Hydro Ottawa Holding Inc.

Annual Report 2020

Our Mission

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

Our Organizational Values

Teamwork, Integrity, Excellence and Service

Our Vision

Hydro Ottawa – a leading partner in a smart energy future

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

On behalf of the Board of Directors of Hydro Ottawa Holding Inc., our management and employees, we are pleased to provide this 2020 Annual Report to our shareholder, the City of Ottawa. This report marks the fifth and final year of reporting on progress towards the vision and commitments laid out in our 2016–2020 Strategic Direction, which was endorsed by our shareholder in June 2016.

In that strategic plan, we anticipated the need to navigate changes and disruptions to our business, and indeed we have seen many: historic floods and tornadoes, public policy realignments, and social movements with worldwide reach. From the early months of 2020 up until the time of this report, disruption has also come in the form of a global pandemic of unprecedented scale and impact – arguably the biggest challenge in the company's history.

Throughout these challenging events, our employees have risen to the occasion and exhibited the best of the company's character, culture, and commitment to the community. We could not be prouder of their professionalism, resilience, dedication, and generosity.

These qualities have been on full display at Hydro Ottawa over the past year, as COVID-19 disrupted the lives of our families, friends, and neighbours. With the pandemic underscoring the critical nature of the services we provide, our workforce has done everything possible to ensure peace of mind for our customers in maintaining a safe and reliable supply of electricity – for hospitals, families working and learning from home, and the digital platforms that keep us all connected.

Our readiness and response to the pandemic have been shaped by the high premium we place on safety. Nearly two months before COVID-19 was declared a public health emergency in Ontario, we formally activated our pandemic plan. Hundreds of employees pivoted seamlessly to a remote work environment, while robust protocols were implemented for field crews and others whose responsibilities precluded that option.

Since day one, our actions have been guided by the recommendations of public health authorities, governments, and industry regulators. As a result of our safety measures and protocols, Hydro Ottawa did not experience any cases of COVID-19 workplace transmission in 2020.

Alongside employee safety, we focused on supporting customers however we could. Key actions included offering flexible payment plans for customers experiencing financial hardship, advocating for emergency electricity rates and relief programs, and limiting planned outages to critical situations, to avoid disruptions to those working and learning at home. In a year when being there for our customers assumed unparalleled importance, it was humbling to receive a customer satisfaction score of 96 percent – our highest rating in the past decade.

Despite the impacts caused by COVID-19, the close-out of our Strategic Direction term was marked by strong results across our operations. We achieved consolidated net income of $34.1 million, delivered a consolidated return on equity of 7.2 percent, and paid a dividend of $22.6 million (based on 2019 results). Although the pandemic adversely affected revenues, we nevertheless reached 97 percent of our net income target for 2016–2020, and are set to exceed our $100 million cumulative dividend target for the five-year period by $8.2 million. Through prudent oversight by the Board and management, combined with favourable economic conditions in Ottawa (relative to other Canadian cities), we were able to

avoid significantly reduced cash flow scenarios and liquidity concerns that had been feared during the early phase of the pandemic.

We made capital investments of $215.0 million in 2020, in order to maintain reliable electricity service, boost renewable power production, and improve our efficiency and effectiveness. A majority of this investment was driven by the final year of our 2016–2020 distribution system plan approved by the Ontario Energy Board (OEB), including $62.5 million to replace aging infrastructure and boost resiliency, and $49.0 million to meet new demand. With the benefit of these and other grid enhancements in recent years, and notwithstanding the challenges posed by COVID-19, we sustained a high level of reliability, achieving the strongest overall performance amongst our industry peers in Ontario.

Investments in renewable generation consisted primarily of refurbishment projects at our hydroelectric plants in Québec. One station returned to service in early 2020 and the other is scheduled to come online in Spring 2021, following a series of COVID-related delays. These investments represent the latest milestone in the company's expansion of its green power portfolio by 500 percent since 2012 and will deliver stable revenue streams over the next 40 years. Our energy and utility services business, Envari, saw lower than expected revenues due to deferred client projects, but achieved important deliverables on signature projects such as the $57.2 million planned upgrade to the City of Ottawa's wastewater collection and treatment plant, and laying the groundwork for a new collaboration with the City on electric buses.

With COVID-19 necessitating new ways of working, we pursued productivity and innovation initiatives with increased focus. New digital tools and technologies were deployed to enhance internal communications and augment employee collaboration and training. In addition, following several years of preparation, we received international certification for excellence in asset management, becoming the first utility in Canada to obtain this prestigious designation.

As a community-minded organization, we sustained our long-standing commitment to supporting numerous local initiatives. These included donations of personal protective equipment to frontline health workers, as well as the allocation of employee charitable fundraising dollars to pandemic-related mental health programming.

Without question, 2020 represented the most challenging year in recent memory. While the impacts of COVID-19 have been severe, a light at the end of the tunnel is emerging as we finalize this report. Alongside this brightening outlook, our focus is shifting to a new five-year planning period, and a new chapter in the company's legacy of customer and community service. We are excited and hopeful for the future that awaits, and for the opportunity to sustainably power our community and the lives of the people we are fortunate to serve.

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

Bryce Conrad
President and Chief Executive Officer

Financial Highlights

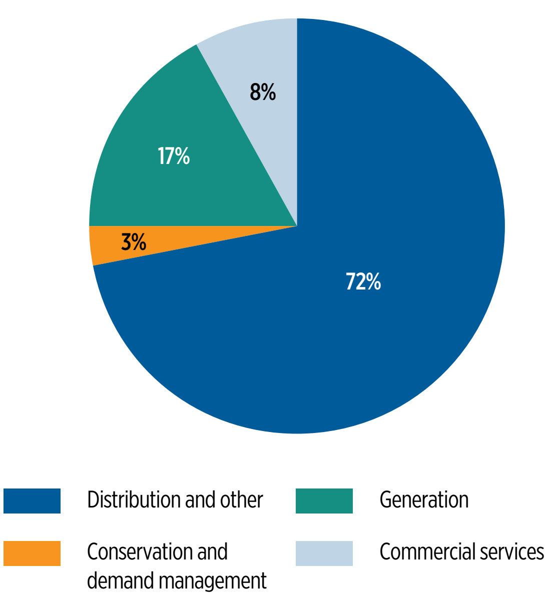
[in thousands of Canadian dollars]

	2020	2019
Operations		
Total revenue [1]	**$ 1,258,727**	$ 1,170,063
Distribution revenue [1]	**$ 187,410**	$ 187,690
Generation revenue	**$ 47,471**	$ 32,239
Commercial services revenue	**$ 23,244**	$ 34,141 [2]
Conservation and demand management income	**$ 7,415**	$ 13,018
EBITDA [1]	**$ 145,214**	$ 137,192
Net income	**$ 34,120**	$ 32,522
Dividends	**$ (22,600)**	$ (22,300)
Balance Sheet		
Total assets and regulatory balances	**$ 2,290,807**	$ 2,162,484
Capital assets	**$ 1,903,389**	$ 1,746,867
Debentures	**$ 1,060,896**	$ 1,060,733
Shareholder's equity	**$ 480,224**	$ 470,297
Cash Flows		
Operating	**$ 143,066**	$ 95,576 [2]
Investing	**$ (234,346)**	$ (224,922)[2]
Financing	**$ (22,857)**	$ 264,688

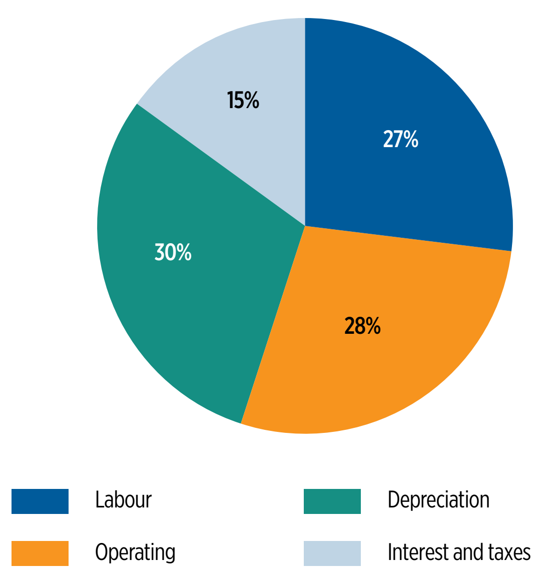
1 Pre-IFRS 14 amounts and EBITDA are non-GAAP financial measures

2 Certain comparative figures have been adjusted to conform to the current period's presentation (see Note 29 of the Consolidated Financial Statements)

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 2020 Annual Report is the fifth and final to report against the Company's *2016–2020 Strategic Direction* that outlined our business strategy and financial projections for the past five years. This strategy retained 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 outlined 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 have guided our activities throughout the 2016–2020 planning period and form the basis of our annual reporting in the pages that follow.

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

FOUR KEY AREAS OF FOCUS

Customer Value

STRATEGIC OBJECTIVE

We will deliver value across the entire customer experience

- By providing reliable, responsive and innovative services at competitive rates

Financial Strength

STRATEGIC OBJECTIVE

We will create sustainable growth in our business and our earnings

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

Organizational Effectiveness

STRATEGIC OBJECTIVE

We will achieve performance excellence

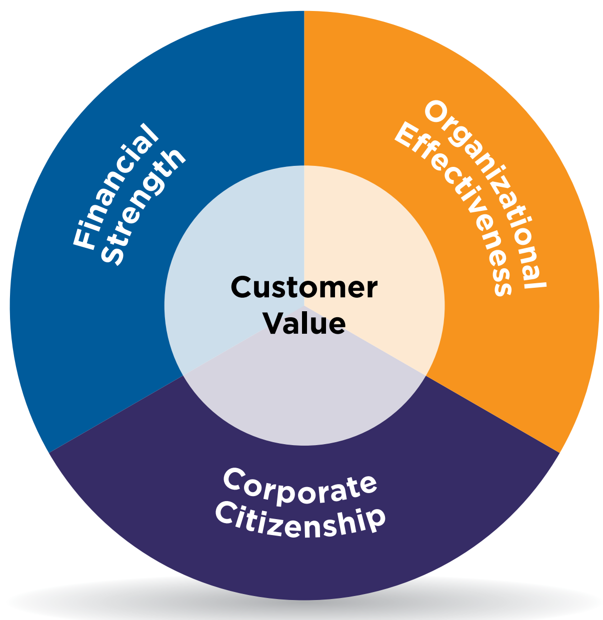
- By cultivating a culture of innovation and continuous improvement

Corporate Citizenship

STRATEGIC OBJECTIVE

We will contribute to the well-being of the community

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



Customer Value

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

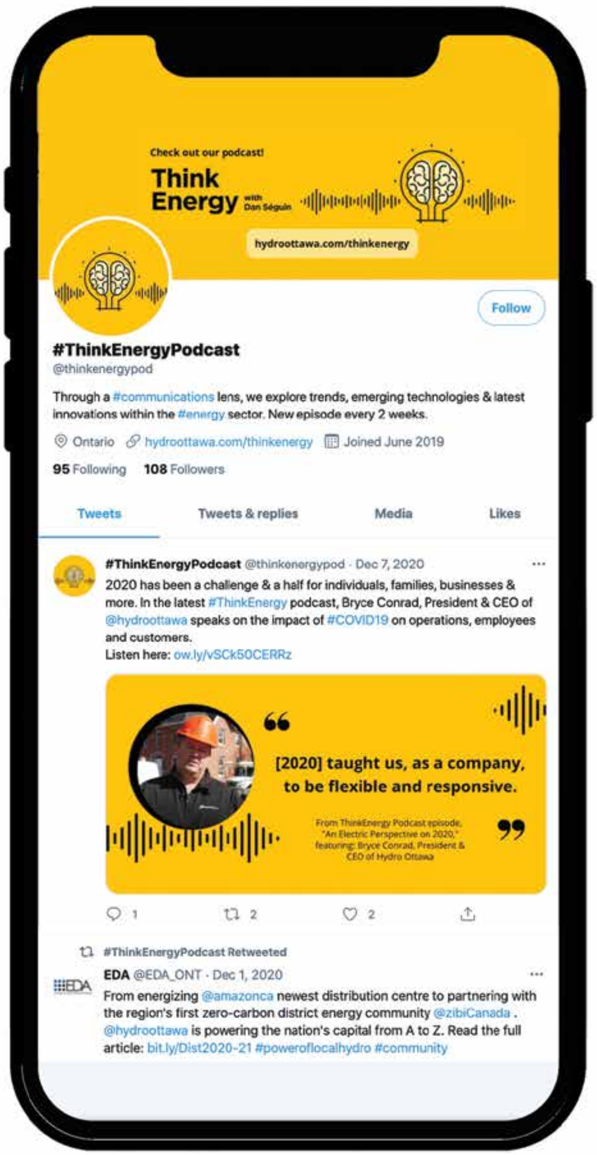
Advocated for COVID-19 electricity rates and relief programs

Invested $62.5M to keep distribution system safe and reliable

Customer-centricity has long been at the core of our business strategy. In 2020, amidst the backdrop of a global pandemic, ensuring safe, reliable, and affordable electricity across the entirety of our customer base assumed even greater importance. In the face of the extraordinary circumstances presented by COVID-19, we pivoted the implementation of our Customer Experience Roadmap and concentrated on maximizing the level of support extended to customers, wherever and however possible.

Key steps in this regard included the following: rapid rollout of a cloud-based customer-contact solution that ensured service continuity in a work-from-home environment; offering flexible payment plans for the benefit of customers experiencing financial hardship; and limiting planned power interruptions to critical needs only, in light of the shifts in customer demand related to working and learning from home.

