rates paid to regulated and contracted generators, and for the cost of CDM programs. When the spot market price of electricity is lower, the global adjustment is higher in order to cover the additional variance relative to the costs of energy contracts and other regulated generation.

Operating costs in 2016 of \$127.8 million increased by \$2.1 million due in part to the \$1.4 million in additional costs arising from a full year's operation of the 10 run-of-the-river hydroelectric facilities acquired in 2015. In addition, there were new expenses relating to the streetlight maintenance and conversion projects, offset by a reduction in CDM-related expenditures. Operating costs in 2016 also included a \$1.0 million write-off of a power purchase agreement ['PPA'] acquired in 2012. The PPA was terminated upon closing of the December 14, 2016 acquisition to make way for the eventual sale of electricity from these assets to Ontario via the new PPA with the IESO. Moreover,

included in operating costs were acquisition costs of \$1.7 million relating to the aforementioned transaction, which were lower than the \$2.7 million incurred in business acquisition costs in 2015.

Depreciation and Amortization

Depreciation and amortization on Hydro Ottawa's property, plant and equipment and intangible assets increased in 2016 by \$7.0 million primarily due to the ongoing investment in and expansion of the Corporation's electricity distribution infrastructure and of its portfolio of generation assets.

Share of Profit from Joint Ventures

Share of profit from joint ventures represents the Corporation's share of net income from the continuing operations of Moose Creek Energy LP [50.05 percent] and of PowerTrail Inc. [60 percent]. For more information regarding the Corporation's joint ventures, see Note 11 to the consolidated financial statements.

Financing Costs, Interest Income and Taxes

Financing costs increased by \$0.4 million, while interest income decreased by \$0.8 million. The variance in interest income is largely attributable to the amount of temporary investments the Corporation holds in a year. In 2015, the Corporation earned interest income on cash it held temporarily from the February 2015 issuance of two new senior unsecured debentures totaling \$375 million. Of this amount, \$200 million was used to repay a debenture that was due on February 9, 2015; and \$175 million was used to indirectly finance the mid-2015 acquisition of 10 run-of-the-river hydroelectric facilities, as well as for other ongoing infrastructure investments.

The Corporation's effective tax rate decreased from 32.3 percent in 2015 to 20.6 percent in 2016 as a result of permanent and temporary differences between the accounting treatment and tax basis of assets and liabilities that arose during the year. The \$3.1 million decrease in income tax expense is largely a result of the recognition of tax benefits arising from the loss carryforwards of Energy Ottawa's operations recognized in the current year. For more information regarding income taxes, see Note 22 to the consolidated financial statements.

Net Movement in Regulatory Balances [Net of Tax]

In accordance with IFRS 14, the Corporation has separately presented the net movement in regulatory balances in the consolidated statement of income. The changes in the regulatory

debit and credit balances for the year on the consolidated balance sheet [\$0.7 million and \$4.1 million respectively], equal the net movement in regulatory balances, net of tax on the consolidated statement of income [increase of \$3.3 million, along with \$0.1 million in comprehensive income]. The net movement in regulatory balances was primarily due to an increase in regulatory debit balances due to deferred taxes and operating costs to be recovered through future rates [\$8.3 million and \$0.2 million, respectively], and the refund of regulatory credit balances through

distribution sales rate riders of \$1.0 million; offset by an increase in settlement variance credit balances of \$6.1 million arising from timing differences between power recovery and purchased power. As Hydro Ottawa Limited passes on the benefit of deferred income taxes through annual distribution rate adjustments approved by the OEB, it records a regulatory deferral account credit [or debit] balance for the amounts of deferred taxes expected to be refunded to [or recovered from] customers in future rates.

Consolidated Balance Sheet [Summary]

[in thousands of Canadian dollars]

	2016	2015	Change
Current assets	283,446	181,376	102,070
Non-current assets	1,333,388	1,088,557	244,831
Total assets	1,616,834	1,269,933	346,901
Regulatory account balances	13,744	14,430	(686)
Total assets and regulatory account balances	1,630,578	1,284,363	346,215
Current liabilities	267,524	159,976	107,548
Non-current liabilities	899,574	670,165	229,409
Total liabilities	1,167,098	830,141	336,957
Shareholder's equity	426,775	413,397	13,378
Total liabilities and shareholder's equity	1,593,873	1,243,538	350,335
Regulatory account balances	36,705	40,825	(4,120)
Total liabilities, shareholder's equity and regulatory account balances	1,630,578	1,284,363	346,215

Assets

Total assets increased by approximately \$347 million in 2016. This increase is largely attributable to property, plant and equipment, and to intangible assets, which have collectively increased by \$195 million. This is a result of the acquisition of the 27 megawatt Centrale Hull-2 hydroelectric generating station from Hydro Québec, the ongoing construction at Chaudière Falls, and continuing investment in electrical distribution and generation infrastructure. In addition, \$124 million of the \$204 million project bond financing has been placed in "Blocked Accounts" from which withdrawals may only be made with the authorization of the Trustee. As a result,

the \$124 million in proceeds is classified as restricted cash on the balance sheet. The release of \$80 million of the funds is dependent upon monthly submissions of qualifying costs with respect to the Chaudière expansion, and is therefore classified as current. The remaining \$44 million in funds are expected to be available to the Corporation in 2018 and are therefore classified as a non-current asset. Finally, the Corporation saw an increase of \$21 million in its accounts receivable, which is largely explained by the increase in year over year revenues, including cost of power, and the fluctuation in the global adjustment amount classified as unbilled revenue.

Liabilities

Total liabilities increased by \$337 million in 2016. On September 7, 2016, the Corporation through its subsidiary Chaudière Hydro L.P. completed the offering of senior secured amortizing bonds of \$204 million to fund the expansion at Chaudière Falls. These bonds carry an interest rate of 4.08 percent and are due on March 31, 2057. At December 31, 2016, the Corporation had used \$80 million of the \$204 million total offering to directly-finance construction costs and bond-issuance costs. Moreover, the Corporation's current liabilities increased \$108 million as a result of its bank indebtedness of \$69 million and accounts payable and accrued liabilities, which increased by \$37 million due in large part to higher capital activity. The Corporation also saw a \$19 million increase in deferred revenue due to capital contributions received in 2016, net of amortization.

Regulatory Account Balances

IFRS 14 defines a regulatory account balance as the balance of any expense or (income) account that would not be recognized as an asset or liability in accordance with other IFRS standards, but that qualifies for deferral because it is included, or is expected to be included, by the regulator in establishing the rate[s] that can be charged to customers. As at December 31, 2016, Hydro Ottawa

Limited has recognized \$13.7 million in regulatory account debit balances [assets] and \$36.7 million in regulatory account credit balances [liabilities].

The \$0.7 million decrease in regulatory account debit balances is largely due to a \$3.0 million decrease in debit balances relating to the settlement of electricity and global adjustment pass-through costs, a \$4.3 million decrease in the post-employment deferral account debit balance, and a \$1.1 million decrease in other deferred debit balances. These decreases were offset by a \$7.7 million increase in the regulatory asset for deferred income taxes.

The \$4.1 million decrease in regulatory account credit balances is largely due to a \$6.0 million decrease in the stranded meter credit balances, and to the \$4.5 million disposition of the regulatory liability refund account, offset by a \$6.2 million increase in the settlement of electricity and global adjustment pass-through cost credit balances.

In December 2016, the OEB approved the disposition of certain deferral and variance accounts as at December 31, 2015 amounting to a repayment of \$22.5 million over a one-year period commencing January 1, 2017.

Consolidated Statement of Cash Flows [Summary]

[in thousands of Canadian dollars]

	2016	2015	Change
Cash (bank indebtedness), beginning of year	4,002	(30,927)	34,929
Cash provided by Operating Activities	96,317	100,557	(4,240)
Cash used in Investing Activities	(349,777)	(220,202)	(129,575)
Cash provided by Financing Activities	181,696	154,515	27,181
Foreign exchange impact on cash held in US dollars	(7)	59	(66)
Cash (bank indebtedness), end of year	(67,769)	4,002	(71,771)
Cash (bank indebtedness) consists of:			
Cash	982	4,002	(3,020)
Bank indebtedness	(68,751)	-	(68,751)
	(67,769)	4,002	(71,771)

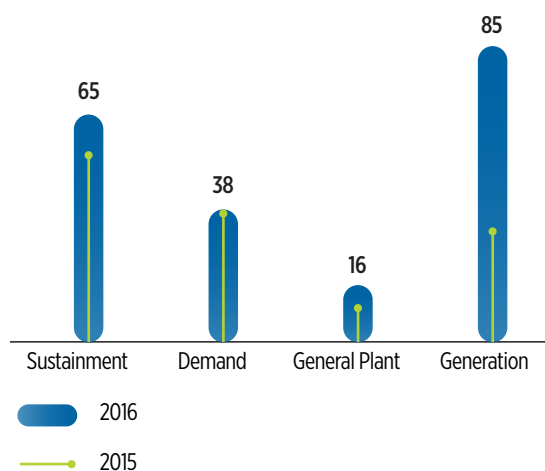
Operating Activities

Cash generated by operating activities decreased by \$4.2 million in 2016. The majority of this decrease relates to the net movement in regulatory balances, which is primarily due to changes impacting settlement variance balances, and a change in customer deposits. This decrease was partially offset by the change in working capital, namely an upswing in accounts payable and accrued liabilities.

Investing Activities

Cash used in investing activities increased by \$129.6 million in 2016. Investing activities includes the acquisition of the 27 megawatt Centrale Hull-2 hydroelectric generating station from Hydro-Québec, the ongoing construction at Chaudière Falls and our continuing investment in electrical distribution and generation infrastructure. The total investment in property, plant and equipment and intangible assets was \$203.5 million in 2016. The chart below shows Hydro Ottawa's capital investments by category for both 2016 and 2015.

Gross Capital Expenditures [in millions]



Capital investments in 2016 included \$65 million on sustainment capital to replace aging infrastructure and to modify the existing distribution system; \$38 million on demand projects, which includes

third-party-driven growth projects such as new residential or commercial installations, and municipal improvement projects including the City of Ottawa's Light Rail Transit project; \$16 million on general plant including information technology infrastructure, fleet, and other sundry items; and \$84 million in generating plants, of which 87 percent relates to the expansion at Chaudière Falls.

In 2016, 1,135 new poles, 398 overhead transformers, and 270 km of overhead cables were installed. Over 200 demand capital projects were initiated, including the addition of 2,738 new residential and 502 new commercial connections.

Cash flows from investing activities also include \$124 million in restricted cash relating to the project financing for the expansion at Chaudière Falls.

Financing Activities

Financing activities include dividends paid to the Shareholder, the City of Ottawa, as well as proceeds from the issuance of long-term debt.

Dividends were paid to the Shareholder in 2016 in accordance with the approved dividend policy. The 2016 payment totaled \$19.4 million based on 2015 results, and the 2015 payment totaled \$18.2 million based on 2014 results. Revisions to the dividend policy were approved by the City of Ottawa on June 22, 2016. The amended policy is based on the greater of 60 percent of Hydro Ottawa Limited's net income or \$20 million. This positions the Corporation to reinvest in its growth, and will help strengthen its key credit metrics.

As discussed above, the Corporation completed the offering of senior secured amortizing bonds representing a cash inflow of \$204 million in 2016. In 2015, the Corporation issued two new senior unsecured debentures totaling \$375 million, of which \$200 million was used to repay a debenture that was due, resulting in a net cash inflow of \$175 million.

Accounting Matters

Significant Accounting Estimates

The preparation of consolidated financial statements, in conformity with IFRS, requires management to make estimates and assumptions that affect the reported amounts of consolidated revenues, expenses, assets, liabilities, and the disclosure of commitments and contingencies as of the date of the consolidated financial statements.

These estimates are based on historical experience, current conditions and various other assumptions believed to be reasonable under the circumstances. Because they involve varying degrees of uncertainty, the amounts currently reported in the consolidated financial statements could prove to be inaccurate in the future.

Significant areas where estimates are made in the application of IFRS are as follows [references to associated notes in the consolidated financial statements are provided in brackets]:

- Accounts receivable [Note 2(d)(i)]
- Regulatory balances [Note 2(d)(ii)]
- Useful lives of depreciable assets [Note 2(d)(iii)]
- Impairment of non-financial assets [Note 2(d)(iv)]
- Employee future benefits [Note 2(d)(v)]
- Capital Contribution obligations [2(d)(vi)]
- Fair value of assets and liabilities acquired [Note 2(d)(vii)]
- Deferred Income taxes [Note 2(d)(viii)]

Future Accounting Changes

A number of new standards, amendments and interpretations are not yet effective for the year ended December 31, 2016 and have not been applied in preparing the consolidated financial statements. The Corporation continues to analyze these standards and has made initial determinations that the following could impact its consolidated financial statements.

- In May 2014, the IASB published a new standard, IFRS 15 Revenue from Contracts with Customers ['IFRS 15'], which replaces most of the detailed guidance on revenue recognition that currently exists under IFRS. IFRS 15 specifies how and when an entity will recognize revenue and additional disclosure requirements. In April 2016, the IASB issued amendments to IFRS 15 which clarifies how to identify a performance obligation in a contract, determine whether a company is a principal or an agent, and determine whether the revenue from granting a licence should be recognized at a point in time or over time.

In addition to the clarifications, the amendments include two additional reliefs to reduce cost and complexity for a company when it applies the new standard. IFRS 15 is effective for annual periods beginning on or after January 1, 2018.

- In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments ['IFRS 9'], which replaces International Accounting Standards 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments and is effective for annual periods beginning on or after January 1, 2018.
- In January 2016, the IASB issued a new standard, IFRS 16 Leases. It replaces accounting requirements introduced more than 30 years ago that are no longer considered suitable and is a major revision of the way in which companies account for leases. The new standard becomes effective for reporting periods beginning on or after January 1, 2019. Early adoption is permitted if IFRS 15 is also adopted.
- On January 29, 2016, the IASB published amendments to replace International Accounting Standards 7 Statement of Cash Flows. The amendments are intended to improve information provided to users of financial statements about an entity's financing activities. They are effective for annual periods beginning on or after January 1, 2017, with earlier application being permitted.
- IFRS does not currently contain a permanent standard that specifically addresses the accounting for rate-regulated activities – IFRS 14 was a short-term measure to allow first-time adopters to continue to apply their existing generally accepted accounting principle recognition and measurement policies for regulatory balances until the IASB concludes the rate-regulated project. In the event, the rate-regulated project does not result in a standard that recognizes the financial effects of rate regulation, the Corporation will be required to derecognize some, or perhaps all, of its regulatory balances, which represent a significant proportion of the Corporation's assets and liabilities.

Risks and Uncertainties

Hydro Ottawa has adopted a systematic approach to the management of risks and uncertainties, integrating risk management into business processes and the periodic reporting of organizational performance. Capabilities and processes have been built across all business units to enable the effective identification of, and timely responses to, events likely to impede the achievement of corporate objectives.

The Corporation's Enterprise Risk Management [ERM] framework, established by the Board in 2006 and renewed annually, consolidates quarterly risk reporting to the President and Chief Executive Officer, and to the Board, highlighting potential risk factors that may have an impact upon Hydro Ottawa's near-term business objectives and strategic direction. The ERM framework supports and complements the Corporation's strategic planning and annual business planning cycles, thereby enabling continuous review of assumptions and regularly refreshed environment scans.

Hydro Ottawa monitors sources of risk that are structural to the industry and to the regulated environment. These include, but are not restricted to: the weather; the policy and regulatory environment; the state of the economy and macro-economic trends; the state of financial markets and of investment in the utilities space; government policies relating to the production and procurement of renewable and clean energy, as well as carbon emissions and conservation; the convergence of information technology and operational technology; labour force demographics, with a particular emphasis on the renewal of human resources in the trades; and the impact of fiscal policies on customers. In combination, these sources of risk will shape the evolution of the industry, which could in turn present new and emerging risks that need to be managed effectively.