Considerable effort was also spent in collaborating with provincial policymakers and regulators on the design and administration of electricity relief programs that were introduced at different points in the progression of the pandemic. A signature initiative was the government's "customer choice" program, which allows customers to choose between an electricity price plan that is based on either Time-of-Use rates or a fixed rate up to a certain threshold of consumption. The successful rollout of these programs required a high degree of proactive customer outreach and agility in billing system management.



Achieved 96% customer satisfaction rate – highest in a decade

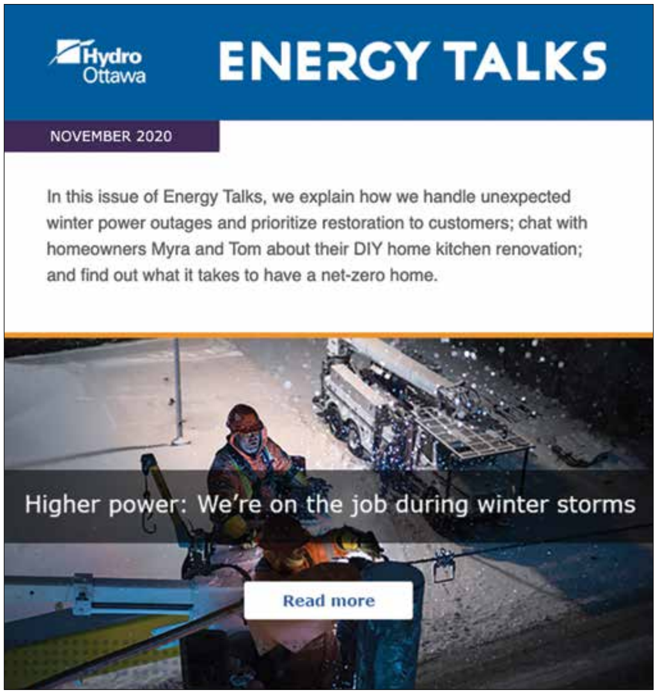
Among top-ranked utilities on operational cost efficiency

Highest e-billing participation in Ontario

Notwithstanding the impacts and challenges associated with COVID-19, we successfully delivered on the final year of the distribution capital investment program under our OEB-approved 2016–2020 rate plan. This included $62.5 million to replace aging infrastructure, address reliability risks, and enhance system resiliency. In addition, we continued to increase automation and leverage new technologies and modernization opportunities across our grid. We also sustained a strong level of reliability performance, with favourable comparison against our peers in the industry, consistent with recent trends.

An additional $49.0 million was invested to meet growing demand and to connect new customers. Noteworthy highlights involved ongoing support for development of Ottawa's Light Rail Transit system, as well as the completion of multi-year projects to relocate infrastructure underground on Elgin Street and to link our refurbished hydroelectric assets in Québec with the Ontario grid.

Our overall customer satisfaction rate increased to 96 percent in 2020 – a new high within the past decade. Satisfaction with our contact centre services held steady at 87 percent, affirming the effectiveness with which we maintained service quality under unprecedented circumstances. We likewise maintained our industry-leading participation rate for e-billing, with 54 percent of customers taking advantage of that option. And in terms of operating efficiency, measured by total cost per customer, Hydro Ottawa ranked within the top three large distribution utilities in the province.



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.

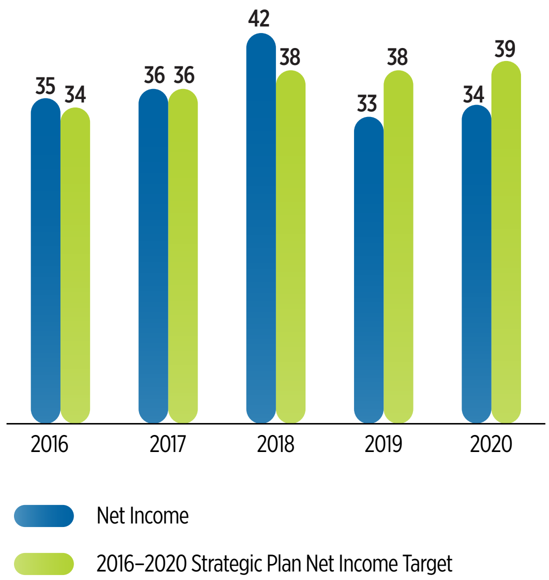
Successfully mitigated financial impacts of COVID-19

$34.1M in net income

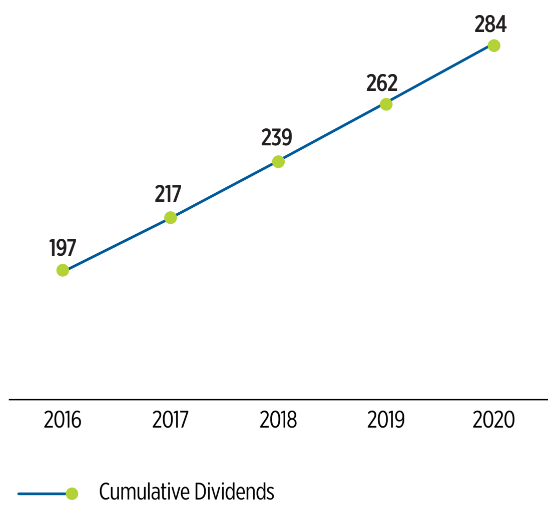
The business and operational disruptions caused by COVID-19 had an unavoidable financial impact on Hydro Ottawa in 2020. Reduced electricity consumption among commercial customers affected distribution revenues, while demand for energy and utility services experienced a similar decline. The pandemic also had the effect of delaying the completion of one of two refurbishment projects involving our hydroelectric stations in Québec. In addition, we incurred approximately $4 million in incremental pandemic-related costs, driven by such factors as bad debt, personal protective equipment needs, enhanced cleaning requirements, and other workplace adaptations.

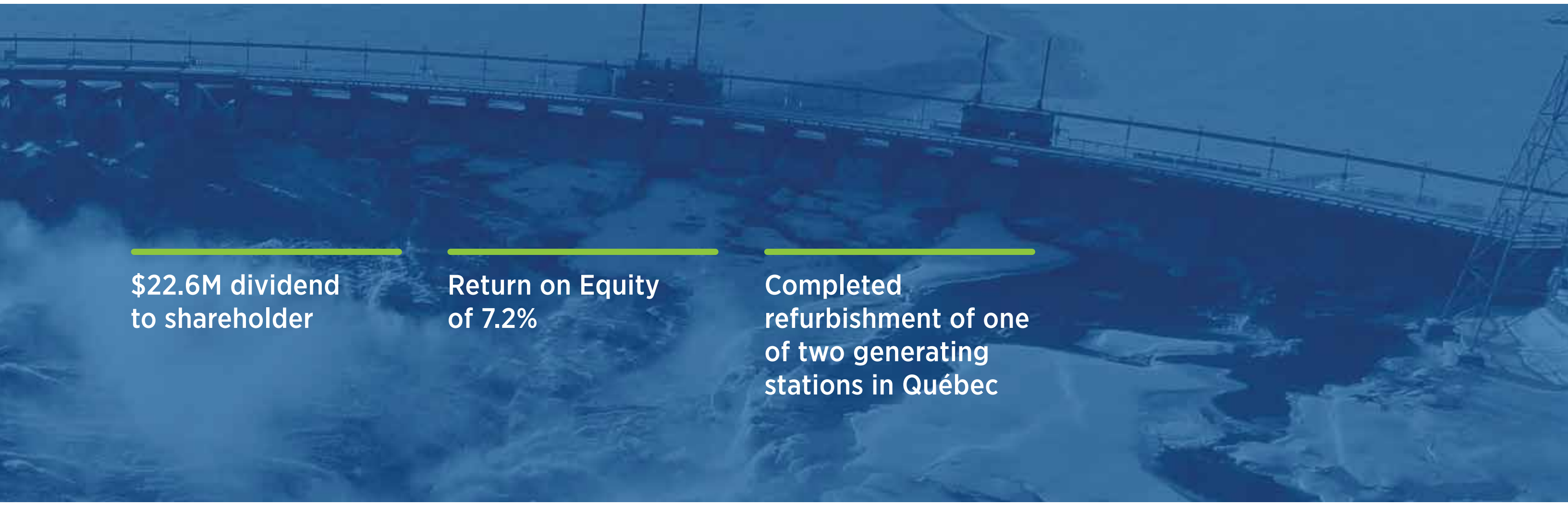
We took a number of steps to mitigate the pandemic's financial impacts and to safeguard shareholder value, including spending constraints, reallocation of resources, and suspension of all non-critical projects. Expense reductions and productivity gains offset a significant portion of the pandemic-related revenue impacts. In light of concerns in the early stages of the pandemic regarding potential liquidity challenges, additional short-term credit was secured. However, this was ultimately not needed and expired unused at the end of the year.

Net Income [$ millions]



Cumulative Dividends [$ millions]





$22.6M dividend to shareholder

Return on Equity of 7.2%

Completed refurbishment of one of two generating stations in Québec

With respect to key financial metrics for 2020, our consolidated net income was $34.1 million. While this figure represented an increase over 2019, it was nevertheless $4.9 million below the $39 million target in the 2016–2020 Strategic Direction. In addition, we delivered a 7.2 percent consolidated return on equity and paid a dividend of $22.6 million (based on 2019 results) to our shareholder, the City of Ottawa. Our DBRS credit rating was also updated in 2020 from A (negative) to A- (stable), representing an anticipated alignment with the current scope of our earnings from non-regulated activities.

For the 2016–2020 period, we achieved 97 percent of our consolidated net income target of $185 million, having been on-track for full achievement prior to 2020. Cumulative dividends for the 2016–2020 period based on those earnings will total $108.2 million, exceeding our Strategic Direction target of $100 million.

Our regulated electricity distribution business experienced adverse revenue impacts from COVID-19, but nevertheless remained the largest contributor to net income. An important outcome for the regulated utility in 2020 was the filing and ultimate approval of its distribution rate application for the 2021–2025 period. (Of note, our application was the first by a major utility in Ontario to be adjudicated through a virtual hearing before the provincial regulator). With an OEB decision in hand for our next five-year rate plan, predictable rates for customers and stable funding for ongoing system investments are assured.

On the renewable energy side, Portage Power completed one of two refurbishments of its hydroelectric stations in Québec in February 2020, with this unit's return to commercial operation helping to increase generation revenues. Refurbishment of the other station was delayed by pandemic-related construction restrictions and equipment delivery issues, and is now scheduled for completion in Spring 2021. Both stations have 40-year power sales agreements with the Independent Electricity System Operator. Together, these refurbishment projects represent the latest milestone in the company's five-fold expansion of its green power portfolio since 2012.

Across the client base of our energy and utility services business, Envari, projects were paused and spending was deferred in 2020. This was compounded by complications relating to site access and availability of supplies and sub-contractors. Envari shifted its focus to ensuring client safety, adapting projects and timelines, advancing service offerings, and identifying and securing future opportunities, such as an impending venture with the City on charging infrastructure for electric buses. Critical planning and design milestones were also achieved in the four-year, $57.2 million cogeneration-system upgrade at Ottawa's wastewater collection and treatment plant.

Organizational Effectiveness

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

Maintained safety as our top priority

Successfully adapted our operations in response to COVID-19

Organizational effectiveness and resiliency underpin our ability to fulfill our fundamental business and operational objectives. In 2020, Hydro Ottawa faced unprecedented challenges as an organization, as we were compelled to navigate a shifting COVID-19 landscape, while maintaining a reliable supply of power to our customers and safeguarding the health and safety of our employees.

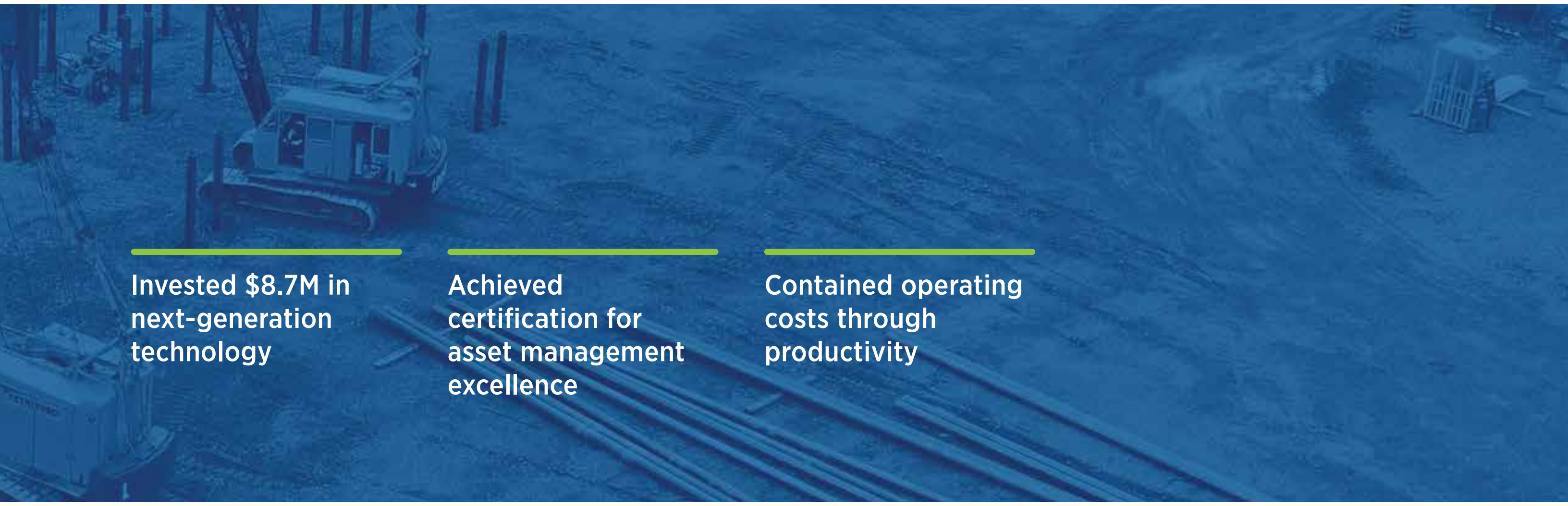
Well in advance of Ontario declaring a state of emergency in March 2020, we activated our corporate pandemic plan, were actively monitoring the global status of COVID-19, and were engaged in contingency planning and preparation. Following the emergency declaration, we seamlessly transitioned to remote and adaptive working environments. This pivot was enabled by the implementation in recent years of a Digital Strategy anchored in the goal of equipping employees to work anywhere, anytime, on any device.