Policy and Regulatory Environment

Actual performance versus forecasts in electricity distribution

Hydro Ottawa's electricity distribution business has obtained approval from the Ontario Energy Board [OEB] for a re-basing of its distribution rates for 2016-2020. As a result, the Corporation expects to be able to carry out its planned capital programs, provide safe and reliable electricity to its customers, and earn the allowed rate of return. However, results may be affected if actual loads and energy consumption vary substantially from forecast, or if actual costs of operations, maintenance, administration, capital and financing materially exceed projections included in the approved revenue requirements.

Long-term impact of Government policies and incentives for LDCs

Over the long term, the Ontario Government's policies on the production, procurement, pricing and sale of renewable energy, coupled with financial and other incentives directed at consumers as part of the Province's conservation, demand management and climate change action programs, could result in significant changes in the business environment for rate-regulated LDCs such as Hydro Ottawa Limited.

Potential adverse impacts include "grid flight". For example, as costs decline for a range of energy generation and storage technologies, such as solar photovoltaics, battery storage, fuel cells, geothermal energy systems, micro turbines, and electric vehicle-enhanced storage, LDCs may see their customers move progressively towards these cost-competitive alternatives, thereby reducing customer need for and dependence on the grid.

At this point, should trends such as grid flight materialize at a significant scale, policy and regulatory responses will be necessary to enable utilities to adapt while maintaining their century-old mandate to deliver electricity reliably, safely and at reasonable cost to their customers.

LDC Consolidation in Ontario

At a strategic level, the Corporation has identified consolidation with other municipally-owned LDCs as an opportunity to attain economies of scope and scale that would work to the benefit of the customers of all the participating utilities. However, the pursuit of this opportunity may be unviable if valuations for mergers and acquisitions remain at levels that Hydro Ottawa may consider excessive or potentially detrimental to the interests of its own Shareholder and ratepayers. The possibility of voluntary consolidation or collaboration with like-minded municipally-owned LDCs for mutual benefit exists if policy direction, regulatory guidance and tax incentives were appropriately aligned.

Market Prices for Electricity

Market prices for electricity fluctuate due to a number of factors, including: the amount of excess generating capacity relative to load in the market; the structure of the market; weather conditions that impact electrical load; growth in demand for electricity; absolute and relative prices for energy; developments in conservation and demand management and government policy direction.



A portion of the Corporation's generation revenue is directly linked to the market price for electricity in the state of New York. In the absence of a fixed rate power purchase agreement, the Corporation may explore a number of options to reduce its exposure to market fluctuations.

Major Generation Project Execution

The Corporation is actively engaged in the multi-year expansion of its power generation facilities at the Chaudière Falls on the Ottawa River, which includes the construction of large civil structures, turbine and generator installations and refurbishment of the related equipment and facilities. The successful and timely completion of this project is critical to the Corporation's long-term strategic direction, in particular its projected growth in generation revenue.

To date, this project has progressed in line with the planned scope, specifications, budget and timelines. There are nonetheless inherent risk factors in a project of this magnitude, including: construction delays; cost overruns; equipment performance not in accordance with expectations; delays in permissions and clearances from all levels of government and their agencies; and technical issues in interconnecting generation output. The Corporation has devised appropriate mechanisms to identify these risks and mitigate



their impact, including rigorous due diligence, consistent project management principles and practices, specific contingency plans, and a Board-led project governance structure.

Exchange Rate Fluctuations

The Corporation's functional currency is the Canadian dollar. A significant depreciation of the value of the US dollar relative to the Canadian dollar may adversely affect the value of the Corporation's US-based assets and the related revenues. Conversely, a significant depreciation of the Canadian dollar relative to the US dollar may affect the Corporation's capacity to finance additional growth in the US market.

Aging Distribution Infrastructure

Hydro Ottawa has developed a long-term Distribution System Plan to phase in the investments required to replace its aging distribution infrastructure, and maintain high standards of reliability and operability, while keeping pace with the growth of its service territory. Aging electricity assets pose a dual risk to LDCs. Apart from being more prone to failure [during extreme weather events, for example], they make restoration of the distribution system more complex and financially onerous.

Economy

The state of the local, national and international economies could have a significant impact on the Corporation's business performance through factors such as inflation, customer credit risk, weakening demand for electricity and/or value-added services, and availability of market capital to fund growth. The economic climate could also have an effect on the stability and performance of some of Hydro Ottawa's key business partners.

Credit Ratings and Interest Rates

The Corporation's growing portfolio of generation assets prompted one credit rating agency to downgrade its assessment to BBB+, with a stable outlook. This downgrade has not impaired the Corporation's capacity to arrange financing for its long-term capital expenditures and investments, nor has it impaired access to funding for working capital requirements.

Nearly 90 percent of the Corporation's debt is subject to a fixed rate of interest, and is accordingly insulated from the impact of upward revision of interest rates. A rise in interest rates would affect the Corporation's credit facility, though its impact is not expected to be material.

Pension Plans

The Corporation provides a defined benefit pension plan for the majority of its employees through the Ontario Municipal Employees Retirement System ['OMERS']. As OMERS is a multi-employer, contributory, defined benefit pension plan, it is not practicable to determine the Corporation's portion of pension obligations or the fair value of plan assets. Future funding shortfalls and net losses at OMERS, if any, are subject to the OMERS Sponsors Corporation Funding Management Strategy, which outlines how benefits and contributions will be modified as the OMERS Primary Plan cycles through periods of funding deficit and surplus.

Hydro Ottawa has also established a separate defined benefit pension plan and a separate defined contribution pension plan for a small number of employees, with appropriate financial and investment procedures and oversight, as required by law. Pension benefit obligations and related net pension cost can be affected by volatility in the global financial and capital markets. There is no

assurance that pension plan assets will earn the assumed long-term rates of return. Market-driven changes impacting the performance of the pension plan assets may result in material variations in actual returns on pension plan assets.

Technology Infrastructure

The Corporation's business performance is dependent upon complex information systems, covering frontline operations [e.g. geographic information system, outage management system, electricity system supervisory control and data acquisition system] as well as back office processes [e.g. customer information and billing systems, and ERP system]. The failure of one or more of these key systems, or a failure of the Corporation to either plan effectively for future technology needs or to transition effectively to new technology systems, could adversely impact the Corporation's business operations.

Many of these key systems also draw upon data and signals from several hundred thousand smart devices [chiefly, smart meters], as well as the related systems and web interfaces. The processing of data in many cases entails a number of automated interfaces, as well as multiple internal and external dependencies, including the Ontario's Smart Metering Entity. Risks arising from the reliability and performance of any single component of this integrated network, or of the system as a whole, could lead to a disruption of key business processes, such as the meter-to-cash cycle.

There is growing convergence of core operational systems with enterprise information systems, increasing automation, and extensive use of common technology in facilitating such integration and connectivity. This has the potential to heighten existing risks and to create new ones. The Corporation seeks to identify and manage such risks through rigorous technology planning, and best-in-class preventative and detective controls.

Cybersecurity

The Corporation's reliance on information systems and expanded data transmission and exchange networks, in conjunction with the growing extent of systems and data integration within the electricity sector, increases its exposure to information security threats, including cybersecurity risks. Hydro Ottawa's information systems

and information assets could be put at risk by a security breach, data corruption or system failure at a shared resource or common service provider.

Customer and Media Perceptions

Electrical utilities across Ontario are confronted with risks arising from negative customer and media perceptions, which may become even more prominent over the next two years. These relate especially to high commodity prices, which are outside of the Company's control. While Hydro Ottawa's strong reputation, together with its focus on customer value, should enable it to manage the impact of growing customer dissatisfaction with the electricity sector at large, the precise scope and nature of this risk factor cannot be foreseen.

Labour Force Demographics

Across the electricity sector, retirements are outpacing new entrants to the workforce, which could have an adverse impact on the ability of the Corporation to build a sustainable workforce and achieve its business objectives. Hydro Ottawa's investments in apprenticeships, internships, diversity, knowledge management, succession planning and retiree and older worker engagement programs are designed to manage risks relating to workforce demographics.

Weather and Hydrology

Severe weather can significantly impact financial results, in part through increased capital and maintenance costs to repair or replace damaged equipment and infrastructure. Weather fluctuations also influence distribution revenues, which tend to increase with severe weather and decrease with moderate weather.

The amount of electricity generated at the Corporation's hydroelectric facilities depends upon available water flows and weather conditions, which vary naturally from season to season and from year to year. Water flows may also be affected by natural disaster or through government controls and policies on water levels.

Outlook

Subject to the risks and uncertainties discussed above, Hydro Ottawa will continue to provide efficient, reliable and competitively priced electricity distribution services to customers, to generate green power, and to provide energy and utility services and conservation expertise while maintaining sustainable earnings.

Hydro Ottawa Limited has an approved rate structure and capital investment plan for 2016-2020. The application was made using a rate-setting model designed to account for the local distribution company's significant capital requirements. Approved rates are expected to be sufficient to provide an appropriate return, while also supporting: prioritized replacement of aging infrastructure and other investments in system reliability; major infrastructure development and growth within the service territory; and introduction of new customer services.

Hydro Ottawa customers, meanwhile, will continue to benefit from stable, moderate, and predictable rate impacts. In the interests of moderating future rate increases as fully as possible, the Company remains committed to ongoing innovation, productivity and cost containment.

Completion of the Chaudière expansion will represent a further and particularly significant milestone in the buildout of Energy Ottawa's renewable generation portfolio – bringing total capacity to 128 megawatts. Long-term revenue stability is assured by the fact that the large majority of renewable output is sold under fixed rate power purchase agreements – including three recently concluded 40-year agreements applying to portions of the generation from the interprovincial Chaudière site.

Hydro Ottawa will also pursue expansion in other non-regulated areas, including energy and utility services. Both business lines will leverage existing assets and expertise, and may include: advisory, project-management and design-build services; partnerships and licensing arrangements with third parties; commercialization of Hydro Ottawa technologies; asset-renewal arrangements with municipalities; and outsourced service provision to other utilities. This is expected to represent a third driver of financial strength in future years, supplementing the core distribution business and renewable generation.



Hydro Ottawa Holding Inc.

Consolidated Financial Statements
December 31, 2016



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Report of Management

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

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

The Board of Directors, through the Audit Committee, ensures that management fulfills its responsibility for financial reporting and internal control. The Audit Committee consists of outside directors and, at regular meetings, reviews audit, internal control and financial reporting matters with management and external auditors. The Audit Committee has reviewed the consolidated financial statements and submitted its report to the Board of Directors.

On behalf of Management,



Bryce Conrad
President and Chief Executive Officer



Geoff Simpson
Chief Financial Officer



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INDEPENDENT AUDITORS' REPORT

To the Shareholder of Hydro Ottawa Holding Inc.

We have audited the accompanying consolidated financial statements of Hydro Ottawa Holding Inc., which comprise the consolidated balance sheet as at December 31, 2016, the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Hydro Ottawa Holding Inc. as at December 31, 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other Matter

The consolidated financial statements of Hydro Ottawa Holding Inc. as at and for the year ended December 31, 2015 were audited by another auditor who expressed an unmodified opinion on those consolidated statements on April 21, 2016.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

April 20, 2017

Ottawa, Canada

Hydro Ottawa Holding Inc.

Consolidated Statement of Income

Year ended December 31, 2016

	2016	2015
	\$	\$
Revenue		
Power recovery	974,207	890,116
Distribution sales	165,729	162,037
Generation	17,489	16,238
Other	44,970	43,683
	1,202,395	1,112,074
Expenses		
Purchased power	966,072	865,178
Operating costs [Note 20]	128,072	126,138
Depreciation [Notes 8 and 10]	37,502	34,819
Amortization [Note 9]	12,140	7,813
	1,143,786	1,033,948
Operating income	58,609	78,126
Financing costs [Note 21]	19,398	19,042
Interest income	(267)	(1,056)
Share of profit from joint ventures [Notes 11(a) and (b)]	(1,039)	(509)
Income before income taxes	40,517	60,649
Income tax expense [Note 22]	9,041	15,472
Net income	31,476	45,177
Net movements in regulatory balances, net of tax [Note 7]	3,340	(12,807)
Net income after net movements in regulatory balances	34,816	32,370
Attributable to non-controlling interest [Note 18(c)]	(20)	-
Net income after net movements in regulatory balances attributable to equity shareholder	34,836	32,370

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

Hydro Ottawa Holding Inc.

Consolidated Statement of Comprehensive Income

Year ended December 31, 2016

	2016 \$	2015 \$
Net income after net movements in regulatory balances attributable to equity shareholder	34,836	32,370
Other comprehensive income		
Items that may be subsequently reclassified to net income		
Exchange differences on translation of foreign operations, net of tax	(1,852)	6,905
Items that will not be subsequently reclassified to net income		
Actuarial loss on post-employment benefits, net of tax	(280)	(267)
Net movement in regulatory deferral account balances related to other comprehensive income, net of tax [Note 7]	94	-
Other comprehensive income, net of tax	(2,038)	6,638
Total comprehensive income	32,798	39,008

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

Hydro Ottawa Holding Inc.

Consolidated Balance Sheet

As at December 31, 2016

[in thousands of Canadian dollars]


	2016	2015
	\$	\$
Assets		
Current assets		
Cash	982	4,002
Accounts receivable [Note 6]	192,670	172,024
Restricted cash [Note 16]	79,975	-
Income taxes receivable	1,762	1,677
Prepaid expenses	4,431	2,941
Inventory [Note 12(c)]	1,577	-
Current portion of notes receivable from related parties [Note 12]	2,049	732
	283,446	181,376
Non-current assets		
Restricted cash [Note 16]	44,110	-
Property, plant and equipment [Note 8]	1,146,170	959,372
Intangible assets [Note 9]	121,668	113,359
Investment properties [Note 10]	2,297	2,360
Deferred income tax asset [Note 22]	5,645	2,250
Notes receivable from related parties [Note 12]	5,462	4,035
Investments in joint ventures [Note 11(a)]	7,875	6,794
Retirement benefit asset [Note 15(a)]	161	387
Total assets	1,616,834	1,269,933
Regulatory balances [Note 7]	13,744	14,430
Total assets and regulatory balances	1,630,578	1,284,363
Liabilities and shareholder's equity		
Current liabilities		
Bank indebtedness [Note 13]	68,751	-
Accounts payable and accrued liabilities [Note 14]	196,251	158,939
Income taxes payable	2,522	1,037
	267,524	159,976
Non-current liabilities		
Deferred revenue	71,208	52,676
Employee future benefits [Note 15(b)]	13,335	11,332
Customer deposits	18,402	18,206
Long-term debt [Note 16]	772,960	571,519
Deferred income tax liability [Note 22]	20,936	13,695
Other liabilities	2,733	2,737
Total liabilities	1,167,098	830,141
Shareholder's equity		
Share capital [Note 18]	228,453	228,453
Accumulated other comprehensive income	4,637	6,675
Retained earnings	193,705	178,269
Non-controlling interest [Note 18(c)]	(20)	-
Total liabilities and shareholder's equity	1,593,873	1,243,538
Regulatory balances [Note 7]	36,705	40,825
Total liabilities, shareholder's equity and regulatory balances	1,630,578	1,284,363

Contingent liabilities and commitments [Notes 24 and 25]

On behalf of the Board:



Director



Director

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

Hydro Ottawa Holding Inc.

Consolidated Statement of Changes in Equity
Year ended December 31, 2016

	Share capital	Accumulated other comprehensive income	Non- controlling interest	Retained earnings	Total
	\$	\$	\$	\$	\$
Balance at December 31, 2014	228,453	37	-	164,099	392,589
Net income after net movements in regulatory balances	-	-	-	32,370	32,370
Other comprehensive income	-	6,638	-	-	6,638
Dividends [Note 18]	-	-	-	(18,200)	(18,200)
Balance at December 31, 2015	228,453	6,675	-	178,269	413,397
Net income (loss) after net movements in regulatory balances	-	-	(20)	34,836	34,816
Other comprehensive income	-	(2,038)	-	-	(2,038)
Dividends [Note 18]	-	-	-	(19,400)	(19,400)
Balance at December 31, 2016	228,453	4,637	(20)	193,705	426,775

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

Hydro Ottawa Holding Inc.