Safety measures and protocols were enhanced for all employees, including essential workers like field crews and system office staff, and work schedules and environments were modified. As the pandemic progressed, we adapted our business procedures, developed return to workplace plans based on guidance from public health authorities, governments, and industry regulators, and strengthened and augmented mental health support for employees and their families.

Employee and public health and safety has always been our top priority. In 2020, this commitment was on display like never before. Among the many positive achievements which testify to the strength of our commitment and the effectiveness of our actions is the fact that Hydro Ottawa experienced zero cases of COVID-19 workplace transmission in 2020.

In keeping with our safety culture, our Occupational, Health, Safety and Environment (OHSE) management system continued to be certified to the internationally recognized standards of OHSAS 18001 and ISO 14001. Safe work practices training averaged 14 hours per employee (20 hours for trades employees), with safety outcomes equivalent or superior to those of our industry peers.

Alongside the need for new ways of working, we sustained our focus on productivity, cost containment, and innovation. We invested $8.7 million in new technologies to improve operational efficiency and customer service. Driven in part by the urgency of facilitating remote and flexible work arrangements, investments focused on such areas as billing system efficiency, cyber risk prevention, OHSE reporting, and business process optimization.



Invested $8.7M in next-generation technology

Achieved certification for asset management excellence

Contained operating costs through productivity

Digital communications were expanded to help keep employees connected to the company and each other. We continued to modernize employee learning, with instruction increasingly available in flexible, self-directed formats. The use of virtual reality-based trades training was also piloted, with a module on connecting underground residential service.

In addition, with a high proportion of employees eligible for retirement in the years ahead, workforce renewal activities continued. Robust partnerships and programs for apprenticeships and professional internships remained a vital component of our efforts to fill the talent and leadership pipeline.

Although we were able to celebrate International Women's Day in person, the vast majority of the events and observances in our calendar shifted to digital platforms, as did our initiatives aimed at workforce diversity, inclusion, engagement, and recognition.

A final highlight was becoming the first Canadian utility to achieve ISO 55001 asset management certification. This designation affirms best-in-class practices in managing and maximizing the value of system assets, to the ultimate benefit of customers in the form of enhanced reliability, improved quality of service, and cost savings.

Corporate Citizenship

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

Raised >$132K through employee charitable fundraising

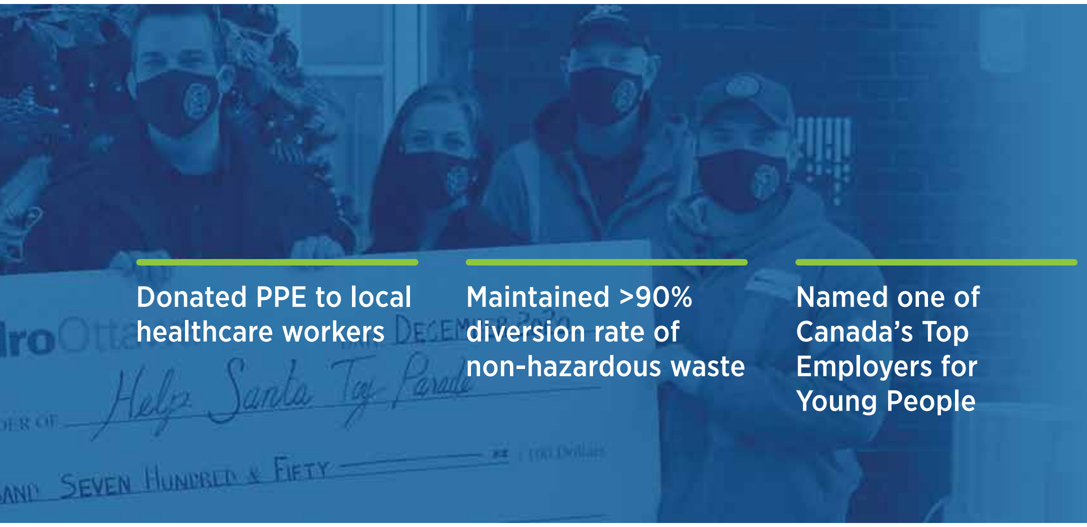
Leveraged online platforms to stay connected with the community

In 2020, Hydro Ottawa's long-standing pledge to be a company that "gives where it lives" assumed new purpose and relevance, against the backdrop of the extraordinary challenges associated with COVID-19.

With the pandemic restricting our ability for in-person interaction and engagement, we shifted our outreach activities in order to stay connected with the community and stakeholders. Leveraging virtual platforms, we engaged businesses, associations, and community groups, and likewise continued our popular educational programs for students on electricity safety and conservation. In addition, we maintained regular communication with our sole shareholder, the City of Ottawa, and with its mayor and councillors.

Our expanded use of online platforms and digital channels in recent years positioned us favourably in 2020 to meet the heightened needs of customers and stakeholders for timely and accessible information. We launched a new customer e-newsletter, *Energy Talks*, focused on keeping customers informed, promoting programs and services, and offering tips on electricity usage and service. More than 40 blog posts, 27 episodes of our *Think Energy* podcast, and a range of video content were also released. By year-end, the number of followers on our various social media channels exceeded 60,000, while social media interactions totalled nearly 39,000.

The effects of the pandemic and restrictions on in-person events posed challenges to our Community Investment Program activities. Despite these constraints, our 2020 employee-driven charitable fundraising campaign raised more than $132,000. Over $50,000 of this funding was directed to the United Way in support of pandemic-related mental health programming, as well as to other community initiatives and organizations including the Help Santa Toy Parade, the Ottawa Mission, and the Royal Ottawa Hospital Run for Women.



Donated PPE to local healthcare workers

Maintained >90% diversion rate of non-hazardous waste

Named one of Canada's Top Employers for Young People

During the early days of the COVID-19 pandemic, when local healthcare workers were struggling to secure adequate supplies of personal protective equipment (PPE), Hydro Ottawa also donated 12,000 masks to The Ottawa Hospital.

Continuous improvement in our environmental performance remained a key priority. Among our new activities was a partnership with the Rideau Valley Conservation Authority to plant 2,750 trees next to the site of our new municipal transformer station in south Ottawa. In addition, a signature initiative in our environmental program is our application to the Canadian Electricity Association (CEA) for designation as a Sustainable Electricity Company™. Based primarily on ISO 26000 Guidance on Social Responsibility, this certification attests to robust sustainability performance and sound environmental, social, and economic practices. Our application was reviewed by CEA in 2020, with the results of the independent third-party audit along with the designation expected in 2021.

In step with our commitment to maintaining leading governance practices, more than 50 percent of our Board of Director positions were held by women in 2020. In addition, we were pleased to receive third-party awards and recognition relating to the caliber of the employment experience, leadership, and customer, safety, and environmental programs at Hydro Ottawa.

Management's Discussion and Analysis

INTRODUCTION

The Management's Discussion and Analysis ['MD&A'] reviews Hydro Ottawa Holding Inc.'s financial position and financial performance, and should be read in conjunction with the audited consolidated financial statements and accompanying notes for the year ended December 31, 2020. The accompanying consolidated financial statements are prepared in accordance with International Financial Reporting Standards ['IFRS'], as issued by the International Accounting Standards Board, and are expressed in thousands of Canadian dollars.

The MD&A contains forward-looking statements, including, but not limited to, statements as to future operating results and plans. These statements reflect management's expectations as of April 15, 2021, 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 BUSINESSES AND STRATEGY

Company Profile

Hydro Ottawa Holding Inc. [‘Hydro Ottawa’, ‘the Company’ or ‘the Corporation’] is 100 percent owned by the City of Ottawa. It is a private company, registered under the *Ontario Business Corporations Act*, and overseen by an independent Board of Directors consisting of the President and Chief Executive Officer and 10 members appointed by City Council. The core businesses of the Corporation are electricity distribution, renewable energy generation, and energy and utility services. Hydro Ottawa owns and operates three primary subsidiary companies.

Hydro Ottawa Limited, the first of these subsidiaries, is a regulated electricity local distribution company [‘LDC’] operating in the City of Ottawa and the Village of Casselman. As the third largest municipally-owned electrical utility in Ontario, Hydro Ottawa Limited maintains one of the safest, most reliable and cost-effective electricity distribution systems in the province, serving approximately 346,000 residential and commercial customers across 1,116 square kilometres. The Company’s customer base grows by an average of one percent per year.

Energy Ottawa Inc. [‘Portage Power’], the second of these subsidiaries, operates under the brand Portage Power and is the largest Ontario-based, municipally-owned producer of green power. Portage Power owns and operates six run-of-the-river hydroelectric generation plants at Chaudière Falls near Ottawa’s core, along with the historic Ottawa River Ring Dam, and 10 other run-of-the-river facilities in Ontario and New York. It also holds majority interests in two landfill gas-to-energy joint ventures, which produce clean, renewable energy from landfill gas at the Trail Road and Laflèche landfill sites in Ottawa and in Moose Creek, Ontario. It also has 16 solar installations across the City of Ottawa. In total, Portage Power has over 128 megawatts of installed green generation capacity – enough to power 107,000 homes.

Envari Holding Inc. [‘Envari’], the third of these subsidiaries, sells energy solutions to municipalities, industrial and commercial clients, and various LDCs. Envari manages large energy transformation projects on behalf of its clients, offers a portfolio of energy efficient and environmentally friendly products and services, and provides operations and maintenance capabilities to its customer base. Envari provides extensive energy services to the City of Ottawa while also serving a diverse and expanding broader client base.

For a list of the significant operating subsidiaries and joint ventures included in Hydro Ottawa’s consolidated financial results, refer to Note 1 [Description of Business and Corporate Information] in the consolidated financial statements included in this report.

Our Strategic Direction

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

Strategy

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

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

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

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

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

- **Electricity Distribution:** continuing to evaluate opportunities to increase our distribution service territory;
- **Renewable Generation:** increasing the supply of clean energy for customers and earnings for our shareholder by making smart investments in renewable generation;
- **Energy Services:** providing innovative solutions to help consumers, businesses and communities meet their energy objectives, through energy management, conservation, efficient street lighting, energy generation, energy storage, district energy, and demand response opportunities, among others; and
- **Utility Services:** leveraging our assets and expertise to help other utilities to enhance the value they provide, creating new revenue streams and economies of scale.

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

Mission, Vision & Guiding Principles

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

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

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

OUR GUIDING PRINCIPLES

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

OUR ORGANIZATIONAL VALUES

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

OUR COMMITMENTS TO OUR STAKEHOLDERS

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

Employees

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

Customers

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

Suppliers and Contractors

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

Community and the Environment

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

Shareholder and Other Suppliers of Finance

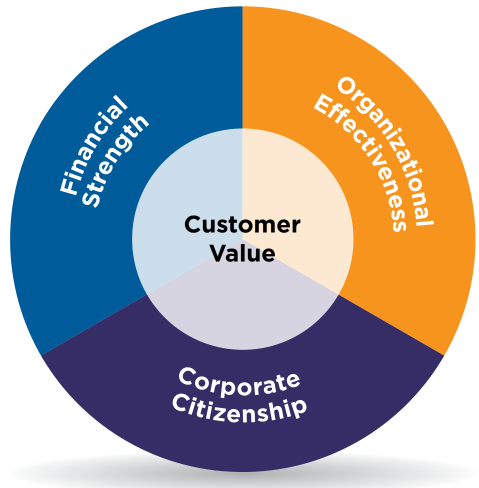
We are financially accountable to our shareholder and to the institutions that underwrite our operations, and communicate to them all matters material to our organization. We protect our shareholder's investment, and manage risks effectively. We communicate to our shareholder all matters that are material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

Four Key Areas of Focus

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

- **CUSTOMER VALUE:** We will deliver value across the entire customer experience by providing reliable, responsive and innovative services at competitive rates;
- **FINANCIAL STRENGTH:** We will create sustainable growth in our business and our earnings by improving productivity and pursuing business growth opportunities that leverage our strengths – our core capabilities, our assets and our people;
- **ORGANIZATIONAL EFFECTIVENESS:** We will achieve performance excellence by cultivating a culture of innovation and continuous improvement; and
- **CORPORATE CITIZENSHIP:** We will contribute to the well-being of the community by acting at all times as a responsible and engaged corporate citizen.

These four areas of focus and strategic objectives have guided our activities throughout the 2016–2020 period. As before, the area of Customer Value has assumed central importance as the most important driver of our business strategy.



Electricity Industry Overview

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

Electricity Generation

Electricity is created at generating stations – nuclear, gas and oil, hydroelectric, wind, biofuel and solar – as well as at small-scale and primarily renewable distributed energy installations at or near end-use locations. Facilities such as nuclear and large hydroelectric stations operate continuously, while wind and solar operate intermittently. Others such as natural gas stations can start up or slow down as required to follow demand fluctuations. Hydro Ottawa, through its subsidiary, Portage Power, has a fleet of hydroelectric, landfill gas-to-energy and solar generating stations, and is the largest Ontario-based municipally-owned producer of green power.

Electricity Transmission

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

Electricity Distribution

After transmission, electricity in Ontario is distributed at lower voltages to homes, businesses, hospitals, schools, factories and farms by LDCs such as Hydro Ottawa Limited. LDCs deal directly with electricity customers, maintain their communities' local electricity grids, and assist customers with electricity conservation programs. LDCs are the primary electricity-billing agent collecting all electricity charges.

While it is always an LDC that delivers electricity through its distribution lines to a home or business, electricity customers have the choice of buying their electricity from either their local LDC or an electricity retailer. Most Ontario customers choose to buy from their LDC. Hydro Ottawa is not engaged in electricity distribution in markets outside Ontario.

System Operators

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

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

Regulatory Framework

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

In the United States, electrical utilities and independent power producers are regulated at both the federal and state levels. Under the *Federal Power Act*, the Federal Energy Regulatory Commission ['FERC'], an independent agency within the U.S. Department of Energy, regulates the transmission and wholesale of electricity in interstate commerce. Unless otherwise exempt, any entity that owns or operates facilities used for the transmission or wholesale of electricity in interstate commerce is a public utility subject to FERC's jurisdiction. Regional system operators like NYISO are also under FERC oversight, as are privately-owned hydroelectric stations, whose operating licenses are issued by FERC.

Rates

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

- design, build, and maintain overhead and underground distribution lines, poles, stations and local transformers;
- operate local distribution systems, including smart meters; and
- provide customer service and emergency response.

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

Hydro Ottawa Limited's distribution charge is approximately 20 percent of a customer's total electricity bill. Hydro Ottawa Limited collects charges reflecting costs extending beyond those associated with distribution, but keeps only this portion. The remainder is passed on, without mark-up, to regulators, the provincial government, and the other corporate entities.

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

Portage Power's hydroelectric, landfill gas-to-energy and solar generation rates are set through facility-specific contracts. For those facilities delivering power to Ontario, Portage Power operates under agreements with the IESO, under which a 'base contractual rate' is determined at the outset. An indexing factor is applied on an annual basis until the completion of the contract term. In July 2018, Portage Power suspended operations at its two generating stations in Québec in order to commence significant refurbishments. One was completed in 2020, while the other will be completed in 2021. The Corporation will sell electricity from these stations to the Province of Ontario under a contract with the IESO. For hydroelectric stations located in upstate New York, Portage Power's power purchase agreements – all of which are with the Niagara Mohawk Power Corporation, a subsidiary of National Grid plc – are currently market-based. As a result, generation revenues from these stations fluctuate.

CAPABILITY TO DELIVER RESULTS

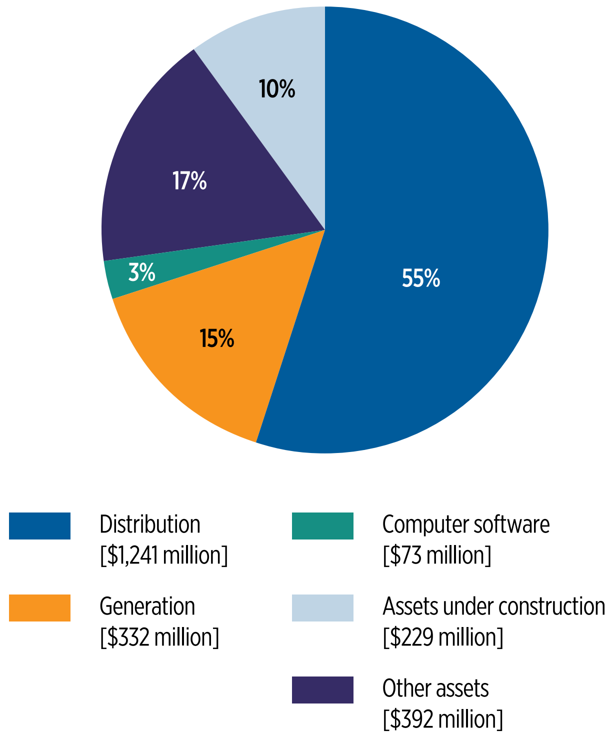
Hydro Ottawa's capability to achieve the objectives set out in its Strategic Direction is a function of its tangible and intangible assets, expertise, systems and capital resources across the following areas.

Assets

Hydro Ottawa's gross asset base is $2.3 billion, with significant ongoing investments in distribution and generation infrastructure and technology systems. Like all utilities, Hydro Ottawa is affected by the reality of aging infrastructure, and continues to manage this through increased infrastructure investments and a detailed Distribution System Plan to target spending where it will have the most benefit. In 2020, the Corporation invested $63 million to maintain its distribution system and a further $49 million to expand the system to meet customer needs [see 'Investing Activities' below for more details]. These investments are having the desired impact, with electricity service reliability remaining strong system-wide despite the impact of weather-related events. Hydro Ottawa also continues to grow its renewable generation infrastructure. Investments of $66 million were made in these facilities in 2020, including the refurbishment of the Company's two generating stations located in Québec. In February 2020, the refurbishment at Chaudiere Hydro North L.P. station was completed; however, the Hull Energy L.P. station is due to come back online in 2021 due to pandemic-related delays.

- ***Electricity Distribution Assets*** – For more than 100 years, Hydro Ottawa and its predecessor companies have delivered a reliable supply of electricity to homes and businesses.
  - Service Area – 1,116 square kilometres
  - Circuitry – 5,912 kilometres
  - Substations – 91
  - Transformers – 47,282
  - Poles – 48,789

Gross Tangible and Intangible Assets



- ***Renewable Generation Assets*** – Largest Ontario-based municipally-owned producer of green power with 128 megawatts of installed generation capacity, enough to power 107,000 homes.
  - Run-of-the-River Hydroelectric Generating Stations – 16
  - Landfill Gas-to-Energy Plants – 2
  - Solar Installations – 16 [includes 2 behind-the-meter installations]

Workforce

A highly skilled, properly trained and knowledgeable workforce – and a safe and healthy work environment – are essential to Hydro Ottawa's continued success. The Company's strategic objectives will only be achieved through the efforts of an effective and constantly learning organization, with the right skill sets to deliver on existing and new business lines.

Hydro Ottawa employed 668 people at the end of 2020 across the enterprise, with Hydro Ottawa Limited accounting for 85 percent of this workforce.

Like many other utilities, Hydro Ottawa continues to face challenging workforce demographics that require a concerted response. The Company has put in place a comprehensive and integrated talent management strategy. It is anticipating and meeting talent needs through planning, talent attraction and acquisition, effective deployment of resources, and performance management and development. More specifically, this includes:

- ***Training:*** Our in-house apprenticeship and engineering internship programs continued to grow in 2020 with seven new apprentices hired – bringing the total to 44, or 26 percent of our trades workforce. Five apprentices reached journeyperson status in 2020.
- ***Succession:*** Succession planning and management programs ensure that there are qualified employees in the talent pipeline for key positions.
- ***Knowledge Management & Transfer:*** A proactive approach for key positions includes an older worker and retiree engagement strategy to help seamlessly transition work from our veteran workforce to the next generation.
- ***Diversity & Inclusion:*** Our plan fosters an inclusive culture that leverages diversity and enhances employee engagement and innovation.
- ***Partnerships:*** These include, most notably, collaborations with Algonquin College to deliver the College's Powerline Technician programs in the eastern Ontario region, and with Carleton University's Sustainable and Renewable Energy Engineering Department for the establishment of a smart grid laboratory. The latter fosters innovative research on electrical power systems and promotes the training of engineers in the smart grid environment.

Employee compensation programs continued to support a high-performance culture in 2020, and include market-driven and performance-based components to attract and retain key employees.

As our business changes, so too does the profile of our workforce. It is increasingly diverse in age, skills, cultural and ethnic background, sexual orientation, gender identity 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, wellness and safety of our employees and our community. Hydro Ottawa has established an integrated health, safety and environment management system that has maintained certification to Occupational Health and Safety Assessment Series 18001, and to International Organization for Standardization 14001, since November 2007.

Systems and Processes

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

Hydro Ottawa is also focused on maximizing the efficiency and effectiveness of our operations by optimizing productivity at every opportunity.

Examples of initiatives undertaken in 2020 include:

- achieved ISO 55001 certification for excellence in asset management [the first Canadian utility to earn this designation];
- worked in concert with external service providers to deploy a cloud-based solution to enable our Customer Contact Centre agents to maintain customer support while working from home;

- adopted Google Workspace applications to facilitate remote work and collaboration by employees;
- upgraded our customer billing system for enhanced functionality, improved system performance, and reduced need for customization;
- continued to modernize our approach to learning and training through the development of virtual reality modules for trades employees and the launch of a portal for self-directed eLearning; and
- rolled out a new software platform to enable streamlined, automated processes for health, safety, and environmental tracking and reporting, including daily COVID-19 self-assessments by employees.

Capital Resources

Liquidity and Capital Resources

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

On April 13, 2020, the Corporation renewed its credit facility for $340 million, for general operating requirements and annual capital expenditures. At the same time, the Corporation secured a temporary credit facility of $200 million as a precautionary measure to safeguard against a potential material increase in payment in arrears at the height of the COVID-19 pandemic lockdown, which remained undrawn throughout the year and expired on December 31, 2020.

Capital expenditure requirements in excess of the credit facility, if any, would 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 16 years at an average weighted cost of 3.49 percent.

A $204-million, 40-year non-recourse project bond was issued in 2016 for the hydroelectric generation expansion at Chaudière Falls at a rate of 4.08 percent. A $290.5-million, project-level, 40-year non-recourse green bond was issued in 2019 for the refurbishment of the two generating plants in Québec at a rate of 3.53 percent. For additional details regarding the Corporation's sources of liquidity and capital resources, see Notes 11, 15 and 17 to the consolidated financial statements.

Credit Ratings

On September 2, 2020, Dominion Bond Rating Service Inc. ['DBRS'] downgraded Hydro Ottawa's credit rating from 'A' to 'A (low)', and concurrently upgraded the trend on its rating from negative to stable. The continued investment-grade rating confirms the sustained strength of Hydro Ottawa's regulated electricity distribution operations, while the recent rating downgrade reflects the growth in the non-regulated generation business which has exceeded DBRS's threshold of 20 percent of consolidated earnings before interest and taxes. DBRS noted that Hydro Ottawa continues to have an excellent business risk profile due to its operation under a reasonable regulatory regime for electricity distribution; its large and diverse customer base; its financial resilience during the COVID-19 pandemic; and the quality of its government-backed power purchase agreements for the majority of its generation assets, which provide steady, predictable and stable cash flows. On January 13, 2020, S&P Global Ratings confirmed its 'BBB+' rating with a stable outlook. Simultaneously, S&P withdrew its rating at the Corporation's request, as upon review with the investment community it was determined that a single rating was sufficient.

PROGRESS AGAINST PLAN

To ensure Hydro Ottawa makes steady progress towards achieving the corporate strategy set out in its 2016–2020 Strategic Direction, the Company has set enterprise-wide strategic objectives in each of its four key areas of focus, and established Board-approved performance goals. The table below summarizes performance in relation to its goals for 2020.

KEY AREAS OF FOCUS	ENTERPRISE STRATEGIC OBJECTIVES	2020 PERFORMANCE GOALS	2020 PERFORMANCE HIGHLIGHTS
CUSTOMER VALUE	We will deliver value across the entire customer experience *by providing reliable, responsive and innovative services at competitive rates*	Assist customers in managing their energy consumption and electricity costs Deliver on customer expectations for service quality & responsiveness Maintain overall distribution system reliability	• Supported customers during COVID-19 by offering flexible payment plans, advocating for provincial COVID-19 rates and relief programs, and responding to the need for working and learning at home by limiting our planned power outages to critical situations only • Quickly stood up a cloud-based customer-contact solution, maintaining continuity in customer service while shifting to work-from-home • Maintained strong reliability throughout 2020 by leveraging technology and automation • Invested $62.5M to keep our distribution system safe and reliable, for a cumulative total of ~$330M during the period of the 2016–2020 Strategic Direction • Achieved 96% customer satisfaction rating, our highest in the last decade • Ranked third for operating efficiency [lowest costs per customer] among large distributors in Ontario • Maintained highest e-billing participation rate among electricity distributors in Ontario [54% of customers], saving $2.1M per year
FINANCIAL STRENGTH	We will create sustainable growth in our business and our earnings *by improving productivity and pursuing business growth opportunities that leverage our strengths – our core capabilities, our assets and our people*	Grow revenues from new sources Enhance / protect revenues from existing business lines	• Achieved consolidated net income of $34.1M • Successfully mitigated the financial impacts of the COVID-19 pandemic through spending constraints and reallocation of resources • Received Ontario Energy Board approval for our 2021–2025 distribution rate application, ensuring stable funding for system renewal and predictable rates for customers • Completed the refurbishment of one of our two Chaudière Falls generating stations in Québec; the second plant will be in service in early 2021, following a short delay due to COVID-19; these stations will sell renewable power under 40-year agreements onto the Ontario grid

KEY AREAS OF FOCUS	ENTERPRISE STRATEGIC OBJECTIVES	2020 PERFORMANCE GOALS	2020 PERFORMANCE HIGHLIGHTS
ORGANIZATIONAL EFFECTIVENESS	We will achieve performance excellence *by cultivating a culture of innovation and continuous improvement*	Continue to enhance operational performance and productivity Maintain leading health and safety record Enhance organizational and employee capability	• Maintained safety as our top priority as we adapted to COVID-19 challenges: › Enhanced safety measures and protocols › Modified work schedules and environments › Adopted digital solutions to support work from home and employee engagement › Transitioned to online and virtual learning, including for workplace safety • Continued our focus on productivity and continuous improvement, investing $8.7M in next-generation technology to support customer service, operational efficiency, grid modernization, and cybersecurity • Maintained certifications for our Occupational Health, Safety and Environment Management System to internationally recognized standards, and became first Canadian utility to achieve certification for asset management excellence • Continued to renew our workforce through apprentice and journeyperson hiring [without increasing total positions], and through implementation of comprehensive talent management programs
CORPORATE CITIZENSHIP	We will contribute to the well-being of the community *by acting at all times as a responsible and engaged corporate citizen*	Enhance our brand image in the community and the industry Continue to improve our environmental performance and reduce our impact on the environment	• Shifted our community outreach activities to ensure we stayed connected with our customers and stakeholders: › Increased our online and social media engagement › Leveraged virtual platforms to interact with businesses and community groups, and educate students on electricity safety and conservation › Launched monthly e-newsletter to customers • Responded to the needs of our community through targeted support: › Donated personal protective equipment to local healthcare workers › Raised over $130K for the United Way through our Employee Charitable Fundraising campaign › Sponsored initiatives combatting violence against women and homelessness through our Community Investment Program • Diverted 98% of our non-hazardous solid and liquid waste away from landfill • Received nine awards for performance excellence, including: › Canada's Top Employers for Young People [7th year] › National Capital Region's Top Employers [12th year] › Canada's Greenest Employers [9th year] › Ontario Energy Association Customer Service Award › Canadian Electricity Association President's Award of Excellence for Employee Safety in Distribution

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, 2020.