Consolidated Statement of Cash Flows
Year ended December 31, 2016

	2016	2015
	\$	\$
Net inflow (outflow) of cash related to the following activities:		
Operating		
Net income	34,816	32,370
Adjustments for:		
Depreciation	37,502	34,819
Amortization	12,140	7,813
Loss on disposal of non-financial assets [Notes 8 and 9]	1,816	538
Amortization of debt-issuance costs	136	166
Share of profit from joint ventures [Notes 11(a) and (b)]	(1,039)	(509)
Amortization of deferred revenue	(1,628)	(985)
Future employee benefits	1,647	231
Financing costs, net of interest income	19,131	17,986
Income tax expense	9,041	15,472
Unrealized foreign exchange loss	75	-
Net changes in non-cash working capital and other operating balances [Note 23]	(11,393)	(29,801)
Income taxes paid, net of refunds received	(2,863)	2,863
Financing costs paid, net of interest income received	(20,689)	(19,186)
Additions to deferred revenue	20,160	20,276
Change in customer deposits	805	5,697
Net movements in regulatory balances	(3,340)	12,807
	96,317	100,557
Investing		
Acquisition of property, plant and equipment	(172,775)	(128,615)
Acquisition of intangible assets	(13,256)	(15,394)
Proceeds from disposal of property, plant and equipment	640	704
Acquisition of subsidiaries, net of cash acquired [Note 5]	(41,131)	(90,564)
Restricted cash held in-trust	(124,085)	-
Repayment of notes receivable from joint ventures	830	13,667
	(349,777)	(220,202)
Financing		
Proceeds from issuance of long-term debt, net of debt-issuance costs	201,096	372,715
Dividends paid [Note 18]	(19,400)	(18,200)
Debentures repaid [Note 16]	-	(200,000)
	181,696	154,515
Effects of exchange rate changes on cash held in U.S. dollars	(7)	59
Net change in cash	(71,771)	34,929
Cash, net of bank indebtedness, beginning of year	4,002	(30,927)
Bank indebtedness, net of cash, end of year	(67,769)	4,002

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

Hydro Ottawa Holding Inc.

Notes to the Consolidated Financial Statements

Year ended December 31, 2016

1. DESCRIPTION OF BUSINESS AND CORPORATE INFORMATION

Hydro Ottawa Holding Inc. ['HOHI' or the 'Corporation'] was incorporated on October 3, 2000 pursuant to the *Business Corporations Act (Ontario)* as mandated by the Ontario government's *Electricity Act, 1998*. The Corporation is wholly-owned by the City of Ottawa. The Corporation owns 100% of Hydro Ottawa Limited, Energy Ottawa Inc. ['Energy Ottawa'] and Telecom Ottawa Holding Inc. which does not maintain active operations. The Corporation is incorporated and domiciled in Canada with the registered head office located at 3025 Albion Road North, Ottawa, Ontario, K1G 3S4.

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

Energy Ottawa's principal business is the generation of renewable energy [hydroelectric, solar and landfill gas], and the provision of expert energy management and procurement services to large energy-consuming organizations. Energy Ottawa holds interests in the following entities:

- Chaudiere Hydro L.P. ['CHLP'] is a wholly-owned subsidiary formed on June 22, 2012 to acquire, own and operate hydroelectric generation plants located in Ottawa, Ontario and Gatineau, Québec at Chaudière Falls.
- Chaudiere Hydro North L.P. ['CHLP North'] is a wholly-owned subsidiary formed on December 7, 2015. On January 1, 2016, CHLP transferred, assigned and conveyed assets relating to its hydroelectric generating facilities located in Gatineau, Québec to CHLP North. As CHLP and CHLP North are wholly-owned subsidiaries combined into the Corporation's consolidated financial statements, there is no impact on the present and future consolidated financial reporting of the Corporation as a result of this conveyance.
- 2425932 Ontario Inc. is a wholly-owned subsidiary incorporated on July 9, 2014. 2425932 Ontario Inc. holds five wholly-owned subsidiaries [EO Generation GP Inc., EO Generation Limited Partnership, Gananoque Water Power Company, EONY Generation Limited ['EONY'] and EONY Generation Holding Inc.] that collectively own and operate ten run-of-the-river hydroelectric generation facilities located throughout Ontario and New York State. Energy Ottawa holds its interest in 2425932 Ontario Inc. through common shares, and special shares held by EO Holding Trust, a trust formed by the Corporation on June 17, 2015 for which the beneficiary is HOHI and/or all of its non-regulated subsidiaries [i.e. excluding Hydro Ottawa Limited].
- 9927891 Canada Inc. is a wholly-owned subsidiary incorporated on September 30, 2016 that ultimately holds Hull Energy L.P., a partnership that was formed on October 18, 2016 to acquire, own and operate a generation plant in Gatineau, Québec as described in Note 5(a) of these consolidated financial statements. Energy Ottawa holds its interest in 9927891 Canada Inc. through common shares, and special shares held by Hull Energy Holding Trust, a trust formed by the Corporation on September 30, 2016 for which the beneficiary is HOHI and its non-regulated subsidiaries [i.e. excluding Hydro Ottawa Limited] with the exception of CHLP.
- Energy Ottawa Cable Testing Services Inc. is a wholly-owned subsidiary incorporated on November 15, 2016 which offers proprietary non-destructive cable testing services on a world-wide basis through an exclusive license with National Research Council Canada ['NRC'].
- CPS Current Power Services (2016) Ltd. ['CPS'] is an 89.90% owned subsidiary incorporated on February 23, 2016 and is the exclusive supplier [reseller] of PQ View, a web-based offering for power quality database management and analysis. CPS provides installation, training and power quality analysis services on a fee-for-service basis.

Hydro Ottawa Holding Inc.

Notes to the Consolidated Financial Statements
Year ended December 31, 2016

1. DESCRIPTION OF BUSINESS AND CORPORATE INFORMATION [CONTINUED]

- Chaudiere Water Power Inc. ['CWPI'] is a wholly-owned subsidiary incorporated on August 12, 1980 to act as an agent for the four principals of CWPI: Energy Ottawa, CHLP, CHLP North and Hull Energy L.P. with a mandate to operate the Chaudière Dam facilities on the Ottawa River. The facilities are not owned by CWPI; they are jointly owned by the principals. In accordance with the shareholders' agreement, all expenses incurred by CWPI directly related to the facilities are fully reimbursed in accordance with each principal's ownership percentage. Prior to December 14, 2016, CWPI was a joint arrangement - as Hydro-Québec was one of the four principals of CWPI until all of its shares were acquired by Hull Energy L.P. as described in Note 5(a) of these consolidated financial statements. As CWPI is a cost-recovery operation, it does not carry on external revenue-generating operations.
- Moose Creek Energy L.P. ['Moose Creek LP'] is a 50.05% owned joint arrangement formed on April 19, 2011 to construct and operate a generation plant and gas collection system at the Laflèche landfill site in Moose Creek, Ontario.
- PowerTrail Inc. ['PowerTrail'] is a 60.00% owned joint arrangement incorporated on August 10, 2005 to construct and operate a generation plant and gas collection system at the Trail Road landfill site in Ottawa, Ontario.
- SolarTrail LP is an 84.99% owned joint arrangement formed on July 31, 2015 which does not have active operations through December 31, 2016.

2. BASIS OF PRESENTATION

(a) Statement of compliance

These consolidated financial statements have been prepared by management on a going-concern basis in accordance with International Financial Reporting Standards ['IFRS'] as issued by the International Accounting Standards Board ['IASB']. In the opinion of management, all adjustments necessary for fair presentation are reflected in these consolidated financial statements. These consolidated financial statements have been approved and authorized by the Corporation's Board of Directors for issue on April 20, 2017.

(b) Basis of measurement

The Corporation's consolidated financial statements are prepared on a historical cost basis.

(c) Functional and presentation currency

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

(d) Use of estimates

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

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

Hydro Ottawa Holding Inc.

Notes to the Consolidated Financial Statements
Year ended December 31, 2016

2. BASIS OF PRESENTATION [CONTINUED]

(d) Use of estimates [continued]

(i) Accounts receivable

Accounts receivable, which includes unbilled revenue, are reported based on the amounts expected to be recovered less an estimated allowance for uncollectible amounts. Management utilizes historical loss experience in conjunction with the aging and arrears status of accounts receivable at year-end in the determination of the allowance. The measurement of unbilled revenue is based on an estimate of the amount of electricity consumed by customers between the date of the last bill and the year-end date.

(ii) Regulatory balances

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

(iii) Useful lives of depreciable assets

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

(iv) Impairment of non-financial assets

Non-financial assets are reviewed by management for impairment using the future cash flows method as outlined in Note 3(o). By their nature, estimates of future cash flows, including estimates of future capital expenditures, revenue, operating expenses, discount rates and market pricing are subject to measurement uncertainty.

(v) Employee future benefits

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

(vi) Capital contribution obligations

The measurement of capital contribution obligations requires forecasts of future electricity usage as part of the determination of any obligation or rebate due to third parties.

(vii) Fair value of assets and liabilities acquired

The purchase of an existing business requires management to assign fair values to the assets and liabilities acquired, as well as the consideration transferred [including contingent consideration]. Fair values can be determined by applying judgment based on experience in the industry, third-party independent appraisals and by examining open market data for similar assets in the same industry.

Hydro Ottawa Holding Inc.

Notes to the Consolidated Financial Statements
Year ended December 31, 2016

2. BASIS OF PRESENTATION [CONTINUED]

(d) Use of estimates [continued]

(viii) Deferred income taxes

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

(e) Key management judgments

(i) Evidence of asset impairment

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

Based on management's judgment, an indicator of impairment [under International Accounting Standards 36 *Impairment of Assets* [IAS 36]] existed within EONY at December 31, 2016 pertaining to the energy market prices in New York State. However, management's discounted cash flow analysis under the value-in-use method [as prescribed by IAS 36] resulted in no impairment to be recognized in the 2016 fiscal year. Assumptions with respect to these cash flows are sensitive to the various inputs into the value-in-use calculation, and thus are subject to measurement uncertainty [Note 2(d)(iv)].

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of consolidation

The consolidated financial statements include the accounts of the Corporation and its subsidiaries: Hydro Ottawa Limited, Telecom Ottawa Holding Inc., and Energy Ottawa which includes the accounts of its own subsidiaries as described in Note 1 of these consolidated financial statements. Subsidiaries are entities controlled by the Corporation. The Corporation controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns by directing and controlling the activities of the entity. Subsidiaries are fully consolidated from the date on which the Corporation obtains control, and continue to be consolidated until the date that control ceases to exist. All intercompany balances and transactions have been eliminated in these consolidated financial statements. The financial statements of the subsidiaries are prepared for the same reporting period as the Corporation using consistent accounting policies.

Subsidiaries have non-controlling interests which are presented as part of equity.

Hydro Ottawa Holding Inc.

Notes to the Consolidated Financial Statements

Year ended December 31, 2016

[in thousands of Canadian dollars]

3. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

(b) Joint arrangements

The Corporation is party to a number of joint arrangements as described in Note 1 of these consolidated financial statements whereby control is shared with third parties via a contractual agreement. All joint arrangements are either classified as joint ventures or joint operations in accordance with IFRS 11 *Joint Arrangements*. Joint ventures are accounted for using the equity method. Under this method, the Corporation's interests in joint ventures are initially recorded at cost, and subsequently adjusted to recognize the Corporation's share of post-acquisition profits or losses, movements in other comprehensive income ['OCI'] and dividends or distributions received. Joint operations are included in the Corporation's accounts by recording its contractual share of assets, liabilities, revenue, expenses and OCI.

(c) Business combinations

Business combinations are accounted for using the acquisition method. The consideration for an acquisition is measured at the aggregate of the fair values, at the date of exchange, of the assets transferred, equity instruments issued, and the liabilities incurred to former owners of the acquired business in exchange for control. Identifiable assets acquired and liabilities assumed in a business combination are measured initially at their fair values at the date of acquisition.

The Corporation evaluates the integrated set of activities [inputs, processes, outputs] associated with an acquired asset group to determine whether it meets the definition of a business as prescribed by IFRS 3 *Business Combinations*.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Corporation will report in its consolidated financial statements provisional amounts for the items for which the accounting is incomplete. Within one year, the Corporation will retrospectively adjust the provisional amounts recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and, if known, would have affected the measurement of the amounts recognized as at that date.

Transaction costs with respect to a business combination are expensed as incurred and included in general and administrative expenses as part of operating costs.

(d) Foreign currency translation

Transactions denominated in foreign currencies are translated at exchange rates in effect at the transaction date. At each reporting date, monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rate in effect at the end of the reporting period. Non-monetary assets and liabilities carried at historical cost are not re-translated; they remain at the exchange rate in effect at the date of the original transaction. Non-monetary assets and liabilities carried at fair value are translated at the exchange rate in effect at the date the fair value was measured. Any resulting exchange gains or losses are included in net income for the year.

The assets and liabilities of EONY are translated into Canadian dollars at the exchange rate in effect at the end of the reporting period. Revenue and expenses are translated into Canadian dollars at the average exchange rate in effect during the reporting period. Any resulting exchange gains and losses arising from the translation are included in OCI for the year.

Fair value adjustments to identifiable assets acquired and liabilities assumed through acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences are recognized in OCI.

(e) Regulation

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

Hydro Ottawa Holding Inc.

Notes to the Consolidated Financial Statements
Year ended December 31, 2016
[in thousands of Canadian dollars]

3. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

(e) Regulation [continued]

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

On August 15, 2016, Hydro Ottawa Limited filed its Custom IR update application for distribution rates and other charges, effective January 1, 2017. This application was approved in December 2016 and included adjustments to base rates, low voltage, transmission, retailer services and specific services charges. As well it includes the approval for the disposition of certain deferral and variance accounts as at December 31, 2015.

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

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

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

(i) Regulatory balances

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

Hydro Ottawa Limited accrues interest on the regulatory balances as directed by the OEB.

Regulatory balances principally comprise of the following:

- Regulatory asset/liability refund account ['RARA'/'RLRA'] consists of balances of regulatory assets or regulatory liabilities approved for disposition by the OEB through temporary additional rates referred to as rate riders.
- Settlement variances relate primarily to the charges Hydro Ottawa Limited incurred for transmission services, the commodity, wholesale market operations and the global adjustment that were not settled with customers during the year. The nature of the settlement variances is such that the balance can fluctuate between assets and liabilities over time, and they are reported at year-end dates in accordance with rules prescribed by the OEB.

Hydro Ottawa Holding Inc.

Notes to the Consolidated Financial Statements

Year ended December 31, 2016

[in thousands of Canadian dollars]

3. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

(e) Regulation [continued]

(i) Regulatory balances [continued]

- Stranded meter costs represent the net book value of conventional meters removed upon the installation of smart meters.
- Other Post-employment Benefits deferral account ['OPEB deferral account'] was authorized by the OEB in 2011 to record the adjustment to employee future benefits other than pension relating to the cumulative actuarial gains or losses. This account is adjusted annually to record any changes in the cumulative actuarial gains or losses. No interest charges are recorded on this account as instructed by the OEB.