Consolidated Statement of Income [Summary]

IFRS 14 – Regulatory Deferral Accounts 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 recovery thereof. This difference is recorded as a settlement variance, representing amounts to be recovered from or refunded to customers through future billing rates approved by the OEB. Consequently, the Corporation's purchased power and power recovery line items can be significantly impacted by these timing differences. For the purposes of the analysis and interpretation of financial variances presented below, management has identified and excluded impacts resulting from the adoption of IFRS 14, and used pre-IFRS 14 results as the basis for its discussion unless otherwise noted. Management believes this more accurately represents the true financial performance of the Corporation, given its rate-regulated environment as prescribed by the OEB.

[in thousands of Canadian dollars]

	2020	IFRS 14 Impact	2020 [Pre-IFRS 14][(1)]	2019	IFRS 14 Impact	2019 [Pre-IFRS 14][(1)]	Change [Pre-IFRS 14][(1)]
Revenue and other income							
Power recovery	**994,193**	**(10,301)**	**983,892**	904,030	(11,806)	892,224	91,668
Distribution	**190,975**	**(3,565)**	**187,410**	184,215	3,475	187,690	(280)
Generation	**47,471**	**-**	**47,471**	32,239	-	32,239	15,232
Commercial services	**23,244**	**-**	**23,244**	34,141	-	34,141	(10,897)
Conservation and demand management	**7,415**	**-**	**7,415**	13,018	-	13,018	(5,603)
Net gain from insurance proceeds	**99**	**-**	**99**	3,312	-	3,312	(3,213)
Other	**9,196**	**-**	**9,196**	7,439	-	7,439	1,757
	1,272,593	**(13,866)**	**1,258,727**	1,178,394	(8,331)	1,170,063	88,664
Expenses							
Purchased power	**987,991**	**(9,693)**	**978,298**	905,193	(17,927)	887,266	91,032
Operating costs	**138,308**	**(2,564)**	**135,744**	144,883	1,391	146,274	(10,530)
Depreciation and amortization	**73,801**	**-**	**73,801**	69,317	-	69,317	4,484
	1,200,100	**(12,257)**	**1,187,843**	1,119,393	(16,536)	1,102,857	84,986
Income before undernoted items	**72,493**	**(1,609)**	**70,884**	59,001	8,205	67,206	3,678
Financing costs, interest income and taxes	**48,465**	**(11,172)**	**37,293**	48,155	(12,802)	35,353	1,940
Share of profit from joint ventures	**(529)**	**-**	**(529)**	(669)	-	(669)	140
	47,936	**(11,172)**	**36,764**	47,486	(12,802)	34,684	2,080
Net income	**24,557**	**9,563**	**34,120**	11,515	21,007	32,522	1,598
Net movements in regulatory balances, net of tax	**9,563**	**(9,563)**	**-**	21,007	(21,007)	-	-
Net income after net movements in regulatory balances	**34,120**	**-**	**34,120**	32,522	-	32,522	1,598

(1) Non-GAAP financial measure

Net Income

Net income surpassed the previous year's results by approximately $1.6 million or five percent despite the disruption caused by the COVID-19 pandemic. The increase in net income was largely attributable to the increase in generation revenue and to operating cost savings brought about by management's response to the COVID-19 pandemic [hiring freeze and suspension of non-critical projects]. Furthermore, in 2020, Hydro Ottawa did not have to contend with catastrophic acts of nature such as the 2019 flooding at several of its generating stations, which resulted in significant mitigation and restoration costs. Similarly, in 2020 the Corporation did not incur any one-time costs such as the facility relocation costs and environmental remediation work operating costs, which reduced net income in 2019. Offsetting these favourable developments were the impacts of the COVID-19 pandemic on electricity distribution revenue; commercial services revenue [net of costs]; bad debts expense; and sanitation, cleaning and personal protective equipment costs. In addition, Hydro Ottawa recorded an increase in depreciation and amortization primarily due to the ongoing investment in the Corporation's electricity distribution infrastructure and to the expansion and refurbishment of its generation assets, as well as an increase in financing costs [net of interest income] arising from its senior secured amortizing green bonds issued in 2019 totalling $290.5 million, which was used to fund the capital refurbishments at its two generating stations in Québec. The increase in financing costs [net of interest income] was partially offset by interest savings in 2020 on its variable-rate bank indebtedness as a result of a reduction in market interest rates stemming from the COVID-19 pandemic.

Revenue and Other Income

Revenue and other income are earned from electricity distribution, renewable energy generation, energy management and utility services, as well as from conservation and demand management ['CDM'] programs and sundry activities. In 2020, Hydro Ottawa's total revenue amounted to approximately $1.3 billion, representing an increase of eight percent from the prior year.

The largest component of Hydro Ottawa's total revenue is the cost of power recovered from customers through provincially established rates. The cost of power is a flow-through amount, which poses limited risk to Hydro Ottawa's financial performance. However, variances arise between the cost of power purchased and the recovery thereof, due to timing differences in invoicing from the IESO for the former, and receipt of payment from customers for the latter. This difference is recorded as a settlement variance. Hydro Ottawa Limited's power recovery revenue increased $91.7 million in 2020, mainly due to higher commodity charges.

Distribution sales are recorded based on OEB-approved distribution rates, set at a level intended to recover the costs incurred by Hydro Ottawa Limited in delivering electricity to customers. They include revenue related to the collection of OEB-approved rate riders. 2020 marks the fifth and final year of rates approved under Hydro Ottawa Limited's 2016–2020 custom incentive rate application. Distribution sales revenue remained flat relative to 2019, due in large part to the disruption caused by the COVID-19 pandemic as commercial shutdowns reduced consumption.

Portage Power's generation revenues increased $15.2 million or 47 percent from 2019. This was largely due to the completion of the refurbishment at one of its two generating stations in Québec in February 2020. The second station was delayed as a result of COVID-19 related shutdowns and equipment delivery delays but is due to come back online in 2021. In addition, the expanded Chaudière generating station reached full capacity for a full year in 2020. Prior to 2020, one of its four generating units had been out-of-service due to a manufacturer's defect and resulting mechanical failure upon start up in 2017, and only returned to full capacity in June 2019.

In 2020, commercial services revenue decreased by $10.9 million largely due to the COVID-19 pandemic. The pandemic halted and disrupted operations causing a significant decline in both revenue and expenses. The City of Ottawa streetlight conversion project, through which a cumulative total of 53,056 LED streetlights have been installed since 2016, was an exception and progressed as planned. New endeavors continued to gain momentum, including non-destructive cable testing services provided through an exclusive license with the National Research Council of Canada.

In 2019, the provincial government announced its intention to refocus and centralize delivery of CDM programs. The programs that have remained in place are now being delivered by the IESO rather than by LDCs. To facilitate this transition, Hydro Ottawa is responsible for completing the CDM projects that were in place at the time of the announcement. This change in delivery responsibility will have a significant impact on Hydro Ottawa, as CDM programs have materially contributed to net income.

In 2020, the Corporation recognized $0.1 million in business interruption proceeds from the flooding at the Dolgeville generating station in upstate New York in 2019 [the station was re-commissioned in 2020]. Comparatively, in 2019, the Corporation recognized a net gain of $3.3 million from insurance proceeds. The gain in 2019 related to $3.0 million in lost-revenue compensation resulting from the mechanical failure of a unit at the expanded Chaudière generating station that occurred in August 2017, and $0.4 million in business interruption proceeds from the flooding at the Dolgeville generating station.

Expenses

Purchased Power and Operating Costs

Purchased power represents the cost of electricity delivered to customers within Hydro Ottawa Limited's distribution service territory. These costs consist of the commodity charges, wholesale market service charges, transmission charges and the global adjustment. The cost of purchased power increased $91.0 million in 2020, mainly due to higher commodity charges.

Operating costs in 2020 of $135.7 million were down by $10.5 million due in part to operating cost savings brought about by management's response to the COVID-19 pandemic [hiring freeze and suspension of non-critical projects], and a decrease in commercial services operating costs resulting from the slowdown in work. The Corporation also saw a drop of $5.7 million in CDM costs due to the change in delivery responsibilities for the program. Additionally, the Corporation did not contend with any significant flood mitigation and restoration activities in 2020 similar to those in 2019 at several generating stations on the Ottawa River and in upstate New York. Finally, in 2019, there were operating costs related to the relocation of staff and supporting infrastructure to the newly constructed operation centres and administrative office, and higher than normal environmental remediation costs.

Depreciation and Amortization

Depreciation and amortization on Hydro Ottawa's property, plant and equipment, and on its intangible assets increased in 2020 by $4.5 million, primarily due to the ongoing investment in the Corporation's electricity distribution infrastructure and to the expansion and refurbishment of its generation assets.

Share of Profit from Joint Ventures

Share of profit from joint ventures represents the Corporation's share of net income from the continuing operations of Moose Creek Energy LP [50.05 percent] and of PowerTrail Inc. [60.00 percent]. In addition, the Corporation has a 50 percent interest, with partner Dream / Theia, in Zibi Community Utility LP, which is constructing a district cooling and heating system for the Zibi development in downtown Ottawa-Gatineau. For more information regarding the Corporation's joint ventures, see Note 9 to the consolidated financial statements.

Financing Costs [net of Interest Income] and Taxes

Financing costs [net of interest income] increased by $3.6 million due to interest paid on the Corporation's senior secured amortizing green bond. Secured on July 5, 2019, this issuance totaled $290.5 million and was used to fund the capital refurbishments at the two generating stations in Québec. This financing cost increase was partially offset by the realized interest savings on the Corporation's variable-rate bank indebtedness due to reductions in market interest rates stemming from the COVID-19 pandemic.

The Corporation's effective tax rate decreased from 32.67 percent in 2019 to 26.81 percent in 2020, 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 $3.3 million decrease in income tax expense after the adoption of IFRS 14 is largely the result of a decrease in pre-tax income and taxable income. [There was a $1.7 million decrease in income tax expense pre-IFRS 14]. For more information regarding income taxes, see Note 23 to the consolidated financial statements.

Net Movement in Regulatory Balances [Net of Tax]

In accordance with IFRS 14, the Corporation has separately presented the net movement in regulatory balances in the consolidated statements of income and comprehensive income. The changes in the regulatory debit and credit balances for the year, on the consolidated balance sheet, were an increase of $22.3 million [debit] offset by an increase of $12.1 million [credit] respectively. This is equal to the net movement in regulatory balances, net of tax, on the consolidated statements of income and comprehensive income [an increase of $9.6 million and an increase of $0.6 million respectively]. The impact of the IFRS 14 adjustments of $9.6 million is shown on the consolidated statement of income [summary]. As Hydro Ottawa Limited passes on the benefit of deferred income taxes through annual distribution rate adjustments approved by the OEB, it records a regulatory deferral account credit [or debit] balance for the amounts of deferred income taxes expected to be refunded to [or recovered from] customers in future rates.

Consolidated Balance Sheet [Summary]

[in thousands of Canadian dollars]

	2020	2019	Change
Current assets	**260,310**	317,786	(57,476)
Non-current assets	**1,949,515**	1,786,029	163,486
Total assets	**2,209,825**	2,103,815	106,010
Regulatory account balances	**80,982**	58,669	22,313
Total assets and regulatory account balances	**2,290,807**	2,162,484	128,323
Current liabilities	**428,635**	373,690	54,945
Non-current liabilities	**1,348,126**	1,296,783	51,343
Total liabilities	**1,776,761**	1,670,473	106,288
Shareholder's equity	**480,224**	470,297	9,927
Total liabilities and shareholder's equity	**2,256,985**	2,140,770	116,215
Regulatory account balances	**33,822**	21,714	12,108
Total liabilities, shareholder's equity and regulatory account balances	**2,290,807**	2,162,484	128,323

Assets

Total assets increased by approximately $106.0 million in 2020. This increase is largely attributable to property, plant and equipment, and to intangible assets, which in combination have increased by $156.5 million. This increase is a result of the refurbishment of the Chaudiere Hydro North L.P. and Hull Energy L.P. generating stations in Québec and of continuing investments in electrical distribution and generation infrastructure. In February 2020, the refurbishment at Chaudiere Hydro North L.P. station was completed. The Hull Energy L.P. station is due to come back online in 2021. Conversely, the Corporation saw a $57.5 million decrease in current assets due in large part to a decrease of $65.6 million in cash offset by a $9.6 million increase in accounts receivable. The decrease in cash is attributable to the ongoing refurbishment of its generating stations and continuing investments in electrical distribution and generation infrastructure.

Liabilities

Total liabilities increased by $106.3 million in 2020. This included a $43.7 million increase in deferred revenue due to capital contributions received in 2020, net of amortization, and an increase of $15.7 million in deferred income taxes. The Corporation's current liabilities increased by $54.9 million largely because of an increase in bank indebtedness of $48.6 million and a $6.4 million increase in accounts payable and accrued liabilities.