(ii) Other regulatory variances and deferred costs

Other regulatory variances and deferred costs principally comprise of the following:

- The OEB allows electricity distributors to record in a deferral account the difference between low voltage charges paid to Hydro One Networks Inc. ['HONI'] and those charged to customers.
- The OEB allows electricity distributors to record in a deferral account, the net cost of providing retailer billing services and transaction request services. As of January 1, 2016, Hydro Ottawa Limited has incorporated the net costs into its revenue requirement and will no longer record the net cost into the deferral accounts.
- The OEB approved a deferral account for distributors to record one-time administrative incremental IFRS transition costs, which were not already approved and included for recovery in distribution rates.
- In its Guidelines released June 16, 2009, the OEB created four new deferral accounts to allow distributors to begin recording expenditures for certain activities relating to the connection of renewable generation and the development of a smart grid. These deferral accounts were authorized to be used to record qualifying incremental capital investments or operating, maintenance and administrative expenses.
- In its Guidelines released December 19, 2014, the OEB advised Distributors to continue to rely on the Lost Revenue Adjustment Mechanism to track and dispose of lost revenue that results from approved Conservation and Demand Management ['CDM'] programs between 2015 and 2020, noting that the same process as described in the OEB Guidelines released April 26, 2012 regarding the 2011 to 2014 period should be followed. Hydro Ottawa Limited is to record the difference between the actual validated CDM activities and activities included in Hydro Ottawa Limited's load forecast multiplied by the appropriate variable distribution rate.
- The OEB directed distributors to record the input tax credit savings arising from the elimination of the provincial sales tax and implementation of the harmonized sales tax on July 1, 2010 in a separate account. The OEB concluded that fifty percent of the balances should be returned to the ratepayers for the period up to the rebasing date, which for Hydro Ottawa Limited was January 1, 2012.

Hydro Ottawa Holding Inc.

Notes to the Consolidated Financial Statements

Year ended December 31, 2016

[in thousands of Canadian dollars]

3. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

(e) Regulation [continued]

(iii) Income taxes

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

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

The *Accounting Procedures Handbook* issued by the OEB provides for the recovery of income taxes by Hydro Ottawa Limited through annual distribution rate adjustments as approved by the OEB. Hydro Ottawa Limited recognizes regulatory balances for the amounts of deferred income taxes expected to be refunded to or recovered from customers in future electricity rates.

(f) Revenue recognition

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

(i) Power recovery

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

(ii) Distribution sales

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

(iii) Generation

Generation revenue is recorded on the basis of regular meter readings.

Hydro Ottawa Holding Inc.

Notes to the Consolidated Financial Statements

Year ended December 31, 2016

[in thousands of Canadian dollars]

3. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

(f) Revenue recognition [continued]

(iv) Other

Other revenue consists primarily of commercial contract revenues ancillary to electricity distribution. Other revenue also includes commercial services which comprise turnkey projects, the provision of street light installation and maintenance services, energy management and data analysis, non-destructive cable testing and pole attachment revenues. Finally, other revenue also includes property rentals, amortization of capital contributions and CDM revenue.

Commercial contract revenues and certain commercial services [turnkey and street light installations] are accounted for using the percentage-of-completion method, whereby revenue and the corresponding costs are recognized proportionately with the degree of completion of the services under contract. Losses on such contracts are fully recognized when they become evident. Other commercial service revenues and property rentals are recognized as services are rendered, or on a straight-line basis over the period of the contract if the services performed consist of an indeterminate number of acts over a specified period of time.

Capital contributions received from electricity customers to construct or acquire property, plant and equipment for the purpose of connecting a customer to Hydro Ottawa's distribution network are recognized as deferred revenue and amortized into other revenue at an equivalent rate to that used for the depreciation of the related property, plant and equipment.

CDM revenue stems from the delivery of provincial government programs that promote conservation and is recognized on a cost-recovery basis. Performance incentive payments under CDM programs are recognized when there is reasonable assurance that the program conditions have been satisfied and the incentive payments will be received.

(g) Interest income and financing costs

Interest income is recognized as it accrues under the effective interest method and comprises interest earned on cash and notes receivable from joint ventures.

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

(h) Income taxes

The Corporation, Energy Ottawa and Telecom Ottawa Holding Inc. are MEUs that account for income taxes using the liability method.

PowerTrail and CWPI are taxable under the ITA and TAO as less than 90% of each company's capital is owned by the City of Ottawa through Energy Ottawa and the Corporation. 9927891 Canada Inc., EO Cable Testing Services Inc., CPS and 2425932 Ontario Inc. [including its incorporated Canadian subsidiaries] are all taxable under the ITA and TAO, while 2425932 Ontario Inc.'s foreign subsidiaries are subject to the income tax regime in the United States [the 'Internal Revenue Service'], as more than 10% of each company's income is derived from activities carried on outside the municipal boundaries of the City of Ottawa. Corporate income taxes are accounted for using the liability method as described above.

Moose Creek LP, CHLP, EO Generation Limited Partnership, CHLP North, Hull Energy L.P. and SolarTrail LP are not taxable entities for federal and provincial income tax purposes. Taxes on the net income (loss) are borne by the individual partners through the allocation of taxable income.

Hydro Ottawa Holding Inc.

Notes to the Consolidated Financial Statements

Year ended December 31, 2016

[in thousands of Canadian dollars]

3. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

(i) Restricted cash

Cash and cash equivalents [highly-liquid temporary investments with a maturity date between three months and one year] that are restricted as to withdrawal or use under the terms of certain contractual agreements are classified as restricted cash.

(j) Bank indebtedness

Bank indebtedness includes short-term advances and/or bankers' acceptances drawn on the Corporation's credit facility with a maturity date of three months or less, and outstanding cheques.

(k) Financial instruments

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

The Corporation classifies and measures its financial instruments as follows:

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

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

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

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

(l) Property, plant and equipment

Property, plant and equipment consist principally of land, buildings and fixtures, electricity distribution and infrastructure, furniture and equipment, rolling stock, generating equipment, reservoirs, dams and waterways and assets under construction. Property, plant and equipment acquired in a business combination are initially recorded at their acquisition date fair values.

Property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses, if any. Self-constructed asset costs comprise all directly attributable expenditures to bring the asset into operation including labour, materials, employee benefits, transportation, contracted services and borrowing costs. Where parts of an item in property, plant and equipment are significant and have different estimated economic useful lives, they are accounted for

Hydro Ottawa Holding Inc.

Notes to the Consolidated Financial Statements

Year ended December 31, 2016

[in thousands of Canadian dollars]

3. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

(l) Property, plant and equipment [continued]

as separate items [major components] of property, plant and equipment. Certain assets may be acquired or constructed with financial assistance in the form of contributions from customers. Contributions from customers are treated as deferred revenue.

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

Depreciation is recorded on a straight-line basis over the estimated service life of each component of property, plant and equipment. Emergency capital spare parts that are expected to be used for more than one year are considered to be assets under construction and are depreciated only once they are put into service.

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

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

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

Land and buildings	
Land	Indefinite
Buildings and fixtures	20 to 100 years
Electricity distribution infrastructure	10 to 60 years
Generation and other	
Generating equipment	3 to 50 years
Reservoirs, dams and waterways	75 to 125 years
Furniture and equipment	5 to 10 years
Rolling stock	7 to 15 years

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

(m) Intangible assets

Intangible assets include land and water rights, computer software, capital contributions, power purchase agreements, deferred contract costs and assets under development. Water rights represents the inherent value of the right to draw water from government-owned rivers and lakes for purposes of generating electricity.

Intangible assets with finite lives are measured at cost less accumulated amortization and accumulated impairment losses, if any. Intangible assets are amortized on a straight-line basis over the estimated service lives of the related assets while those with indefinite lives are not amortized. Intangible assets acquired in a business combination are initially recorded at their acquisition-date fair values.

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

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

Hydro Ottawa Holding Inc.

Notes to the Consolidated Financial Statements
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3. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

(m) Intangible assets [continued]

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

Land rights	50 years
Water rights with a definite useful life	7 to 100 years
Computer software	5 to 10 years
Capital contributions and other agreements	
Capital contributions	45 years
Power purchase agreements	15 years
Deferred contract costs	15 years

Water rights relating to certain hydroelectric power stations are amortized on a straight-line basis over the related contract term, including one renewal period when applicable. Contract terms associated with the water rights for the Corporation's other hydroelectric stations do not carry a specific expiration date and thus are not amortized, but are tested for impairment annually or as soon as there is evidence of impairment.

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

(n) Investment properties

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

(o) Impairment of non-financial assets

At the end of each reporting period, or earlier if required, the Corporation assesses whether there is an indication that a non-financial asset [or CGU] may be impaired. The Corporation's cash inflows are monitored separately by generating station, resulting in the Corporation having several CGUs. If any indication exists, the Corporation estimates the asset's recoverable amount, which is the higher of an asset or CGU's fair value less costs of disposal and its value in use. If the carrying value of a non-financial asset exceeds its recoverable amount, the difference is immediately recognized as an impairment loss in profit or loss.

Intangible assets with indefinite useful lives [i.e. certain water rights] are tested for impairment [within their respective CGUs] at least annually, and whenever there is an indication that the asset may be impaired. When determining the recoverable amount for these intangible assets, the Corporation determines:

- Its value in use by discounting estimated future cash flows to their present value using a discount rate that reflects changes in the time value of money and the risks specific to the asset or the CGU.
- Its fair value less costs of disposal by considering whether there is a current market price for the asset. Otherwise, the Corporation uses an income approach, which is based on the present value of future cash flows generated by an asset or a CGU. The discounted cash flow method consists of projecting cash flows and converting them into present values by applying discount rates. The discount rate estimated and used by management represents the weighted average cost of capital determined for a group of CGUs. The growth rate is determined based on past experience, economic trends as well as market and industry trends.

At the end of a reporting period, if there is any indication that an impairment loss recognized in a prior period no longer

Hydro Ottawa Holding Inc.

Notes to the Consolidated Financial Statements
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3. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

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

exists or has decreased, the loss is reversed up to its recoverable amount. The carrying amount following the reversal must not be higher than the carrying amount that would have prevailed [net of amortization] had the original impairment not been recognized in prior periods.

Compensation for the impairment of non-financial assets, such as insurance recoveries, is included in determining profit or loss when it becomes receivable and is not offset against the cost of restoring, purchasing or constructing replacement assets.

(p) Employee future benefits

(i) Pension plans

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

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

CHLP is the sponsoring employer of the Pension Plan for Employees of Chaudiere Hydro L.P. and Participating Employers ['Chaudiere Hydro Pension Plan' or 'CHPP']. The CHPP is accounted for as follows:

- CHPP assets are held by an insurance corporation and are measured at fair value, which are determined as follows: bond, equity and other investment funds are valued using the unit values supplied by the fund manager, which reflects the fund's proportionate share of underlying net assets at fair values determined using closing quotations from Canadian investment dealers, and short-term investments are valued at cost, including accrued interest, which due to their short-term maturity approximates fair value.
- Defined benefit obligations of the CHPP are determined based on the expected future benefit payments discounting using market interest rates on high-quality debt instruments that match the timing and amount of expected benefit payments.
- The cost of pension earned by employees is actuarially determined using the projected benefit method prorated on services, and management's best estimate of salary escalation, retirement ages and life expectancy.
- The defined benefit expense is presented in employee benefits in net income on the consolidated statement of income and includes, as applicable, the estimated cost of employee benefits for the current year service, interest cost, interest income on CHPP's assets, plan amendments, curtailments, other administration costs of the pension plans and any gain or loss on settlement. Current service cost, interest income on CHPP's assets and interest costs are computed by applying the discount rate used to measure

Hydro Ottawa Holding Inc.

Notes to the Consolidated Financial Statements
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[in thousands of Canadian dollars]

3. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

(p) Employee future benefits [continued]

(i) Pension plans [continued]

the plan obligation at the beginning of the annual period.

- Remeasurements arising on CHPP's assets and defined benefit obligation are presented in OCI on the consolidated statement of comprehensive income and arise from actuarial gains and losses on defined benefit obligations, the difference between the actual return [net of costs of managing CHPP's assets] and interest income on plan assets, if applicable. CHPP's significant assumptions are assessed and revised, as appropriate.
- Past service costs are included in the cost of the CHPP for the year when they arise.

The fair value of the CHPP assets is offset against the defined benefit obligation. The net amount is recognized as a retirement benefit asset or retirement benefit liability.

(ii) Other post-employment benefits

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

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

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

(iii) Employee benefits

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

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

Hydro Ottawa Holding Inc.

Notes to the Consolidated Financial Statements

Year ended December 31, 2016

[in thousands of Canadian dollars]

3. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

(q) Customer deposits

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

(r) Capital contribution obligations

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

All terms and conditions of CCRAs follow the *Transmission System Code* [the 'Code'] issued by the OEB. The amount of the initial capital contribution required is based on the prescribed economic evaluation procedure set out in the Code. This initial capital contribution is reduced by any commitment of connection revenue [the 'guaranteed revenue'] earned by HONI from the Corporation over the period of the respective CCRA. Guaranteed revenue is calculated based on forecasted load ['initial load'] multiplied by HONI's approved rate at the time of entering into these agreements.

Each of the Corporation's CCRAs has a term of 25 years. These agreements require periodic reviews whereby a comparison of actual to forecasted load is conducted, and a true-up calculation performed. When a true-up calculation shows the Corporation's actual load for the past period and updated load forecast for the future period are lower than the initial load, the Corporation is obligated to make up this shortfall. When the Corporation's actual load and updated load forecast is higher than the initial load, the Corporation is entitled to a rebate. True-up calculations are made in years 5 and 10; and in year 15 if the difference between the actual incremental load and initial load at the end of year 10 are greater than 20%.

(s) Provisions and contingencies

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

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

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

(t) Deferred revenue

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

(u) Debt-issuance costs

The Corporation incurs debt-issuance costs that are external, direct and incremental in nature arising from its debenture and bond offerings. Debt-issuance costs associated with its debenture and bond offerings are netted against the proceeds of the debt and amortized using the effective yield method.

Hydro Ottawa Holding Inc.

Notes to the Consolidated Financial Statements

Year ended December 31, 2016

[in thousands of Canadian dollars]

3. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

(v) Leases

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

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

Upon evaluation, all of the Corporation's leases are classified as operating leases.

(w) Inventory

Inventory consists of work-in-process and finished goods used in the installation and maintenance of street lights as part of the Corporation's contract and commercial services. Inventory is measured at the lower of weighted average variable costs and net realizable value. The cost of inventory is based on the first-in, first-out cost formula based on standard costs. Net realizable value is the estimated selling price in the ordinary course of business less any applicable selling expenses.

4. FUTURE CHANGES IN ACCOUNTING POLICIES

A number of new standards, amendments and interpretations are not yet effective for the year ended December 31, 2016 and have not been applied in preparing these consolidated financial statements. The Corporation continues to analyze these standards and has initially determined that the following could have an impact on its consolidated financial statements.

In May 2014, the IASB published a new standard, IFRS 15 *Revenue from Contracts with Customers* ['IFRS 15'], which replaces most of the detailed guidance on revenue recognition that currently exists under IFRS. IFRS 15 specifies how and when an entity will recognize revenue and additional disclosure requirements. In April 2016, the IASB issued amendments to IFRS 15 which clarify how to identify a performance obligation in a contract, determine whether a company is a principal or an agent, and determine whether the revenue from granting a license should be recognized at a point in time or over time. In addition to the clarifications, the amendments include two additional reliefs to reduce cost and complexity for a company when it applies the new standard. IFRS 15 is effective for annual periods beginning on or after January 1, 2018.

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments* ['IFRS 9'], which replaces IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 includes revised guidance on the classification and measurement of financial instruments and is effective for annual periods beginning on or after January 1, 2018.

In January 2016, the IASB issued a new standard, IFRS 16 *Leases* ['IFRS 16']. It replaces accounting requirements introduced more than 30 years ago that are no longer considered suitable and is a major revision of the way in which companies account for leases. The new standard becomes effective for reporting periods beginning on or after January 1, 2019. Early adoption is permitted if IFRS 15 is also adopted.

On January 29, 2016, the IASB published amendments to IAS 7 *Statement of Cash Flows* ['IAS 7']. The amendments are intended to clarify IAS 7 to improve information provided to users of financial statements about an entity's financing activities. They are effective for annual periods beginning on or after 1 January 2017, with earlier application being permitted.

Hydro Ottawa Holding Inc.