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, 2020, Hydro Ottawa Limited had recognized $81.0 million in regulatory account debit balances [assets] and $33.8 million in regulatory account credit balances [liabilities].

The $22.3 million increase in regulatory account debit balances is due to a $13.2 million increase in settlement variances and in other variances and deferred costs, and a $10.8 million increase in the regulatory asset for deferred income taxes.

The $12.1 million increase in regulatory account credit balances is largely due to a $10.2 million increase in settlement variances and in other variances and deferred costs, and a $1.7 million increase in the Earnings Sharing Mechanism ['ESM'] variance account. The ESM variance account captures 50 percent of any regulated earnings above Hydro Ottawa's approved return on equity for the years 2016 to 2020, which is returned to customers.

On March 25, 2020, the OEB established the COVID-19 Emergency Deferral Account in recognition that distributors will incur incremental costs and lost revenues resulting from the COVID-19 pandemic. The OEB is currently conducting a consultation process to assist it in the development of new accounting guidance related to this account. Final guidance is expected to be released in Spring 2021. As a result of the uncertainty of recoverability through rates, the Corporation has not recorded any balance in this account as at December 31, 2020.

Consolidated Statement of Cash Flows [Summary]

[in thousands of Canadian dollars]

	2020	2019	Change
Bank indebtedness, beginning of year	**(74,764)**	(210,106)	**135,342**
Cash provided by Operating Activities	**143,066**	95,576	**47,490**
Cash used in Investing Activities	**(234,346)**	(224,922)	**(9,424)**
Cash (used) provided by Financing Activities	**(22,857)**	264,688	**(287,545)**
Bank indebtedness, end of year	**(188,901)**	(74,764)	**(114,137)**
Cash (bank indebtedness) consists of:			
Cash	**36,663**	102,231	**(65,568)**
Bank indebtedness	**(225,564)**	(176,995)	**(48,569)**
	(188,901)	(74,764)	**(114,137)**

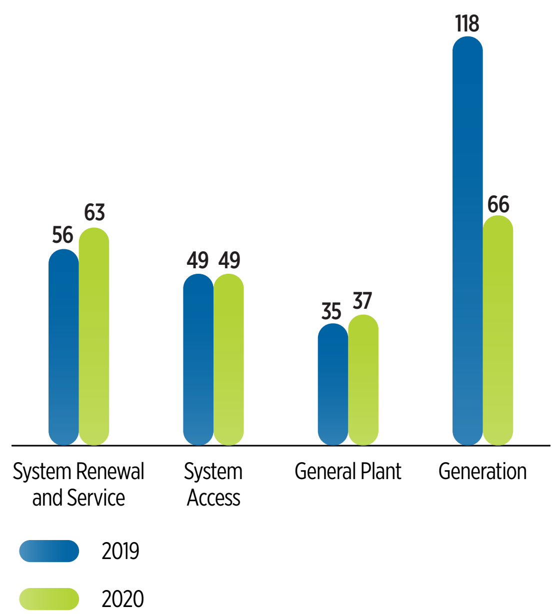
Operating Activities

Cash generated by operating activities increased by $47.5 million in 2020. The majority of this increase relates to an $11.4 million drop in the decrease in the net movements in regulatory balances, to a net change in non-cash working capital and other operating balances of $9.6 million, and to the growth in capital contributions of $8.8 million. In addition, the Corporation saw a rise in customer deposits of $7.6 million and a decrease in income taxes paid [net of refunds received] of $6.1 million.

Investing Activities

Cash used in investing activities increased by $9.4 million in 2020. This variance was largely due to the inflow of $16 million in cash in 2019 from the sale of two facilities [including land and buildings] inherited from pre-amalgamation utilities [i.e. prior to October 3, 2000] to third parties, which served to offset cash used in investing activities in that year. The Corporation continued to invest in the refurbishment of the Chaudiere Hydro North L.P. and Hull Energy L.P. generating stations, and of its electrical distribution and generation infrastructure. Total investment in property, plant and equipment and in intangible assets was $215.0 million in 2020. The adjoining chart shows Hydro Ottawa's capital investments by category for both 2020 and 2019.

Gross Capital Expenditures [$ millions]



Capital investments in 2020 included: $63 million on system renewal and service capital to replace aging infrastructure and to modify the existing distribution system; $49 million on system access projects, including third-party-driven growth projects such as new residential or commercial installations, and municipal improvement projects such as the City of Ottawa's Light Rail Transit project; $37 million on general plant, including information technology infrastructure and fleet; and $66 million on generating plants, of which 77 percent relates to the refurbishment of the Chaudiere Hydro North L.P. and Hull Energy L.P. generating stations.

Financing Activities

In 2020, dividends were paid to the Shareholder, the City of Ottawa, in accordance with the approved dividend policy. The 2020 payment totaled $22.6 million based on 2019 results, and the 2019 payment totaled $22.3 million based on 2018 results. The policy sets dividends at the greater of 60 percent of Hydro Ottawa Limited's net income, or $20 million.

Accounting Matters

Significant Accounting Estimates and Judgments

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

These estimates and judgments are based on historical experience, current conditions and various other assumptions, including the impact of the COVID-19 pandemic, believed to be reasonable under the circumstances. Because they involve varying degrees of uncertainty, the amounts currently reported in the consolidated financial statements could prove to be inaccurate in the future.

Significant areas where estimates and judgments are made in the application of IFRS are as follows [as discussed in Note 2(d) to the consolidated financial statements]:

- Accounts receivable
- Regulatory balances
- Revenue recognition
- Useful lives of depreciable assets
- Impairment of non-financial assets
- Employee future benefits
- Capital contributions
- Deferred Income taxes

RISKS AND UNCERTAINTIES

Hydro Ottawa has adopted a systematic approach to the management of risks and uncertainties, which is integrated into business processes and the periodic reporting of organizational performance. Capabilities and processes have been built organization-wide for the effective identification of, and timely responses to, events likely to impede the achievement of corporate objectives.

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

Hydro Ottawa monitors sources of risk that are structural to the industry and to the Corporation's lines of business. These include but are not restricted to: the weather; the policy and regulatory environment; the state of the economy and macro-economic trends; the state of financial markets and of investment in the utilities space; government policies relating to the production and procurement of renewable and clean energy, as well as carbon emissions and conservation; the convergence of information technology and operational technology; cybersecurity; labour force demographics, with a particular emphasis on the renewal of human resources in the trades; the course and consequences of events such as pandemics and natural disasters, which could significantly affect the socio-economic and physical environment in which the Corporation functions; 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 the Corporation needs to manage effectively.

COVID-19 Pandemic

As North America enters the second year of the COVID-19 pandemic, the consensus of expert opinion appears to be that a semblance of normalcy may be restored as the benefits of mass vaccination manifest themselves, perhaps by the end of 2021. There is a possibility, however, that the public health emergency may persist beyond that time, especially if variants of the coronavirus strain take hold. As a result, the reduced scale of socio-economic activity which began in March 2020 may continue for an unforeseeable period of time.

As and when the pandemic subsides, and even if the economic recovery which follows is swift and sustained, the pandemic is likely to have created long-term effects in all sectors of society and the economy. Large-scale unemployment may persist for some time, and there is a likelihood that many of the jobs lost during the pandemic may never return. Businesses, small enterprises in particular, are likely to face financial difficulties as and when current government assistance programs expire.

Risks to mental health and social cohesion are already manifest, and may have a sustained, adverse, community-wide effect. From an employer's perspective, that could result in an impact on workforce availability and productivity.

If the climate of economic stress endures, in the short-term there could be risks to the Corporation at multiple levels. The electricity distribution business, for example, could see a fall in its revenue, and face difficulties in recovering its dues from customers who are in distress. As part of its pandemic response, and as a way to provide cost relief to customers, Ontario's provincial government extended the usual seasonal moratorium on customer disconnections to July 31, 2020 and made several adjustments to time-of-use pricing between March 24 and October 31, 2020, in the form of a fixed rate for Regulated Price Plan customers. It is not known what level of recovery of the resultant financial losses regulatory mechanisms will ultimately allow for.

Physical distancing requirements may affect the duration and effectiveness of construction activity, which could have an adverse impact on the electricity distribution business, and on the Corporation's generation and energy- and infrastructure-management businesses.

Long-term, it is possible that the shift from commercial to residential electricity demand, which was driven by the widespread and rapid adoption of video-conferencing and working from home across multiple sectors of the economy, might become more or less permanent. The impact of such a shift is difficult to assess at this stage.

Policy and Regulatory Environment

Long-term Policy Direction for the Electricity Sector in Ontario

Since assuming office in June 2018, Ontario's provincial government has made a number of policy announcements that could significantly affect the long-term evolution of the province's electricity sector. These include the cancellation of numerous contracts for procurement of renewable energy, followed by the repeal of the *Green Energy Act of 2009*; the repeal of Ontario's Climate Change Action Plan, including the cap-and-trade program; the discontinuation of CDM programs in their previous LDC-driven form; and the repeal and pending re-design of the long-term energy planning framework.

The IESO, through its Market Renewal Program, proposes to move away from long-term purchase agreements and adopt instead a competitive auction mechanism for procuring additional electricity. Slated to start in the mid-2020s, this change has the potential to introduce additional complexity into the marketplace.

Collectively, these policy initiatives create considerable uncertainty with respect to future investment in renewable energy generation, emerging grid technologies, refurbishment of energy infrastructure, and energy management services – all key pillars of growth identified by the Corporation in its Strategic Direction.

The Government's stated commitment to make electricity more affordable could result in significant changes in the business environment for rate-regulated LDCs such as Hydro Ottawa Limited. Regulatory support for investment in the renewal of aging distribution infrastructure could be materially lower than in previous rate cycles. Policy and regulatory guidance and support may also be less forthcoming for LDCs seeking to adapt their assets and operations to the requirements of a distributed energy resources environment.

Custom Incentive Rate Application for 2021–2025

Hydro Ottawa's electricity distribution business has obtained approval from the OEB for its distribution rates for 2021–2025. As a result, the Corporation expects to be able to carry out its planned 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.

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; changes in government policy; and developments in conservation and demand management.

Major Project Execution

The successful and timely completion of major projects is critical to the Corporation's long-term strategic direction.

There are inherent risk factors in such projects, including: construction delays; cost overruns; equipment performance not in accordance with expectations; delays in permissions and clearances from all levels of government and their agencies; and technical issues in connecting to the grid.

Distribution and Generation Infrastructure

Hydro Ottawa has developed a long-term Distribution System Plan to phase in the investments required to replace its aging distribution infrastructure, and to maintain high standards of reliability and operability, while keeping pace with the growth of its service territory. The plan also takes into account the impact of climate change, in particular changes in the frequency, severity and pattern of occurrence of extreme weather events.

Aging electricity assets pose a dual risk to LDCs. In addition to being more prone to failure – during extreme weather events, for example – they make restoration of the distribution system more complex and financially onerous.

Equipment failure could also adversely impact electricity generation at any of the Company's various facilities.

Exchange Rate Fluctuations

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

Economy

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

Credit Ratings and Interest Rates

The Corporation continues to maintain a strong investment-grade credit rating; however, the Corporation's continued growth in unregulated businesses may negatively affect future ratings.

Approximately 85 percent of the Corporation's debt is subject to a fixed rate of interest, and is accordingly insulated from the impact of upward revision of interest rates. A rise in interest rates would affect the Corporation's credit facility, though its impact is not expected to be material.

Technology Infrastructure

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

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

There is growing convergence of core operational systems with enterprise information systems, along with increasing automation, and extensive use of common technology in facilitating such integration and connectivity. The complexity of this technology infrastructure, together with its interconnected nature, has the potential to heighten existing risks as well as to create new ones.

Cybersecurity

The Corporation's reliance on information systems and expanded data transmission and exchange networks, in conjunction with the growing extent of systems and data integration within the electricity sector, increases its exposure to information security threats, including cybersecurity risks. Hydro Ottawa's information systems and information assets could be put at risk by a security breach, data corruption or system failure at a shared resource or common service provider. Cybersecurity risks could also be aggravated by the increased prevalence of working from home, potentially over an extended time period.

Customer and Media Perceptions

Electrical utilities across Ontario are confronted with risks arising from negative customer perceptions and media coverage, typically owing to high commodity prices, which are outside of the Company's control.

Pension Plans

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

Hydro Ottawa also has a separate defined benefit pension plan and a separate defined contribution pension plan for a small number of employees in the generation portfolio, with appropriate financial and investment procedures and oversight, as required by law. Pension benefit obligations and related net pension cost can be affected by volatility in the global financial and capital markets. There is no assurance that pension plan assets will earn the assumed long-term rates of return. Market-driven changes impacting the performance of the pension plan assets may result in material variations in actual returns on pension plan assets.

Labour Force Demographics

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

Consolidation of Labour Bargaining Power

Following structural changes in the ownership of several of Ontario's electrical utilities, there has been a degree of consolidation of labour bargaining power within the province's electricity sector. Whether and how this consolidation might grow is difficult to determine at this stage, as is its potential impact on labour relations and service delivery.

Impact of Severe Weather Events

Severe weather events, increasingly exacerbated because of climate change, can significantly impact financial results, in part through increased capital and maintenance costs to repair or replace damaged equipment and infrastructure, and through reduced revenue. Distribution revenues in turn tend to increase with severe weather and decrease with moderate weather.

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

OUTLOOK

The end of 2020 represented a watershed for Hydro Ottawa in two important respects.

Firstly, in November 2020, the OEB issued its final decision and reasons with respect to Hydro Ottawa's 2021–2025 rate application, filed under the custom incentive rate-setting method. The Company is therefore now proceeding with an approved five-year distribution capital program valued at just under $500 million, and providing for a balanced combination of prioritized end-of-life and emergency asset replacement, along with customer-benefitting reliability and capacity upgrades. This will be enabled by reasonable increases in customer distribution rates over that period. Hydro Ottawa anticipates that this plan will be a basis for continued provision of its core distribution services, while accommodating growth and local grid modernization, and also navigating broader energy system transformation.

Secondly, 2020 marked the final year in Hydro Ottawa's five-year Strategic Direction for 2016–2020. The Company had noteworthy success in achieving the objectives in that plan, including the execution of the largest multi-year capital expenditure program in its history, and the ongoing elevation of the customer service experience. Finalization of a renewed Strategic Direction for 2021–2025 was imminent at the time this report was prepared. The new plan will define a strategy for strong financial performance, adaptation to a changing business environment, and strategic and appropriately paced business growth.

Hydro Ottawa is now well into its second year of managing for the impact of the COVID-19 pandemic, and of operating under the revised protocols necessitated by it. The duration of the pandemic and the full scope of its health, economic and other impacts cannot yet be foreseen with any precision. However, Hydro Ottawa believes itself to be well-positioned, in light of its success during 2020, in pivoting to new working arrangements that have effectively safeguarded employee health, community well-being, operational efficiency and corporate liquidity.

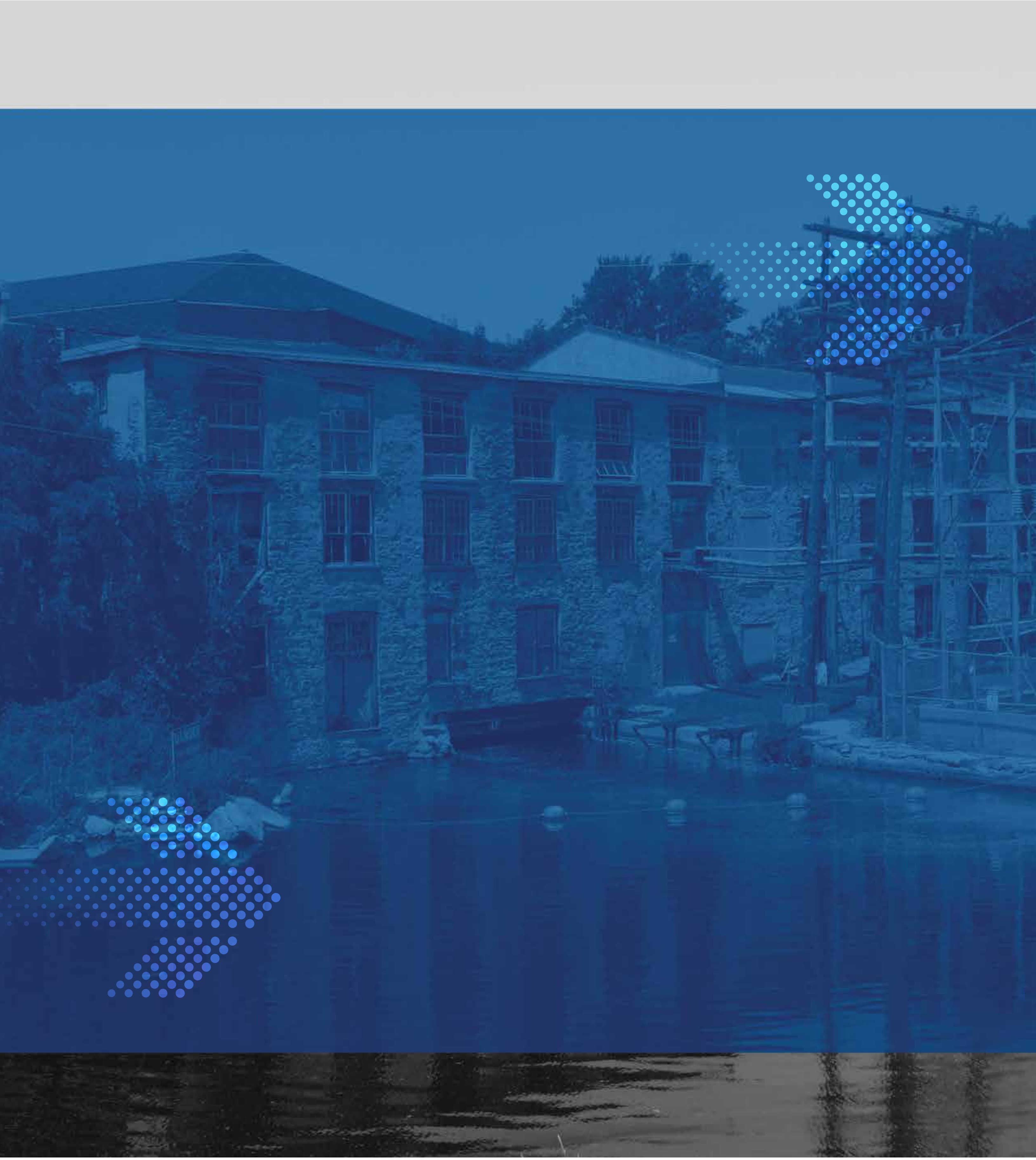
Through pilot projects, technological innovation and long-term planning, the Company was already equipped to adapt to potentially significant shifts in demand patterns and service requirements, arising from electrification and evolving customer expectations. Potentially enduring lifestyle and work-related changes driven by COVID-19 will now become a further contributing factor to such ongoing shifts, and to the resulting need for customer-centric agility on the part of utilities such as Hydro Ottawa.

Widening recognition of the urgency of the climate change imperative – at all levels from local to international – is highly evident. Canada is now committed to an objective of net-zero emissions nationally by 2050, with the City of Ottawa having likewise made such a commitment through its *Energy Evolution* strategy. Hydro Ottawa is well positioned as a solutions provider in this regard, in light of the extensive expansion and now nearly complete refurbishment of much of its diverse fleet of generating assets.

With capacity and expertise across several key forms of green generation – on multiple scales and both in front of and behind the meter – Hydro Ottawa anticipates having a strong capacity to identify and leverage business opportunities arising not just from decarbonisation, but also from the increasing decentralization and digitization of generation and energy management activities. And while Envari's scope of business in 2020 was impacted by the economic effects of the pandemic, demand for its services and expertise stands to accelerate in an increasingly net zero-focused environment.

As always, there is significant potential for impacts on operations and performance arising from policy and regulation. Of immediate note is pending finalization of the design of the OEB's COVID-19 deferral account, which will determine the level of recovery Hydro Ottawa Limited may achieve with respect to the additional pandemic-related costs incurred in 2020. Of further note is the expectation of a second phase of regulatory reform and modernization at the OEB, which has the potential to beneficially impact compliance-related costs and overall operational efficiency. Finally, the provincial government is embarking on the design of a new long-term energy planning framework, over the course of which the respective roles of the key regulatory agencies will be subject to reconsideration.

Hydro Ottawa looks forward to ongoing dialogue with government, regulatory agencies and the full range of its stakeholders, as it embarks upon the pursuit of the ambitions defined in its new Strategic Direction and the capital plan and work programs defined in its recently approved rate application. We believe ourselves well positioned to continue to create value for our shareholder, our customers and our community through excellence in the delivery of electricity and related services.



Hydro Ottawa Holding Inc.

Consolidated Financial Statements

December 31, 2020

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

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

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

On behalf of Management,

Bryce Conrad
President and Chief Executive Officer

Geoff Simpson
Chief Financial Officer

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

INDEPENDENT AUDITORS' REPORT

To the Shareholder of Hydro Ottawa Holding Inc.

Opinion

We have audited the consolidated financial statements of Hydro Ottawa Holding Inc. (the Entity), which comprise:

- the consolidated balance sheet as at December 31, 2020
- the consolidated statement of income for the year then ended
- the consolidated statement of comprehensive income for the year then ended
- the consolidated statement of changes in equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at end of December 31, 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

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

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

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

Other Information

Management is responsible for the other information. Other information comprises the information in Management's Discussion and Analysis.

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Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the Management's Discussion and Analysis as at or prior to the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

We also:

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

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

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

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

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

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

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Ottawa, Canada

April 15, 2021

Hydro Ottawa Holding Inc.

Consolidated Statement of Income
Year ended December 31, 2020
[in thousands of Canadian dollars]

	2020	2019
	$	$
Revenue and other income		
Power recovery revenue [Note 20]	**994,193**	904,030
Distribution revenue [Note 20]	**190,975**	184,215
Generation revenue [Note 20]	**47,471**	32,239
Commercial services revenue [Note 20]	**23,244**	34,141
Other revenue [Note 20]	**9,196**	7,439
Conservation and demand management income	**7,415**	13,018
Business interruption proceeds [Notes 4 and 21]	**99**	3,312
	1,272,593	1,178,394
Expenses		
Purchased power	**987,991**	905,193
Operating costs [Note 21]	**138,308**	144,883
Depreciation [Notes 6 and 8]	**62,828**	58,598
Amortization [Note 7]	**10,973**	10,719
	1,200,100	1,119,393
Income before the undernoted items	**72,493**	59,001
Financing costs [Note 22]	**36,926**	33,766
Interest income	**(958)**	(1,394)
Share of profit from joint ventures [Note 9(a)]	**(529)**	(669)
Income before income taxes	**37,054**	27,298
Income tax expense [Note 23]	**12,497**	15,783
Net income	**24,557**	11,515
Net movements in regulatory balances, net of tax [Note 5]	**9,563**	21,007
Net income after net movements in regulatory balances	**34,120**	32,522

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, 2020
[in thousands of Canadian dollars]

	2020	2019
	$	$
Net income after net movements in regulatory balances	**34,120**	32,522
Other comprehensive income		
Items that may be subsequently reclassified to net income		
Exchange differences on translation of foreign operations, net of tax	**(756)**	(2,527)
Items that will not be subsequently reclassified to net income		
Actuarial loss on post-employment benefits, net of tax	**(1,479)**	(1,253)
Net movement in regulatory balances related to other comprehensive income, net of tax	**642**	973
Total comprehensive income	**32,527**	29,715

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

Hydro Ottawa Holding Inc.

Consolidated Balance Sheet
As at December 31, 2020
[in thousands of Canadian dollars]

	2020	2019
	$	$
Assets		
Current assets		
Cash	**36,663**	102,231
Accounts receivable [Note 4]	**206,779**	197,146
Income taxes receivable	**2,443**	2,199
Prepaid expenses	**4,126**	6,518
Inventory [Note 10(b)]	**1,292**	1,128
Current portion of notes receivable from related parties [Note 10]	**8,457**	8,564
Restricted cash [Note 15(b)]	**550**	-
	260,310	317,786
Non-current assets		
Property, plant and equipment [Note 6]	**1,754,004**	1,622,257
Intangible assets [Note 7]	**149,385**	124,610
Investment properties [Note 8]	**4,659**	4,262
Investments in joint ventures [Note 9(a)]	**19,137**	15,273
Notes receivable from related parties [Note 10]	**2,992**	6,942
Restricted cash [Note 15(b)]	**3,787**	2,550
Deferred income tax asset [Note 23]	**15,551**	10,135
Total assets	**2,209,825**	2,103,815
Regulatory balances [Note 5]	**80,982**	58,669
Total assets and regulatory balances	**2,290,807**	2,162,484
Liabilities and equity		
Current liabilities		
Bank indebtedness [Note 11]	**225,564**	176,995
Accounts payable and accrued liabilities [Note 12]	**203,027**	196,658
Income taxes payable	**44**	37
	428,635	373,690
Non-current liabilities		
Deferred revenue [Note 13]	**174,680**	130,993
Employee future benefits [Note 14]	**18,070**	15,740
Customer deposits	**17,225**	26,888
Long-term debt [Notes 15 and 25]	**1,060,896**	1,060,733
Deferred income tax liability [Note 23]	**75,221**	59,503
Other liabilities [Note 16]	**2,034**	2,926
Total liabilities	**1,776,761**	1,670,473
Equity		
Share capital [Note 18]	**228,453**	228,453
Accumulated other comprehensive income	**804**	2,397
Retained earnings	**250,967**	239,447
Total liabilities and equity	**2,256,985**	2,140,770
Regulatory balances [Note 5]	**33,822**	21,714
Total liabilities, equity and regulatory balances	**2,290,807**	2,162,484

Contingent liabilities, commitments and subsequent events [Notes 26, 27 and 30]

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, 2020
[in thousands of Canadian dollars]

	Share capital $	Accumulated other comprehensive income $	Non-controlling interest $	Retained earnings $	Total $
Balance at December 31, 2018	228,453	5,204	(93)	229,318	462,882
Net income after net movements in regulatory balances	-	-	-	32,522	32,522
Other comprehensive income	-	(2,807)	-	-	(2,807)
Reclassification of non-controlling interest on sales of shares [Note 18(c)]	-	-	93	(93)	-
Dividends [Note 18(b)]	-	-	-	(22,300)	(22,300)
Balance at December 31, 2019	228,453	2,397	-	239,447	470,297
Net income after net movements in regulatory balances	-	-	-	34,120	34,120
Other comprehensive income	-	(1,593)	-	-	(1,593)
Dividends [Note 18(b)]	-	-	-	(22,600)	(22,600)
Balance at December 31, 2020	**228,453**	**804**	**-**	**250,967**	**480,224**

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, 2020
[in thousands of Canadian dollars]