Notes to the Consolidated Financial Statements
Year ended December 31, 2016
[in thousands of Canadian dollars]

5. BUSINESS COMBINATIONS

(a) Acquisition of the Centrale Hull-2 generation facility from Hydro-Québec

On December 14, 2016, the Corporation, through Hull Energy L.P., entered into an Agreement of Purchase and Sale ['APS'] with Gatineau Power Company [a subsidiary of Hydro-Québec], to acquire its 27 megawatt Centrale Hull-2 hydroelectric generating station [the 'HQ assets'] and its 33.33% interest in CWPI for a cash purchase price of \$50,000, inclusive of contingent consideration estimated at the date of acquisition to be \$10,000. Also on December 14, 2016, the Corporation entered into two agreements incidental to the APS: [1] a 25-year fixed-price, indexed power purchase agreement with Hydro-Québec to sell them electricity from the HQ assets at a market base-rate and [2] a 100-year-less-a-day lease with Gatineau Power Company for the land and associated water rights pertaining to the Québec side of the Ottawa River at Chaudière Falls. The acquisition of HQ assets was determined to be a business combination for accounting purposes.

The following table summarizes the fair values of the assets acquired and liabilities assumed as part of the transaction with Gatineau Power Company.

	Acquisition date fair value \$
Non-current assets	
Generation and other	
Reservoirs, dams and waterways	17,944
Generating equipment	12,025
Land and buildings	10,031
Water rights	10,000
Retirement benefit asset	90
Non-current liabilities	
Employee future benefits	(36)
Accounts payable and accrued liabilities	(54)
Total net assets acquired	50,000

The fair value of the property, plant and equipment acquired was based on the direct method-replacement cost approach. As such, the asset values were estimated as if they were to be reconstructed on an undeveloped site. These estimates were developed through discussions with third-party engineers, market research and comparisons with similar equipment and facility replacement cost data based on capacity. Moreover, since the assets have been in use over varying periods of time, allowances have been made for physical, functional, and economic factors affecting utility and value as they might apply. The fair value of the water rights was based on the present value of the net cash flow benefits derived from the water rights ownership. As a result, the fair value measurement for the acquired HQ assets are classified within Level 3 of the fair value hierarchy.

Amounts with respect to the retirement benefit asset, employee future benefits and accounts payable and accrued liabilities relate to the Corporation's acquired 33.33% interest in CWPI. The \$10,000 earn out is included in accounts payable and accrued liabilities as at December 31, 2016 and was settled subsequent to year-end.

The Corporation incurred transaction costs [primarily legal and consulting] totaling \$1,754 with respect to the acquisition. As management is not privy to the applicable financial information, it is impracticable to determine the amount of revenue or income (loss) the HQ assets would have produced had the acquisition occurred on January 1, 2016.

Hydro Ottawa Holding Inc.

Notes to the Consolidated Financial Statements
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[in thousands of Canadian dollars]

5. BUSINESS COMBINATIONS [CONTINUED]

(b) Acquisition of generation facilities from Fortis Inc.

On March 23, 2015, the Corporation, through 2425932 Ontario Inc., entered into a Share and Unit Purchase Agreement ['SPA'] with Fortis Inc. to acquire 100% of four entities that collectively own and operate 10 run-of-the-river hydroelectric generation facilities in New York State [i.e. EONY] and Ontario ['EOGen'] for a cash purchase price of \$77,038 [\$62,500 USD] and \$16,000 respectively. The Corporation completed its acquisition of EONY on June 22, 2015 and EOGen on July 17, 2015 with respective closing adjustments of \$820 [\$666 USD] and \$1,261, bringing the final cash purchase prices to \$77,858 [\$63,166 USD] and \$17,261. The four stations in New York State have a combined operating capacity of 22.6 megawatts, while the six stations in Ontario have a combined operating capacity of 8.3 megawatts.

The following table summarizes the fair values of the assets acquired and liabilities assumed as part of the transaction with Fortis Inc. in Canadian dollars. The Corporation undertook a market approach, using discounted cash flows to estimate the fair value of the water rights and power purchase agreements acquired. As a result, the fair value measurement for such assets is classified within Level 3 of the fair value hierarchy. Expected future cash flows were based on estimates of future production, commodity prices and applicable contractual rates.

	Acquisition date fair value \$
Current assets	
Cash	2,268
Accounts receivable	1,756
Prepaid expenses	228
Current liabilities	
Accounts payable and accrued liabilities	(490)
Non-current assets	
Generation and other	
Generating equipment	25,667
Reservoirs, dams and waterways	16,745
Furniture and equipment	107
Rolling stock	111
Land and buildings	18,373
Power purchase agreement	1,276
Computer software	445
Water rights	30,690
Investment property	150
Deferred income tax assets	2,079
Non-current liabilities	
Deferred income tax liabilities	(4,286)
Total net assets acquired	95,119

Hydro Ottawa Holding Inc.

Notes to the Consolidated Financial Statements
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[in thousands of Canadian dollars]

5. BUSINESS COMBINATIONS [CONTINUED]

(b) Acquisition of generation facilities from Fortis Inc. [continued]

The breakdown of cash paid to Fortis Inc. for acquisition is as follows:

	2015 \$
Total net assets acquired	95,119
Less: cash acquired	(2,268)
Less: closing adjustments in accounts payable and accrued liabilities	(2,081)
Less: acquired liabilities funded by Fortis Inc.	(206)
Total cash paid for net assets acquired	90,564

The amounts relating to accounts receivable, prepaid expenses and accounts payable and accrued liabilities have been removed from their respective operating line items in the consolidated statements of cash flows as they did not arise in the ordinary course of business.

The Corporation incurred transaction costs [primarily legal and consulting fees] relating to the acquisition of \$2,733. Had the acquisition occurred on January 1, 2015, management estimates generation revenue and net income would have been \$18,138 and \$31,874 respectively for the 2015 fiscal year.

By settling the acquisition-related receivables and payables outstanding at December 31, 2015, the Corporation's investing activities include \$1,131 of cash outflows in the current year.

6. ACCOUNTS RECEIVABLE

	2016 \$	2015 \$
Electricity receivables	70,370	59,198
Unbilled revenue	103,253	88,036
Trade and other receivables	11,579	21,071
Less: allowance for doubtful accounts [Note 19(c)]	(1,782)	(1,927)
	183,420	166,378
Amounts due from related parties [Note 26]	9,250	5,646
	192,670	172,024
Aging:		
Outstanding for 30 days or less	80,893	74,986
Outstanding for more than 30 days but not more than 120 days	8,018	8,242
Outstanding for more than 120 days	2,288	2,687
Unbilled revenue	103,253	88,036
Less: allowance for doubtful accounts	(1,782)	(1,927)
	192,670	172,024

Hydro Ottawa Holding Inc.

Notes to the Consolidated Financial Statements
Year ended December 31, 2016
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7. REGULATORY BALANCES

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

	Remaining recovery/ reversal [years]	2015 \$	Balances arising in the year \$	Recovery/ reversal \$	Other movements ⁽¹⁾ \$	2016 \$
Regulatory debit balances						
RARA	1	205	68	1	-	274
Settlement variances	1 - 5	5,502	(3,006)	-	-	2,496
OPEB deferral account	1 - 5	4,432	(4,285)	-	-	147
Regulatory asset for deferred income taxes	(2)	-	7,684	-	-	7,684
Other variances and deferred costs	1 - 5	4,291	(1,148)	-	-	3,143
		14,430	(687)	1	-	13,744
Regulatory credit balances						
RLRA	1	3,266	1,618	(4,475)	-	409
Settlement variances	1 - 5	29,919	6,218	-	-	36,137
Stranded meters	1	5,974	(5,974)	-	-	-
Regulatory liability for deferred income taxes	(2)	513	(513)	-	-	-
Other variances and deferred costs	1 - 5	1,153	(994)	-	-	159
		40,825	355	(4,475)	-	36,705

Hydro Ottawa Holding Inc.

Notes to the Consolidated Financial Statements
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7. REGULATORY BALANCES [CONTINUED]

	Remaining recovery/ reversal [years]	2014 \$	Balances arising in the year \$	Recovery/ reversal \$	Other movements ⁽¹⁾ \$	2015 \$
Regulatory debit balances						
RARA	1	209	(4)	-	-	205
Settlement variances	1 - 5	12,223	(6,721)	-	-	5,502
OPEB deferral account	1 - 5	4,432	-	-	-	4,432
Other variances and deferred costs	1 - 5	3,759	563	(31)	-	4,291
		20,623	(6,162)	(31)	-	14,430
Regulatory credit balances						
RLRA	1	3,143	232	(109)	-	3,266
Settlement variances	1 - 5	14,414	15,505	-	-	29,919
Stranded meters	1	2,987	2,987	-	-	5,974
Regulatory liability for deferred income taxes	(2)	12,070	(11,557)	-	-	513
Other variances and deferred costs	1 - 5	1,597	(444)	-	-	1,153
		34,211	6,723	(109)	-	40,825

⁽¹⁾ Other movements represent reclassifications of balances.

⁽²⁾ The balance is being reversed through timing differences in the recognition of deferred income tax assets.

In December 2016, the OEB approved the disposition of certain deferral and variance accounts as at December 31, 2015 amounting to a credit of \$22,471 over a one-year period commencing January 1, 2017.

The following regulatory balances include accrued interest:

- The RARA/RLRA includes accrued interest costs of \$27 [2015 – \$46].
- Settlement variances include accrued interest costs of \$268 [2015 – \$97].
- Other variance and deferred costs include accrued interest earned of \$15 [2015 – \$12].

Hydro Ottawa Holding Inc.

Notes to the Consolidated Financial Statements
Year ended December 31, 2016
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8. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings \$	Distribution \$	Generation and other \$	Assets under construction \$	Total \$
Cost					
Balance as at December 31, 2014	93,735	597,370	71,046	64,375	826,526
Additions, net of transfers	1,657	118,715	4,985	13,229	138,586
Acquired via business combination [Note 5(b)]	18,373	-	42,630	-	61,003
Disposals	-	(1,321)	(17)	-	(1,338)
Exchange differences	2,031	-	4,104	1	6,136
Balance as at December 31, 2015	115,796	714,764	122,748	77,605	1,030,913
Additions, net of transfers	855	90,696	10,340	85,461	187,352
Acquired via business combination [Note 5(a)]	10,031	-	29,969	-	40,000
Disposals	(2)	(1,544)	(153)	-	(1,699)
Exchange differences	(553)	-	(1,145)	7	(1,691)
Balance as at December 31, 2016	126,127	803,916	161,759	163,073	1,254,875
Accumulated depreciation					
Balance as at December 31, 2014	(3,034)	(22,326)	(11,534)	-	(36,894)
Depreciation	(2,951)	(26,154)	(5,602)	-	(34,707)
Disposals	-	92	3	-	95
Exchange differences	(11)	-	(24)	-	(35)
Balance as at December 31, 2015	(5,996)	(48,388)	(17,157)	-	(71,541)
Depreciation	(3,406)	(27,340)	(6,647)	-	(37,393)
Disposals	1	178	46	-	225
Exchange differences	(14)	-	18	-	4
Balance as at December 31, 2016	(9,415)	(75,550)	(23,740)	-	(108,705)
Net book value					
As at December 31, 2015	109,800	666,376	105,591	77,605	959,372
As at December 31, 2016	116,712	728,366	138,019	163,073	1,146,170

During the year, the Corporation capitalized borrowing costs of \$4,055 [2015 – \$1,199] to property, plant and equipment. The average annual interest rate for 2016 was 3.7% [2015 – 4.1%]. During the year, the Corporation incurred a loss on disposal of property, plant and equipment of \$833 [2015 – \$538].

In February 2014, the Corporation's subsidiary CHLP negotiated a forty-year Hydroelectric Standard Offer Program – Municipal Stream Contract [‘40-year HESOP Contract’] with the IESO – resulting in the Corporation's commitment of significantly expanding its generation facilities on the Ontario side of Chaudière Falls by 20 megawatts [the ‘Chaudière Expansion’]. Since 2015, the Corporation has been fully engaged in this multi-year expansion project. As a result, a significant amount of assets under construction comprise large civil structures, water-to-wire connections, engineering and project management services relating to the Chaudière Expansion, which is anticipated to be completed and commercially operational in 2017.

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9. INTANGIBLE ASSETS

	Land rights and water rights \$	Computer software \$	Capital contributions and other agreements \$	Assets under development \$	Total \$
Cost					
Balance as at December 31, 2014	18,731	39,972	5,618	28,376	92,697
Additions (net of transfers)	20	9,883	14,133	(24,324)	(288)
Acquired via business combination [Note 5(b)]	30,690	445	1,276	-	32,411
Exchange differences	2,923	45	-	-	2,968
Balance as at December 31, 2015	52,364	50,345	21,027	4,052	127,788
Additions	473	2,118	3,811	5,857	12,259
Acquired via business combination [Note 5(a)]	10,000	-	-	-	10,000
Exchange differences	(798)	(12)	-	-	(810)
Disposals	-	-	(2,610)	-	(2,610)
Balance as at December 31, 2016	62,039	52,451	22,228	9,909	146,627
Accumulated amortization					
Balance as at December 31, 2014	(49)	(5,651)	(916)	-	(6,616)
Amortization	(49)	(7,131)	(633)	-	(7,813)
Balance as at December 31, 2015	(98)	(12,782)	(1,549)	-	(14,429)
Amortization	(3,314)	(7,871)	(955)	-	(12,140)
Exchange differences	(20)	3	-	-	(17)
Disposals	-	-	1,627	-	1,627
Balance as at December 31, 2016	(3,432)	(20,650)	(877)	-	(24,959)
Net book value					
As at December 31, 2015	52,266	37,563	19,478	4,052	113,359
As at December 31, 2016	58,607	31,801	21,351	9,909	121,668

During the year, the Corporation capitalized borrowing costs of \$81 [2015 – \$515] to intangible assets. The average annual interest rate for 2016 was 3.7% [2015 – 4.1%]. During the year, the Corporation incurred a loss on intangible assets of \$983 [2015 – \$nil].

A significant portion of the Corporation's water rights with indefinite lives [68% or \$16,941] stems from a historical 1889 lease agreement with Public Works and Government Services Canada [the 'Chaudière water rights']. This contract provides rights to waters on the Ottawa River at Chaudière Falls for two of the Corporation's CGUs and effectively renews every 21 years into perpetuity. As a result of the deemed indefinite life, the Corporation does not amortize these water rights.

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9. INTANGIBLE ASSETS [CONTINUED]

The Corporation's annual impairment test of all of its water rights with indefinite lives resulted in no impairment for the 2016 fiscal year [2015 - \$nil]. For the testing of its Chaudière water rights, the Corporation used a fair value less costs of disposal calculation ['FVLCD'] based on discounted future cash inflows to be earned under the Corporation's future contracts [ex. the 40-year HESOP Contract] and cash outflows based on management's industry experience and data from third party consultants. The key assumption in the FVLCD calculation was a weighted average cost of capital ['WACC'] of 4.6%. A 10 percent increase or decrease in the WACC, while holding all other assumptions constant, would not impact management's conclusion with respect to its water rights not being impaired at December 31, 2016 or 2015.

10. INVESTMENT PROPERTIES

	2016	2015
	\$	\$
Net book value, beginning of year	2,360	2,216
Additions	46	106
Acquired via business combination	-	150
Depreciation	(109)	(112)
Net book value, end of year	2,297	2,360

The fair value of investment properties is \$4,865, which is based on the latest Municipal Property Assessment Corporation valuation dated May 12, 2016.

11. INVESTMENTS IN JOINT ARRANGEMENTS

(a) Investments in joint ventures

	2016	2015
	\$	\$
Moose Creek LP [50.05%]		
Investment in joint venture, beginning of year	3,488	3,370
Share of profit	567	118
Investment in joint venture, end of year	4,055	3,488
PowerTrail [60%]		
Investment in joint venture, beginning of year	3,306	2,914
Share of profit, net of tax	451	372
Other adjusting items related to profit	21	20
Additional contributions	42	-
Investment in joint venture, end of year	3,820	3,306
Total investments in joint ventures	7,875	6,794

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11. INVESTMENTS IN JOINT ARRANGEMENTS [CONTINUED]

(b) Summary balance sheets and statements of income of joint ventures

	2016 \$	2015 \$
Moose Creek LP [50.05%]		
Current assets	1,276	1,249
Non-current assets	12,882	13,223
Total assets	14,158	14,472
Current liabilities	1,585	1,552
Non-current liabilities	4,229	5,710
Total liabilities	5,814	7,262
Revenue	3,679	2,895
Net income	1,134	235
PowerTrail [60%]		
Current assets	915	1,103
Non-current assets	10,761	9,877
Total assets	11,676	10,980
Current liabilities	938	1,194
Non-current liabilities	3,949	3,819
Total liabilities	4,887	5,013
Revenue	3,568	3,787
Net income	752	618

(c) Joint operations

The Corporation's investment in CWPI was considered to be a joint operation until December 14, 2016, at which point it became a subsidiary of the Corporation after the acquisition of the remaining 33.3% share from Hydro-Québec as disclosed in Note 5(a). The Corporation has recognized \$10 in net income and a loss of \$56 in OCI with respect to this joint operation through the 348-day period ended December 14, 2016 [December 31, 2015 – 66.7% recognition of contractual share of assets, liabilities and expenses in the accounts of the Corporation, including in \$10 in net income, a loss of \$29 in OCI].

(d) Credit facilities

PowerTrail has a credit facility of \$200 [2015 – \$200] to provide standby letters of credit to the IESO. The facility contains customary covenants and events of default, including a covenant to maintain a tangible net worth of \$1,000. As at December 31, 2016, PowerTrail had drawn an amount of \$133 [December 31, 2015 – \$133] in standby letters of credit against this facility.

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12. NOTES RECEIVABLE FROM RELATED PARTIES

	2016	2015
	\$	\$
Moose Creek LP promissory note, 6.0%, due January 1, 2025	2,710	3,121
PowerTrail promissory notes, non-interest bearing	1,179	1,646
City of Ottawa note, 3.0%	3,622	-
	7,511	4,767
Less: current portion	(2,049)	(732)
	5,462	4,035

(a) Moose Creek LP

On December 31, 2014, the Corporation advanced a 10-year unsecured promissory note to Moose Creek LP in the amount of \$3,307 with an interest rate of 6.0% as Moose Creek LP adjusted its capital structure. Blended repayments on the notes receivable are \$442 per year, with the principal portion projected as follows: 2017 – \$291, 2018 – \$322, 2019 – \$342, 2020 – \$363, 2021 and thereafter – \$1,092. For 2017, Moose Creek LP has committed to making an additional principal repayment of \$300 in addition to the regular quarterly blended repayments noted above, bringing the total current portion with respect to this loan to \$591.

(b) PowerTrail

Pursuant to the Shareholder Agreement dated November 3, 2005, any loans from the Corporation [via Energy Ottawa] to PowerTrail are made on a pro rata basis, based upon its share of contributions of capital in the Corporation [60%]. To fund the construction of its gas generation plant at the Trail Road landfill site, between 2005 and 2007, the Corporation provided unsecured, non-interest bearing grid promissory notes totaling \$4,860. Repayments on the grid promissory notes are made when possible as agreed to by the shareholders, however they are not due on demand. The initial fair value of each advance was calculated using discount rates ranging between 7.6% and 8.0%.

Future cash principal repayments on the notes receivable are estimated to be as follows: 2017 – \$nil, 2018 – \$nil, 2019 – \$600, 2020 – \$600 and 2021 - \$300 while the total future imputed interest offsetting the principal balances outstanding at December 31, 2016 is \$321.

(c) City of Ottawa

In February 2016, the Corporation entered into two contracts with the City of Ottawa [the 'City']. Over a span of an estimated six years, the Corporation is engaged to convert 58,000 legacy street lights to LED [S/L conversion contract] and to provide maintenance services to all legacy and converted LED street lights [S/L maintenance contract].

While payment terms on its S/L maintenance contract are under the Corporation's usual credit terms, the Corporation and the City have negotiated a 3% interest bearing note, calculated on a quarterly basis with open repayment terms, for the S/L conversion contract. Under such terms, the City is to pay the Corporation on a quarterly basis an amount calculated based on the City's electricity, maintenance and capital expenditure savings resulting from the LED street light conversions. Of the total \$3,622 outstanding at December 31, 2016, \$1,831 represents accrued work performed to be billed in early 2017. The Corporation estimates that \$1,458 will be repaid in 2017.

The Corporation carries inventory of \$1,577 relating to City of Ottawa street light conversion and maintenance endeavors at December 31, 2016.

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13. CREDIT FACILITY

During the year, the Corporation renewed its credit facility in the amount of \$340,750 and US\$200 [2015 – \$340,750 and US\$200]. The facility is structured into five types of credit availability and continues to consist of a \$75,000 [2015 – \$75,000] revolving operating line and a \$100,000 [2015 – \$100,000] revolving line to fund capital expenditures and growth opportunities, both of which mature on August 1, 2019. The facility also has a \$15,000 [2015 – \$15,000] line to fund letters of credit and other guarantees, a \$150,000 [2015 – \$150,000] 364-day revolving operating term line which may be used to assist with refinancing debt and support day to day operations, and a \$750 and US\$200 [2015 – \$750 and US\$200] commercial card facility – all of which mature on August 1, 2017. The revolving operating lines can be used by way of direct advances, bankers' acceptances and/or by way of letters of credit and other guarantees. This credit facility contains customary covenants and events of default including a covenant to maintain the consolidated tangible net worth in excess of \$175,000 at all times. It also requires the debt to capitalization ratio to be at or below 75% on a consolidated basis.

As at December 31, 2016, the Corporation has drawn \$1,100 in direct advances against the revolving operating line of credit [2015 – \$nil] and \$76,000 in bankers' acceptances against the \$150,000 revolving operating term line [2015 – \$nil]. The Corporation has also drawn \$24,451 [2015 – \$11,698] against its facilities in standby letters of credit.

As at December 31, 2016, CHLP has a standby letter of credit to the Receiver General of Canada on behalf of Fisheries and Oceans Canada in the amount of \$538 [December 31, 2015 – \$538], expiring on October 23, 2017 in connection with the Chaudière Expansion. CHLP also has two standby letters of credit to the IESO in the amount of \$587 and \$294 [December 31, 2015 – \$587 and \$294] expiring on February 23, 2018 and October 20, 2017 respectively in connection with the 40-year HESOP contract. Finally, CHLP has a standby letter of credit to BNY Trust Company of Canada in the amount of \$12,900 [December 31, 2015 – \$nil], expiring on July 7, 2017 in connection with the Trust Indenture dated September 7, 2016 as described in Note 16(b).

As at December 31, 2016, CWPI has an operating revolving line of credit totalling \$500 for general business purposes. The line of credit bears annual interest at the prime rate and is secured by acceptable letters of comfort signed by each of the four shareholders. As at December 31, 2016 CWPI had drawn \$76 against this operating line of credit [December 31, 2015 – \$nil].

14. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2016	2015
	\$	\$
Purchased power payable	92,874	72,685
Trade accounts payable and accrued liabilities	71,398	61,506
Customer deposits	14,452	13,843
Customer credit balances	7,391	8,277
Acquisition-related payables	10,000	2,400
Due to related parties [Note 26]	136	228
	196,251	158,939

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15. EMPLOYEE FUTURE BENEFITS

(a) Pension plans

The Corporation contributes to two defined benefit plans covering substantially all of its employees.

The Corporation's participating employer contributions under OMERS for the year ended December 31, 2016 amounted to \$6,218 [2015 – \$6,163].

The Corporation provides retirement benefits to certain employees through the Chaudiere Hydro Pension Plan. As at December 31, 2016, CWPI and Chaudiere Hydro North L.P. are the only two entities with employees who are part of the Chaudiere Hydro Pension Plan.

(i) Defined benefit obligation

	2016	2015
	\$	\$
Balance, beginning of year	4,502	3,933
Current service cost	159	122
Interest cost	183	157
Benefits paid	(91)	(9)
Employee contributions	58	90
Actuarial loss	182	209
Acquired via business combination [Note 5(a)]	760	-
Balance, end of year	5,753	4,502

(ii) Plan assets

	2016	2015
	\$	\$
Fair value, beginning of year	4,889	4,630
Interest credit	179	188
Employer contributions	147	170
Benefits paid	(91)	(9)
Non-investment expenses	(10)	(33)
Employee contributions	60	90
Actuarial loss	(110)	(147)
Acquired via business combination [Note 5(a)]	850	-
Fair value, end of year	5,914	4,889

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15. EMPLOYEE FUTURE BENEFITS [CONTINUED]

(a) Pension plans [continued]

(iii) Funded status

	2016 \$	2015 \$
Retirement benefit asset, beginning of year	387	697
Change in retirement benefit asset	(316)	(310)
Acquired via business combination [Note 5(a)]	90	-
Retirement benefit asset, end of year	161	387

The assets of the Chaudiere Hydro Pension Plan are held and managed by an independent custodian and accounted for separately in the Corporation's pension funds. The asset allocation structure is subject to diversification requirements and constraints which reduce risk by limiting exposure to individual equity investments, credit rating categories and foreign currency exposures. Based on the fair value of assets held as at December 31, 2016, the Chaudiere Hydro Pension Plan's assets were comprised of 89.3% [2015 – 89.5%] fixed income Canadian bonds, 7.1% [2015 – 6.8%] Canadian and international equities and 3.6% [2015 – 3.7%] in alternative investments. The Chaudiere Hydro Pension Plan's investments are primarily held and managed in pooled funds, and thus do not have a quoted market price in an active market.

Employee future benefits under the Chaudiere Hydro Pension Plan are calculated using an annual compensation rate of 2.0% [2015 – 2.0%], an inflation rate of 2.0% [2015 – 2.0%] and a discount rate of 3.9% [2015 – 4.0%]. The valuations also include several other economic and demographic assumptions including mortality rates, which are based on the Canadian Pensioners' Mortality report published by the Canadian Institute of Actuaries in February 2014.

An actuarial extrapolation was performed as at December 31, 2016. As a result of this exercise, the Corporation decreased the retirement benefit by \$316 [December 31, 2015 – decreased by \$310]. The last actuarial valuation was performed at December 31, 2014.

No valuation allowance has been recorded by the Corporation as at December 31, 2016 and December 31, 2015 with respect to the retirement benefit asset.

Significant actuarial assumptions for defined benefit obligation measurement purposes are discount rate and salary scale. The following sensitivities are based on reasonably possible changes of the assumptions, in isolation of one another, occurring at the end of the reporting period. A 1.0% decrease in discount rate would increase the defined benefit obligation by \$1,140 or 22.8% [2015 – \$970 or 21.5%], while a 1.0% increase in salary scale would increase the defined benefit obligation by \$162 or 3.2% [2015 – \$126 or 2.8%].

(b) Other post-employment benefits

The Corporation provides life, health and dental benefits to certain employees. Employee future benefits are calculated using an annual compensation rate increase of 2.0% [2015 – 3.1%] and a discount rate of 3.9% [2015 – 3.6%]. Cost trends for health are estimated to increase at a declining rate from 7.5% to 5.0% and dental benefits are estimated to increase by 5.0% per annum. The valuations also include several other economic and demographic assumptions including mortality rates, which are based on the Canadian Pensioners' Mortality report published by the Canadian Institute of Actuaries in February 2014.

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15. EMPLOYEE FUTURE BENEFITS [CONTINUED]

(b) Other post-employment benefits [continued]

Information about the Corporation's other post-employment benefits is as follows:

	2016 \$	2015 \$
Defined benefit obligation, beginning of year	11,332	11,046
Current service costs	380	247
Past service costs	1,778	-
Interest on defined benefit obligation	521	437
Benefits paid	(607)	(407)
Actuarial (gain) loss	(105)	9
Acquired via business combination [Note 5(a)]	36	-
Defined benefit obligation, end of year	13,335	11,332

An actuarial valuation was performed as at December 31, 2016. As a result of this exercise, the Corporation increased the defined benefit obligation by \$2,003 [December 31, 2015 – increased by \$285 based on an actuarial extrapolation].

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

16. LONG-TERM DEBT

	2016 \$	2015 \$
Senior unsecured debentures		
Series 2006-1, 4.97%, due December 19, 2036	50,000	50,000
Series 2013-1, 3.99%, due May 14, 2043	150,000	150,000
Series 2015-1, 2.61%, due February 3, 2025	200,000	200,000
Series 2015-2, 3.64%, due February 2, 2045	175,000	175,000
Senior secured amortizing bond		
Series 2016-1, 4.08%, due March 31, 2057	203,802	-
	778,802	575,000
Less: unamortized debt-issuance costs	(5,842)	(3,481)
	772,960	571,519

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16. LONG-TERM DEBT [CONTINUED]

(a) Senior unsecured debentures

On February 2, 2015, the Corporation successfully completed a dual-tranche bond offering of senior unsecured debentures consisting of Series 2015-1, \$200,000 at 2.61% due February 3, 2025 and Series 2015-2, \$175,000 at 3.64% due February 2, 2045. The Corporation used \$200,000 of the \$375,000 total offering to repay Series 2005-1, which became due on February 9, 2015. Each debenture contains customary covenants and events of default, including a covenant to ensure that the aggregate principal amount of the consolidated funded obligations does not exceed 75% of the total consolidated capitalization. Interest payments on the senior unsecured debentures are payable semi-annually in arrears in equal installments, and will be \$20,067 per year over the next five years.

(b) Senior amortizing bonds

On September 7, 2016, the Corporation through its subsidiary CHLP, completed the offering of senior secured amortizing bonds [the 'bonds', Series 2016-1] of \$203,802 to fund the Chaudière Expansion. The bonds carry an interest rate of 4.08% and are due on March 31, 2057 [the 'maturity date']. At December 31, 2016, the Corporation has used \$79,717 of the \$203,802 total offering to directly finance construction costs [\$76,827] and bond-issuance costs [\$2,890] including sales taxes where applicable. Of the \$124,085 remaining to be released to the Corporation, \$79,975 is dependent upon additional monthly submissions of qualifying costs with respect to the Chaudière Expansion and is classified as current on the balance sheet [expected completion 2017]. The release of \$44,110 in funds currently held in a distributions account as required by the Trust Indenture are expected to be available to the Corporation in 2018 and is therefore classified as non-current. Debt-issuance costs incurred during the year consist of legal, broker and consulting fees incurred to obtain the bonds.

The bonds are secured by a first-charge interest on the assets pertaining to the Chaudière Expansion. In accordance with the Trust Indenture, the Corporation must maintain, in a reserve account, an amount equal to the next six months of interest and principal upon substantial completion of the project [achieves functional completion in accordance with the construction contract, commercial operation confirmed in accordance with the HESOP agreement, and obtain the substantial completion confirmation certificate]. Moreover, the Corporation must maintain, in a major maintenance account, a 3-year look-forward reserve that covers 100%, 67% and 33% of the projected major maintenance expenses in the coming three years respectively.

Equal semi-annual payments of interest-only on the bonds will be due and payable on March 31 and September 30 in each year, commencing on March 31, 2017 until and including March 31, 2022. Thereafter, semi-annual blended payments of principal and interest will be due and payable on March 31 and September 30 in each year commencing on September 30, 2022 until and including the maturity date. In addition to the repayments above, a balloon payment of \$30,570 [15% of the principal] will be due and payable on the maturity date.

Total interest payments on the bonds are expected to be \$8,839 in 2017 and \$8,315 per year from 2018 through 2021.

17. CAPITAL DISCLOSURES

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

- Ensure continued access to funding to maintain and improve the operations and infrastructure of the Corporation;
- Ensure compliance with covenants related to the credit facilities and its long-term debt; and
- Align Hydro Ottawa Limited's capital structure with the debt to equity structure recommended by the OEB.

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17. CAPITAL DISCLOSURES [CONTINUED]

The Corporation's capital consists of the following:

	2016	2015
	\$	\$
Bank indebtedness	68,751	-
Long-term debt	772,960	571,519
Total debt	841,711	571,519
Shareholder's equity	426,775	413,397
Total capital	1,268,486	984,916
Debt capitalization ratio	66.34 %	58.03 %

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

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

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

18. SHARE CAPITAL

(a) Authorized

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

The above shares are without nominal or par value.

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

(b) Issued

	2016	2015
	\$	\$
214,901,003 Class A common shares	228,453	228,453

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18. SHARE CAPITAL [CONTINUED]

(b) Issued [continued]

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

Shareholder's resolution directs the Corporation to target dividends at the greater of 60% of its subsidiary, Hydro Ottawa Limited's net income or \$20,000 [2015 - greater of 60% of the Corporation's annual consolidated net income or \$14,000], provided that the Corporation is in compliance with the *Business Corporations Act (Ontario)* and relevant OEB Guidelines, is not in breach of any covenants on its senior unsecured debentures or credit facility obligations, and does not negatively impact its credit rating as a result of the dividend payment.

On April 21, 2016, the Board of Directors declared a \$19,400 dividend to the City of Ottawa, which was paid on April 29, 2016 [2015 – on April 23, the Board of Directors declared a \$18,200 dividend to the City of Ottawa, which was paid on April 30, 2015].

(c) Non-controlling interest

Non-controlling interest represents a 10.1% share in CPS Current Power Services (2016) Ltd. held by a third party.

19. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

(a) Fair value disclosures

The carrying values of the Corporation's financial instruments, except for the senior unsecured debentures and the long-term notes receivable from joint ventures, approximate fair value because of the short maturity and nature of the instruments.

The Corporation has estimated the fair value of the long-term portion of notes receivable from joint ventures as at December 31, 2016 as amounting to \$3,878 [December 31, 2015 – \$4,891]. The fair value has been determined by discounting all estimated future repayments of principal and imputed interest required to fully repay the loan at the estimated interest rate of 5.7% [December 31, 2015 – 5.5%] that would be available to PowerTrail and Moose Creek LP on December 31, 2016.

The Corporation has estimated the fair value of the senior unsecured debentures as at December 31, 2016 as amounting to \$585,083 [December 31, 2015 – \$600,398]. The fair value has been determined based on discounting all future repayments of principal and interest between February 3, 2025 and March 31, 2057 at the estimated interest rate of 3.7% [December 31, 2015 – 3.5%] that would be available to the Corporation on December 31, 2016.

The Corporation has estimated the fair value of its senior secured amortizing bonds as at December 31, 2016 as amounting to \$203,802. The fair value has been determined by discounting all estimated future repayments of principal and interest required to fully repay the loan at the estimated interest rate of 4.0% that would be available to the Corporation at December 31, 2016.

(b) Market risk

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

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19. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT [CONTINUED]

(b) Market risk [continued]

(i) Interest rate risk

The Corporation is exposed to interest rate risk on its borrowings. The Corporation mitigates exposure to interest rate risk by issuing long-term fixed interest rate debt. Under the Corporation's credit facility, any advances on its credit lines expose it to fluctuations in short-term interest rates related to prime rate loans and bankers' acceptances. Given the fact that the borrowing requirements on the credit lines are typically for a short duration [i.e., to bridge gaps between the cash outflows related to Hydro Ottawa Limited's monthly power bill and the inflows related to settlements with customers, or the cash outflows related to significant capital acquisitions and the inflows related to the issuance of additional long-term fixed rate debt], there is limited exposure to interest rate risk.

(ii) Foreign exchange risk

The Corporation's earnings from, and net investment in, its foreign operating subsidiary, EONY, are exposed to fluctuations in the U.S. dollar to Canadian dollar exchange rate. Also, the Corporation purchases a small proportion of goods and services that are denominated in foreign currencies, predominately the U.S. dollar. The Corporation monitors its exposure to foreign currency fluctuations on a regular basis, and has not used derivative instruments to hedge against these exposures to date. On an annual basis, it is estimated that a 5% increase or decrease in the U.S. dollar relative to the Canadian dollar exchange rate of U.S. \$1 = CDN \$0.75 as at December 31, 2016 would increase or decrease the equity of the Corporation by approximately \$3,034.

(iii) Commodity price risk

The Corporation, through its U.S. subsidiary EONY, is exposed to commodity price risk associated with green energy produced and sold in the U.S. wholesale market. The Corporation has not used derivative instruments to hedge against this exposure to date. As all green energy produced and sold in Canada is at rates specified by their respective power purchase agreements, the remainder of the Corporation's generation revenue is not exposed to significant commodity price risk. A 10% increase or decrease in the price of electricity in the U.S. through December 31, 2016 would have increased or decreased net income by \$181.

(c) Credit risk

Credit risk is the risk that a counterpart will default on its obligations, causing a financial loss to the Corporation. Concentration of credit risk associated with accounts receivable is limited due to the large number of customers the Corporation services. Hydro Ottawa Limited has approximately 328,000 customers, the majority of which are residential. As a result, the Corporation did not earn a significant amount of revenue and does not have a significant receivable from any individual customer.

Hydro Ottawa Limited performs ongoing credit evaluations of its customers and requires collateral to support non-residential customer accounts receivable on specific accounts to mitigate significant losses in accordance with OEB legislation. As at December 31, 2016, the Corporation held security deposits related to power recovery and distribution sales in the amount of \$14,600 [December 31, 2015 – \$13,724] with respect to these customers.

Energy Ottawa and its subsidiaries limit credit risk by dealing with customers that are considered to be of high credit quality. These customers include government agencies, utilities, municipalities, universities, school boards, hospitals, and customers with investment grade credit ratings.

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

The carrying amount of accounts receivable is reduced by an allowance for doubtful accounts based on the credit risk applicable to particular customers, historical, and other information. The Corporation records an allowance for doubtful accounts when the recoverability of an amount becomes doubtful. When the receivable amount is deemed to be uncollectible, it is written off and the allowance for doubtful accounts is adjusted accordingly. Subsequent recoveries of receivables previously provisioned or written off result in a reduction of operating costs in the consolidated statements of

Hydro Ottawa Holding Inc.

Notes to the Consolidated Financial Statements
Year ended December 31, 2016
[in thousands of Canadian dollars]

19. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT [CONTINUED]

(c) Credit risk [continued]

income. As at December 31, 2016, the allowance for doubtful accounts was \$1,782 [December 31, 2015 – \$1,927].

For details of accounts receivable and the aging of the accounts, refer to Note 6.

As at December 31, 2016, there were no significant concentrations of credit risk with respect to any class of financial assets or counterpart and approximately 12% [December 31, 2015 – 12%] of the Corporation's accounts receivable [excluding unbilled revenue] were aged more than 30 days. The Corporation's maximum exposure to credit risk is equal to the carrying value of accounts receivable less customer deposits held.

(d) Liquidity risk

Liquidity risk is the risk that the Corporation will not meet its financial obligations as they come due. The Corporation regularly monitors and manages its liquidity risk to ensure access to sufficient funds to meet operational and capital investment requirements. The Corporation achieves this objective by ensuring that sufficient facilities, as described in Note 13, are maintained to meet obligations as they come due while minimizing standby fees and interest.

Liquidity risks associated with financial commitments are as follows:

	2016		
	Due within one year \$	Due between one and five years \$	Due after five years \$
Accounts payable and accrued liabilities	187,892	-	-
Senior unsecured debentures			
Series 2006-1, 4.968%, due December 19, 2036	-	-	50,000
Series 2013-1, 3.991%, due May 14, 2043	-	-	150,000
Series 2015-1, 2.614% due February 3, 2025	-	-	200,000
Series 2015-2, 3.639%, due on February 2, 2045	-	-	175,000
Senior secured amortizing bond			
Series 2016-1, 4.080%, due March 31, 2057	-	-	203,802
Interest to be paid on long-term debt	28,906	111,076	530,772
	216,798	111,076	1,309,574

Accounts payable and accrued liabilities in the above table exclude \$8,359 of accrued interest which is included in interest payments on long-term debt.

Hydro Ottawa Holding Inc.

Notes to the Consolidated Financial Statements
Year ended December 31, 2016
[in thousands of Canadian dollars]

20. OPERATING COSTS

	2016	2015
	\$	\$
Salaries and benefits	84,545	78,479
Operating and maintenance	11,196	8,415
Outside services	32,356	35,354
General and administrative	32,033	33,747
Less: capitalized salaries and benefits	(32,058)	(29,857)
	128,072	126,138

21. FINANCING COSTS

	2016	2015
	\$	\$
Interest on debentures	22,537	20,193
Short-term interest and fees	997	564
Less: capitalized borrowing costs	(4,136)	(1,715)
	19,398	19,042

22. INCOME TAXES

Income tax expense recognized in net income comprises the following:

	2016	2015
	\$	\$
Current tax expense		
Current income tax expense	4,457	1,640
Deferred tax expense		
Origination and reversal of temporary differences	4,584	13,832
Income tax expense recognized in net income	9,041	15,472

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

	2016	2015
	\$	\$
Income tax effect on exchange differences on translation of foreign subsidiary	(552)	2,480

Hydro Ottawa Holding Inc.

Notes to the Consolidated Financial Statements

Year ended December 31, 2016

[in thousands of Canadian dollars]

22. INCOME TAXES [CONTINUED]

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

	2016 \$	2015 \$
Federal and Ontario statutory income tax rate	26.50 %	26.50 %
Income attributable to equity shareholder before income taxes	43,877	47,842
Income taxes at statutory rate	11,627	12,678
Increase (decrease) in income taxes resulting from:		
Permanent differences	49	(10)
Impact on foreign exchange translation on subsidiary	(180)	589
Acquisition-related costs capitalized for tax purposes	-	898
Foreign tax rate differential	(762)	(515)
Unrecognized tax benefit	(1,255)	1,899
Tax impact on joint venture	(275)	(135)
Adjustment	265	-
Other	(428)	68
	9,041	15,472
Effective income tax rate	20.61 %	32.34 %

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

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

	2016 \$	2015 \$
Property, plant and equipment and intangible assets	1,106	(4,435)
Employee future benefits	-	3,919
Non-capital loss carryforwards	4,492	-
Other temporary differences	47	2,766
	5,645	2,250

Hydro Ottawa Holding Inc.

Notes to the Consolidated Financial Statements
Year ended December 31, 2016
[in thousands of Canadian dollars]

22. INCOME TAXES [CONTINUED]

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

	2016	2015
	\$	\$
Property, plant and equipment and intangible assets	(24,244)	(10,266)
Tax recognized in OCI related to foreign subsidiary translation	(1,821)	(2,480)
Exchange differences and other	(448)	(949)
Non-capital loss carryforwards	268	-
Employee future benefits	4,648	-
Other	661	-
	(20,936)	(13,695)

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

	2016	2015
	\$	\$
Deferred tax asset, beginning of year	2,250	12,118
Acquired via business combination [Note 5(b)]	-	2,079
Recognized in net income	3,395	(12,171)
Foreign exchange differences	-	224
Deferred tax asset, end of year	5,645	2,250

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

	2016	2015
	\$	\$
Deferred tax liability, beginning of year	(13,695)	(5,359)
Acquired via business combination [Note 5(b)]	-	(4,286)
Recognized in net income	(7,793)	(1,570)
Recognized in OCI	552	(2,480)
Deferred tax liability, end of year	(20,936)	(13,695)

The Corporation's regulatory deferral account credit balance for the amounts of deferred income taxes expected to be collected/refunded to customers in future electricity rates is \$7,694 [2015 – \$513].

As at December 31, 2016, the Corporation had capital losses of \$750 [December 31, 2015 – \$700] which have not been recognized in the consolidated financial statements.

As at December 31, 2016, Hydro Ottawa Limited and PowerTrail had corporate minimum tax credit carryforwards of \$470 and \$97

Hydro Ottawa Holding Inc.

Notes to the Consolidated Financial Statements
Year ended December 31, 2016
[in thousands of Canadian dollars]

22. INCOME TAXES [CONTINUED]

respectively [December 31, 2015 – \$1,454 and \$161 respectively], which expire between 2032 and 2035.

As at December 31, 2016, PowerTrail had non-capital tax loss carryforwards of \$nil [December 31, 2015 – \$89] which expire in 2030.

Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax assets and unused tax losses can be utilized.

A deferred tax liability for all taxable temporary differences associated with investments in subsidiaries and investments in joint ventures has not been recognized as the Corporation is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

	2016	2015
	\$	\$
Accounts receivable	(20,430)	(17,924)
Prepaid expenses	(1,498)	(1,700)
Other	(4)	(15)
Change in note receivable from parent	(3,622)	-
Accounts payable and accrued liabilities	35,726	(14,691)
Inventory	(1,577)	-
Net change in accruals related to property, plant and equipment	(11,416)	(10,025)
Net change in accruals related to intangible assets	297	15,685
Net change in accruals related to business combinations	(8,869)	(1,131)
	(11,393)	(29,801)

24. CONTINGENT LIABILITIES

Purchasers of electricity in Ontario including Hydro Ottawa Limited, through the IESO, are required to provide security to mitigate the risk of their default based on their expected activity in the market. The IESO could draw on these guarantees if the Corporation fails to make a payment required by a default notice issued by the IESO. A prudential support obligation is calculated based upon a default protection amount and the distributor's trading limit less a reduction for the distributor's credit rating. As at December 31, 2016, the Corporation had drawn standby letters of credit in the amount of \$10,000 [December 31, 2015 – \$10,000] against its credit facility to cover its prudential support obligation.

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

In December 2012, the Corporation was charged with five offenses under Ontario's *Occupational Health and Safety Act* in respect of an incident occurring on March 22, 2012, which resulted in the fatality of an employee of a third-party sub-contractor. In July 2015, the Corporation was found guilty on three of the five offenses. On March 29, 2016, the Justice of the Peace imposed a fine

Hydro Ottawa Holding Inc.

Notes to the Consolidated Financial Statements
Year ended December 31, 2016
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24. CONTINGENT LIABILITIES [CONTINUED]

of \$225 plus a 25% Victim Fine Surcharge totalling \$281 as required by the *Provincial Offences Act*. The Corporation is appealing this decision, however no court date has been set. The Corporation has recorded a provision for the full amount of the imposed fine in these consolidated financial statements.

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

25. COMMITMENTS

Hydro Ottawa Limited has \$158,398 in total open commitments for 2017 to 2023. This includes commitments relating to a customer information system services agreement, construction projects, spare parts and standby equipment and overhead and underground services.

As at December 31, 2016, Energy Ottawa has committed \$37,198 in funds with respect to the Chaudière Expansion.

Energy Ottawa maintains leases with various entities for the rights to certain lands, waterways, buildings and other generating assets at its generating stations in Ontario, Québec and New York. These leases are in place through various dates, ranging between August 19, 2019 and December 13, 2117. Certain leases have annual payments which have a fixed and contingent portion, the latter of which is based on either annual gross revenues or power generation levels. During the 2016 fiscal year, the Corporation expensed lease payments of \$292 [2015 – \$251], which included \$112 [2015 – \$119] of contingent lease payments. The Corporation's future minimum lease payments will be: 2017 – \$176, 2018 to 2021 – \$740 and \$5,595 thereafter.

26. RELATED PARTY TRANSACTIONS

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

(a) Transactions with shareholder

During the year, the Corporation earned revenue from the sale of electricity to the City of Ottawa and its subsidiaries, which is billed at prices and terms approved by the OEB. In addition, the Corporation earned commercial contract and service revenues totaling \$1,322 [2015 – \$878] via Hydro Ottawa Limited and \$8,882 [2015 – \$3,657] via Energy Ottawa, from the City of Ottawa and its subsidiaries. During the year, the Corporation also received \$4,484 [2015 – \$1,635] in contributions relating to the upgrade and/or expansion of Hydro Ottawa Limited's existing electricity distribution infrastructure.

The Corporation incurred \$2,263 [2015 – \$2,165] in property tax expenses and \$481 [2015 – \$484] in fuel, permits and other services during the year to the City of Ottawa, which is included in operating costs.

As at December 31, 2016, the Corporation's accounts receivable include \$9,203 [December 31, 2015 – \$5,595] due in respect of the transactions above while the Corporation's accounts payable and accrued liabilities include \$136 [December 31, 2015 – \$131] due to the City of Ottawa and its subsidiaries. The Corporation's note receivable from the City of Ottawa is disclosed in Note 12 of these consolidated financial statements.

Hydro Ottawa Holding Inc.

Notes to the Consolidated Financial Statements
Year ended December 31, 2016
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26. RELATED PARTY TRANSACTIONS [CONTINUED]

(b) Transactions with joint arrangements

(i) Moose Creek LP

During the year, the Corporation earned interest income in the amount of \$182 [2015 – \$195] on its note receivable from Moose Creek LP, as well as \$21 [2015 – \$20] in other revenue for the provision of administrative services. As at December 31, 2016, the Corporation's accounts receivable include \$45 [December 31, 2015 – \$49] due in respect of the transactions described.

The Corporation's note receivable from Moose Creek LP is disclosed in Note 12 of these consolidated financial statements.

(ii) PowerTrail

During the year, the Corporation earned imputed interest income in the amount of \$104 [2015 – \$213] on its note receivable from PowerTrail, as well as \$24 [2015 – \$23] in other revenue for the provision of administrative services. As at December 31, 2016, the Corporation's accounts receivable include \$2 [December 31, 2015 – \$2] due in respect of the transactions described.

The Corporation's note receivable from PowerTrail is disclosed in Note 12 of these consolidated financial statements.

(iii) CWPI

Prior to the consolidation of CWPI as of December 14, 2016, the Corporation incurred \$971 [2015 – \$1,054] of operating expenses with CWPI in relation to the management and operation of the Chaudière Dam at Chaudière Falls, and earned \$78 [2015 – \$75] in other revenue for the provision of administrative services. The Corporation also capitalized \$329 [2015 – \$292] of generating assets. At December 31, 2016, all intercompany balances with CWPI have been eliminated. At December 31, 2015, the Corporation's accounts payable and accrued liabilities included \$97 due in respect of the transactions described.

(c) Compensation of key management personnel

	2016	2015
	\$	\$
Salaries, director fees and other short-term benefits	1,349	1,430
Employee future benefits	12	12
Other long-term benefits	159	171
	1,520	1,613

27. COMPARATIVE FIGURES

In certain instances, the 2015 information presented for comparative purposes has been reclassified to conform to the consolidated financial statement presentation adopted for the current year.



100 YEARS OF SERVICE



Statement of Executive Compensation

The Governance and Management Resources Committee of the Board, is responsible for developing and recommending the approval of the compensation framework for the Corporation and each of its subsidiaries.

In developing the compensation framework, the Governance and Management Resources Committee is guided by two principles: the need to provide a total compensation package that will attract and retain qualified and experienced executives, and linking compensation to performance.

Executive compensation is reviewed by the Governance and Management Resources Committee and approved by the Board of Directors. In making its recommendations to the Board, the Committee examines the responsibilities and performance of individual executives, and considers the recommendations of the President and Chief Executive Officer.

In an effort to attract and retain qualified and experienced executives, the Corporation aims to offer a total compensation package that is competitive with other organizations of a similar size and scope. Executive compensation is reviewed on an annual basis and compared to market data, with the assistance of independent consultants, on an ad hoc basis to ensure competitiveness. In line with best practices for the sector, as identified by the Ontario Minister of Energy's Agency Review Panel in 2007, Hydro Ottawa applies a 50/50 weighting of market data from public and private comparators. The industry component of the market comparator group has a strong sector affiliation [e.g., Transportation and Utilities sector], and is assessed by revenue levels to ensure comparability.

Total cash compensation for Executives consists of two components*: base salary and an at risk performance incentive.

Total cash compensation is benchmarked to companies of comparable size and scope in both the Ontario and national markets, with the target for total cash compensation set at the 50th percentile, or midpoint, of the market.

The at risk performance incentive component is paid on an annual basis, and is expressed as a percentage of base salary. It is designed to retain and motivate executives, to reward them for their performance during the preceding year, and to ensure alignment with shareholder objectives. Payments are based on the achievement of corporate and division objectives, both financial and non-financial, which are established each year by the Board of Directors. Non-financial targets are designed to achieve continuous improvement in relation to a number of strategic objectives including, but not limited to, customer service, operational and organizational efficiency and effectiveness, and service reliability.

Executives participate in a benefits program, which includes extended health care, dental care, basic and optional life insurance, and short-term and long-term disability insurance. This same program is available to all management group employees of the Corporation.

Executives also participate in the OMERS pension plan. This plan is a multi-employer, contributory, defined benefit pension plan established by the Province for employees of municipalities, local boards and school boards in Ontario. Pension benefits are determined by a formula based on the highest consecutive five-year average of contributory earnings and years of service. Pension benefits are indexed to increases in the Consumer Price Index subject to an annual maximum of 6 percent. Both participating employers and participating employees are required to make equal contributions to the plan based on the participating employees' contributory earnings. Earnings for pension purposes are capped based on recent plan changes.

* The total cash compensation for the President and Chief Executive Officer consists of a base salary only.

COMPENSATION OF OFFICERS AND BOARD MEMBERS

Officers

NAME AND PRINCIPAL POSITION ¹	YEAR	BASE SALARY (\$) ²	AT RISK PERFORMANCE INCENTIVE (\$) ³	OTHER COMPENSATION (\$) ⁴
Bryce Conrad President and Chief Executive Officer	2016	375,711	N/A	22,398
	2015	384,163	N/A	15,178
	2014	363,468	N/A	13,458
Geoff Simpson Chief Financial Officer	2016	180,783	67,711	8,479
	2015	184,850	57,254	8,471
	2014	174,968	42,884 ⁵	8,526
Lance Jefferies Chief Electricity Distribution Officer	2016	159,830	34,798 ⁶	8,401
Gregory Clarke Chief Electricity Generation Officer	2016	183,525	66,484	8,798
	2015	187,654	57,055	8,482
	2014	177,622	53,586	8,556

1 Officers whose earnings are reported are those who occupied the position at December 31, 2016.

2 The pay cycle for 2015 resulted in 27 pay periods versus the standard 26 in other years. Amounts shown in this column have been rounded to the nearest dollar.

3 Amounts shown in this column reflect the at risk performance incentive for the executive in respect of the achievement of the performance objectives for the previous financial year, paid in the reporting year. These amounts have been rounded to the nearest dollar.

4 Amounts in this column include Board approved discretionary payments such as payments of earned and unused vacation credits, car allowance, computer allowance and employer's share of basic life insurance premiums. These amounts have been rounded to the nearest dollar.

5 Given that Mr. Simpson assumed the position on August 6, 2013, the at risk performance incentive for 2013, paid in 2014, is based on both his previous position with the Corporation and the position of Chief Financial Officer.

6 Given that Mr. Jefferies assumed the position on January 1, 2016, the at risk performance incentive for 2015, paid in 2016, is based on his previous position with the Corporation.

Board Members

The remuneration of the members of the Boards of Directors of Hydro Ottawa Holding Inc. (HOHI) and Hydro Ottawa Limited (HOL) is as determined by the City of Ottawa and the HOHI Board respectively. In addition to reimbursement for reasonable out-of-pocket expenses incurred while performing their duties, directors receive an annual stipend and meeting fees for service:

- The Board Chair receives an annual stipend of \$40,000;
- All other Board members receive an annual stipend of \$7,000;
- The Board Chair receives \$600 for each Board or committee meeting chaired or attended;

- Committee Chairs receive \$800 for each meeting of the committee chaired; and
- All other Board members receive \$600 for each Board or committee meeting attended.

Only one annual stipend is paid where an individual is a director of both the HOHI and HOL Boards of Directors. Members of the Council of the City of Ottawa, as well as the President and Chief Executive Officer and the one member of management on the HOL Board, receive no remuneration in their capacity as directors of the boards.

Corporate Governance

Hydro Ottawa is committed to establishing and maintaining leading governance practices for a company of its size and mandate. Because governance standards and best practices are always evolving, the company seeks to continuously improve its governance practices.

Hydro Ottawa Holding Inc. is a private, for-profit company, incorporated under the *Business Corporations Act* [Ontario]. At the same time, the company is wholly owned by the City of Ottawa and fulfills a public mandate, and is therefore mindful of its responsibility to be accountable both to its shareholder and the public. The company's governance practices are guided not simply by legal obligations, but by best business practices and standards established by independent agencies.

While Hydro Ottawa is not a reporting issuer under the Securities Act and is therefore not subject to governance standards that apply to publicly-traded companies, the company is guided by these standards and seeks to meet or exceed them. In addition, Hydro Ottawa regularly compares its governance practices to those of private and public sector organizations, and to standards set by agencies such as the Canadian Securities Administrators and the Ontario Securities Commission.

GOVERNANCE STRUCTURE

Accountability for the effective oversight of the Corporation and its wholly-owned subsidiaries (Hydro Ottawa Limited and Energy Ottawa Inc.) rests with an eleven-member Board of Directors, which provides direction to the Corporation on behalf of the shareholder, the City of Ottawa. The Board provides leadership within a framework of effective controls that enables risks to be assessed and managed, and is responsible for supervising the management of the business and affairs of the Corporation and its wholly-owned subsidiaries. In carrying out its oversight function, the Board of Directors is guided by a Shareholder Declaration issued by Ottawa City Council and revised from time to time. The Corporation's Code of Business Conduct, its Director Conflict of Interest and Conduct Guidelines and a Related Party Transaction Disclosure Policy and Process also govern the actions of the Board.

In 2006, a separate Board of Directors was established to oversee the operations of Hydro Ottawa Limited, in accordance with the Affiliate Relationships Code for Electricity Distributors and Transmitters issued by the Ontario Energy Board. The powers and functions of that Board are set out in a Shareholder Declaration issued by the Hydro Ottawa Holding Inc. Board of Directors. On a day-to-day basis, the Corporation is led by an Executive Management Team, comprising the Corporation's President and Chief Executive Officer, the Chief Financial Officer and the senior executives of the subsidiaries and critical functional areas. This team oversees the alignment of business practices and strategies with the goals of the Corporation, and drives performance by managing risks and opportunities. The Executive Management Team is accountable to the Corporation's Board of Directors through the President and Chief Executive Officer.

KEY GOVERNANCE PROCESSES AND CONTROLS

Hydro Ottawa has established a number of leading governance processes and controls to assist the Board and executive management in carrying out their oversight functions.

Risk Management: An extensive, corporate-wide risk management system has been established to track indicative and predictive measures of risk. Risk assessments are included with regular reporting to the Board on all areas of the Corporation's operations.

Internal Audit: Hydro Ottawa conducts a rigorous internal audit program to verify controls and maximize business efficiency and effectiveness. A number of business processes and functions are audited annually based on an audit plan approved by the Board. The use of experienced auditors both internal and external to the Corporation ensures rigour and objectivity.

Business Continuity Plans: Plans are in place to ensure the continuance of critical operations in the event of a major emergency such as a pandemic, and to return the Corporation to normal operations as quickly as possible after such an event. They include detailed strategies for the re-assignment of resources to critical processes, and redundant supply arrangements with critical external suppliers.

APPOINTMENTS TO THE BOARD OF DIRECTORS

The governance structure for the Corporation [Hydro Ottawa Holding Inc.] and its wholly-owned subsidiaries [Hydro Ottawa Limited and Energy Ottawa Inc.] includes two boards of directors – the Hydro Ottawa Holding Inc. Board and the Hydro Ottawa Limited Board.

In accordance with the terms of the Shareholder Declaration, the City of Ottawa appoints all Directors to the Boards except the President and Chief Executive Officer, and the one member of management on the Hydro Ottawa Limited Board. In doing so, the City considers candidates recommended by the Nominating Committee of the Board of Hydro Ottawa Holding Inc., but is not obliged to select these candidates. The Nominating Committee is assisted by outside consultants in its search for candidates for appointment to the Boards.

As set out in the Shareholder Declaration, all candidates for appointment to the Boards must meet certain requirements, including demonstrated integrity and high ethical standards, relevant career experience and expertise, and an understanding of the role of Hydro Ottawa both as a service to local ratepayers and an asset of taxpayers.

In addition, the nomination and selection process is designed to maintain a Board that includes the following overarching competencies among one or more directors: strong business background including competitive business experience and strategic planning; a strong financial background including financial accreditation and public or private market financing experience; industry sector experience in the areas of business of the subsidiary companies; board experience; and merger and acquisition experience.

COMMITTEES

The following committees were created to help the Boards of Directors carry out their duties. The committees meet regularly and provide feedback on their discussions to their respective Boards.

Hydro Ottawa Holding Inc.

Audit: The Audit Committee reviews financial statements, accounting practices and policies, auditing processes and the results of internal and external audits and related matters. It also oversees financial risk management and assesses internal controls.

Governance and Management Resources: The Governance and Management Resources Committee reviews the Corporation's governance structures and practices to ensure that the Board of Directors can fulfill its mandate. It reviews management resources and compensation practices to ensure systems are in place to attract, retain and motivate qualified management employees. It also reviews and assesses the performance of the President and Chief Executive Officer, oversees the Board Assessment process, and monitors compliance with codes of conduct.

Investment Review: The Investment Review Committee, created by the Board of Directors effective April 2010, is responsible for assisting management and the Board of Directors in the review and pursuit of business development, acquisition and investment opportunities. In carrying out these functions, the Committee focuses on the consistency of opportunities with strategic plans and investment guidelines, the maximization of shareholder value and the management of risk.

Nominating: The Nominating Committee, with the assistance of outside consultants, identifies and evaluates potential candidates for appointment as Directors. The Nominating Committee makes recommendations to the shareholder [represented by Ottawa City Council] for the appointment of directors.

Strategic Initiatives Oversight: The Strategic Initiatives Oversight Committee, created by the Board of Directors effective November 2013, is responsible for assisting the Board of Directors in guiding management and providing support and focus for large-scale capital project efforts as identified by the Board from time to time.

BOARD AND COMMITTEE MEETING ATTENDANCE

The following tables illustrate the attendance of members at meetings of the Boards of Directors and their committees.

HYDRO OTTAWA HOLDING INC.

DIRECTOR	BOARD MEETINGS	COMMITTEE MEETINGS
Jim Durrell, C.M. [Chair]	6/6	19/19
Bryce Conrad [President and CEO]	6/6	N/A
Dale Craig	6/6	9/9
Jan Harder	5/6	4/5
Andrea Johnson	5/6	8/8
Kalai Kalaichelvan	5/6	9/9
J. Douglas McLarty	6/6	10/10
Philip Murray	6/6	8/9
Lori O'Neill	6/6	9/9
Zaina Sovani	5/6	8/9
Marianne Wilkinson	5/6	5/6

HYDRO OTTAWA LIMITED

DIRECTOR	BOARD MEETINGS	COMMITTEE MEETINGS
Jim Durrell, C.M. [Chair]	4/4	N/A
Bryce Conrad [President and CEO]	4/4	N/A
Lance Jefferies	4/4	N/A

Members of the Boards of Directors

HYDRO OTTAWA HOLDING INC.



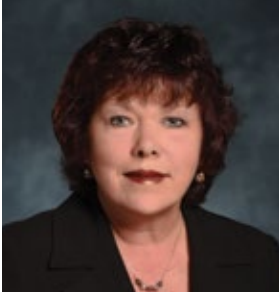
Jim Durrell, C.M. [Chair]



Bryce Conrad



Dale Craig



Councillor Jan Harder



Andrea Johnson



Kalai Kalaichelvan



J. Douglas McLarty



Philip Murray



Lori O'Neill



Zaina Sovani



Councillor Marianne Wilkinson

HYDRO OTTAWA LIMITED



Jim Durrell, C.M. [Chair]



Bryce Conrad



Lance Jefferies







Hydro Ottawa wishes to thank all the employees whose photos appear in this Annual Report.

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