	2020	2019
	$	$
Net inflow (outflow) of cash related to the following activities:		
Operating		
Net income after net movements in regulatory balances	**34,120**	32,522
Adjustments for:		
Depreciation	**62,828**	58,598
Amortization	**10,973**	10,719
Loss (gain) on disposal of non-financial assets [Note 21]	**1,083**	(563)
Amortization of debt-issuance costs	**325**	270
Share of profit from joint ventures	**(529)**	(669)
Amortization of deferred revenue [Note 20]	**(4,588)**	(3,567)
Employee future benefits	**173**	421
Financing costs, net of interest income	**35,968**	32,372
Income tax expense	**12,497**	15,783
Other	**271**	(17)
Changes in non-cash working capital and other operating balances [Note 24]	**570**	(8,983)
Income taxes paid, net of refunds received	**(2,215)**	(8,285)
Financing costs paid, net of interest income received	**(35,407)**	(32,160)
Capital contributions from customers	**21,930**	12,520
Capital contributions from developers [Note 6]	**7,815**	8,395
Change in customer deposits	**6,815**	(773)
Net movements in regulatory balances	**(9,563)**	(21,007)
	143,066	95,576
Investing		
Acquisition of property, plant and equipment	**(189,580)**	(228,338)
Acquisition of intangible assets	**(36,139)**	(7,743)
Proceeds from disposal of property, plant and equipment	**1,735**	19,059
Investment in joint venture, net of dividends received	**(3,335)**	(2,920)
Financing costs paid	**(5,642)**	(5,438)
Restricted cash held in-trust	**(1,787)**	(1,200)
Repayment of notes receivable from joint ventures	**402**	1,658
	(234,346)	(224,922)
Financing		
Proceeds from issuance of long-term debt, net of debt-issuance costs	**(162)**	287,073
Repayments of lease liabilities	**(95)**	(85)
Dividends paid [Note 18(b)]	**(22,600)**	(22,300)
	(22,857)	264,688
Net change in cash	**(114,137)**	135,342
Bank indebtedness, net of cash, beginning of year	**(74,764)**	(210,106)
Bank indebtedness, net of cash, end of year	**(188,901)**	(74,764)

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

[in thousands of Canadian dollars]

1. DESCRIPTION OF BUSINESS AND CORPORATE INFORMATION

Hydro Ottawa Holding Inc. [the 'Corporation'] is a holding company incorporated on October 3, 2000 whose sole shareholder is the City of Ottawa. The Corporation's primary operations, as carried out by its subsidiaries and joint ventures below, are the distribution of electricity within the City of Ottawa, the generation of renewable energy, and the provision of distribution and energy related commercial services. The Corporation is domiciled in Canada with its registered head office located at 2711 Hunt Club Road, Ottawa, Ontario, K1G 5Z9.

Significant operating subsidiaries, each of which is wholly-owned by the Corporation as at December 31, 2020, are as follows:

Subsidiary	Principal activity
Hydro Ottawa Limited ['Hydro Ottawa']	An electricity distribution company regulated by the Ontario Energy Board ['OEB'] that owns and operates electrical infrastructure in the City of Ottawa and the Village of Casselman. In additional to distribution services, Hydro Ottawa Limited invoices customers for amounts it is required to pay to other organizations in Ontario's electricity system for providing wholesale generation and transmission services.
Energy Ottawa Inc. ['Energy Ottawa']	Operating under the Portage Power brand, Energy Ottawa owns and operates 16 hydroelectric generating stations totalling 115 MW located in Ontario and Québec [at Chaudière Falls] and New York state. Significant subsidiaries of Energy Ottawa include Chaudiere Hydro L.P. ['CHLP'], Hull Energy L.P. ['Hull Energy LP'], EONY Generation Limited ['EONY'], Chaudiere Hydro North L.P. ['CHLP North'], EO Generation LP ['EO Gen'] and Chaudiere Financial L.P. ['CFLP'].
Envari Holding Inc. ['Envari']	Envari provides expert energy management and infrastructure services. These services primarily include energy turnkey solutions, streetlight design, conversion and maintenance services and proprietary non-destructive cable testing. Significant subsidiaries of Envari include Envari Energy Solutions Inc. and Energy Ottawa Cable Testing Services Inc. ['Cable Q'].

Hull Energy LP is currently undergoing a significant refurbishment of its generating facility, while management judged that CHLP North had substantially completed a significant refurbishment of its facility on February 13, 2020 [the 'refurbishment projects']. Upon anticipated substantial completion in 2021, Hull Energy LP will sell all electricity produced to the Province of Ontario under a forty-year Hydroelectric Standard Offer Program - Municipal Steam Contracts ['HESOP contract'] with the Independent Electrical System Operator ['IESO'].

Joint ventures the Corporation is a party of as at December 31, 2020, are as follows:

Joint venture	Principal activity
PowerTrail Inc. ['PowerTrail'] [60% owned]	Owns and operates a 6 MW landfill gas-to-energy plant at the Trail Road landfill site in Ottawa, Ontario.
Moose Creek Energy LP ['Moose Creek LP'] [50.05% owned]	Owns and operates a 4 MW landfill gas-to-energy plant at the Laflèche landfill site in Moose Creek, Ontario.
Zibi Community Utility LP ['ZCU'] [50% owned]	Currently in the development stage to build, own and operate a thermal utility for the Zibi development in downtown Ottawa and Gatineau.

1. DESCRIPTION OF BUSINESS AND CORPORATE INFORMATION [CONTINUED]

On March 11, 2020, the World Health Organization declared the novel coronavirus ['COVID-19'] outbreak a global pandemic. This has resulted in governments worldwide, including the Canadian and US governments, enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-quarantine periods and social distancing, have caused disruption to businesses globally and in Ontario, Québec, and New York resulting in an economic slowdown. Moreover, the shut-down of non-essential work has slowed the overall rate of progress with respect to Hull Energy LP's refurbishment work. The impact of the COVID-19 pandemic on the preparation of these consolidated financial statements and on the Corporation is discussed in Note 2(d) [use of estimates], Note 5 [regulatory balances], Note 11 [credit facility], Note 19(c) [credit risk], and Note 19(d) [liquidity risk].

2. BASIS OF PRESENTATION

(a) Statement of compliance

These consolidated financial statements have been prepared by management on a going-concern basis in accordance with International Financial Reporting Standards ['IFRS'] and have been approved and authorized by the Corporation's Board of Directors for issue on April 15, 2021.

(b) Basis of measurement

The Corporation’s consolidated financial statements are prepared on a historical cost basis, except for employee future benefits as disclosed in Note 3(p).

(c) Functional and presentation currency

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

(d) Use of estimates and judgments

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

Due to the inherent uncertainty involved in making estimates, actual results could differ from estimates recorded in preparing these consolidated financial statements, including changes as a result of future decisions made by regulators and governments. The assessment of the duration and severity of the developments related to the COVID-19 pandemic in preparation of these consolidated financial statements is subject to uncertainty. Accordingly, estimates, judgments and assumptions made by management related to the impact of the pandemic that may have a material adverse effect on the Corporation’s operations, financial results and condition in future periods are also subject to uncertainty. Management reviews its estimates and judgments on an ongoing basis using the most current information available. These consolidated financial statements have, in management's opinion, been properly prepared using careful judgment and reasonable limits of materiality within the framework of the significant accounting policies. Significant areas where estimates and judgments are made in the application of IFRS are as follows:

(i) Accounts receivable

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

2. BASIS OF PRESENTATION [CONTINUED]

(d) Use of estimates and judgments [continued]

(ii) Regulatory balances

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

(iii) Revenue recognition

The Corporation uses the percentage-of-completion method in accounting for fixed-price contracts to deliver certain products and services. The use of the percentage-of-completion method requires the Corporation to estimate the work performed to date as a proportion of the total work to be performed. Management conducts periodic reviews of its estimated costs to complete, percentage-of-completion estimates and revenues and margins recognized, on a contract-by-contract basis. The impact of any revisions in cost and earnings estimates is reflected in the period in which the need for a revision becomes known.

(iv) Useful lives of depreciable assets

Depreciation and amortization expense 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.

(v) Impairment of non-financial assets

Non-financial assets are reviewed by management for impairment using the future cash flows method as outlined in Note 3(o). By their nature, estimates of future cash flows, including estimates of future capital expenditures, revenue, operating expenses, discount rates, generation production, inflation, terminal capitalization rates and forecasted market pricing [including ancillary, capacity and other market incentives] are subject to measurement uncertainty. Management factors in current economic conditions, past experience and obtains third party consultations to support its estimates when necessary.

(vi) Employee future benefits

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

(vii) Capital contributions

The timing of the satisfaction of performance obligations for capital contributions from customers is subject to certain estimates of future electricity usage.

2. BASIS OF PRESENTATION [CONTINUED]

(d) Use of estimates and judgments [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, taking into account potential tax planning opportunities. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax assets and unused tax losses can be utilized.

(ix) Indicator of asset impairment

At the end of each reporting period, or earlier if required, management uses its judgment to assess whether there is an indication that the carrying amount of a non-financial asset [or cash-generating unit, 'CGU'] exceeds its recoverable amount. This assessment involves the consideration of whether any events or changes in circumstances could have affected the recoverability of the carrying amount of a non-financial asset or CGU. Management considers various indicators including, but not limited to, adverse changes in the industry or economic conditions [including potential impacts arising from the COVID-19 pandemic]; changes in the degree or method of use of an asset; a lower-than-expected economic performance of an asset or a significant change in market or interest rates.

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, 2020 pertaining to the energy market prices in New York State. Assumptions with respect to these cash flows are sensitive to the various inputs into the value-in-use calculation, and thus are subject to measurement uncertainty [Note 2(d)(v)] and details regarding management's 2020 value-in-use analysis are presented in Note 7 of these consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of consolidation

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

(b) Joint ventures

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

3. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

(c) Foreign currency translation

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

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

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

(d) Regulation – Hydro Ottawa

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

For fiscal year ended December 31, 2020, Hydro Ottawa continued to operate under a custom incentive rate-setting application ['Custom IR'] prescribed by the OEB. The Custom IR is one of the rate setting options contained in the *Renewed Regulatory Framework for Electricity Distributors: A Performance-Based Approach* policy. Hydro Ottawa filed a custom incentive rate-setting application with the OEB on April 29, 2015 seeking approval to change the rates that Hydro Ottawa charges for electricity delivery, retail services, allowances, loss factor and specific services charges for a period of five years, to be effective January 1, 2016 to December 31, 2020. This application requested a revenue requirement to recover costs, and provide a rate of return on a deemed capital structure applied to rate base assets. The key components of Hydro Ottawa's Custom IR framework included the establishment of several regulatory accounts, namely: an asymmetrical earnings sharing mechanism variance account, revenue requirement differential variance account related to capital additions, new facilities deferral account, connection cost recovery agreement deferral account, and the efficiency adjustment mechanism deferral account. An annual IR application is required to set rates each year for 2017 to 2020. 2020 rates were set based on Hydro Ottawa's Year 5 IR annual update.

On February 10, 2020, Hydro Ottawa filed its Custom IR application for distribution rates and other charges for a period of five years, to be effective January 1, 2021 to December 31, 2025. In November 2020, the OEB issued its final decision and reasons with respect to Hydro Ottawa's 2021-2025 rate application. Furthermore, on January 7, 2021, Hydro Ottawa's 2021 final rate orders were approved, which included base distribution 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, 2019, with prescribed adjustments and including interest projected to December 31, 2020. Hydro Ottawa's fixed/variable rate design for all customer classes were approved by the OEB. Annual IR applications are required to set rates and charges for the 2022-2025 rate years. Once rates are approved, they are not adjusted as a result of actual costs being different from those that were estimated, other than for certain prescribed costs that are eligible for deferral treatment and are either collected or refunded in future rates.

3. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

(d) Regulation – Hydro Ottawa [continued]

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

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

Regulatory balances principally comprise of the following:

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

Other variances and deferred costs include the following:

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

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

3. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

(d) Regulation – Hydro Ottawa [continued]

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

(e) Revenue recognition

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

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

(i) Power recovery

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

(ii) Distribution

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

(iii) Generation

Generation revenue is recognized over time upon the delivery of generated electricity to the customer, as measured by meter readings in accordance with the applicable contractual arrangement.

(iv) Commercial services

Commercial services revenue comprise revenue earned under contracts for service work related to distribution operations, turnkey energy management and analysis projects, the provision of streetlight installation and maintenance services, pole attachment and duct rental services and non-destructive cable testing.

3. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

(e) Revenue recognition [continued]

(iv) Commercial services [continued]

Certain commercial services [distribution projects, turnkey energy management projects and streetlight installation services] are accounted for using the percentage-of-completion method, whereby revenue and the corresponding costs are recognized over time proportionately with the degree of completion of the services under contract and the Corporation has an enforceable right to payment for performance completed to date. Losses on such contracts are fully recognized when they become evident. Other commercial services revenues are recognized over time as services are rendered, or on a straight-line basis over the period of the contract if the services performed consist of an indeterminate number of acts over a specified period of time.

(v) Other

Other revenue consists primarily of investment property rentals, capital contributions received from customers amortized to revenue, and other account-related charges such as account set-up and late payment fees.

Investment property rentals are recognized over time as services are rendered, while other account-related charges are recognized at a point in time. In certain situations, capital contributions are required from customers to finance additions to property, plant and equipment when the estimated revenue resulting from the addition to property, plant and equipment is less than the cost of providing the service or where special equipment is needed to supply the customers' specific requirements. Since the contributions will provide current and future customers with ongoing access to the supply of electricity, these contributions are classified as deferred revenue and amortized into revenue on a straight-line basis over time [the period a customer will receive services], which is typically equivalent to the rate used for the depreciation of the related property, plant and equipment [service life of the related assets].

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

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

(f) Interest income and financing costs

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

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

3. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

(g) Government grant income

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

(h) Income taxes

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

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

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

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

EONY is subject to the income tax regime in the United States [the 'Internal Revenue Service'], as more than 10% of its income is derived from activities carried on outside the municipal boundaries of the City of Ottawa. PowerTrail is taxable under the ITA and TAO as less than 90% of each company's capital is owned by the City of Ottawa through Energy Ottawa and the Corporation. Corporate income taxes are accounted for using the liability method as described above.

Moose Creek LP, CHLP, EO Gen, CHLP North, Hull Energy LP, CFLP and ZCU are not taxable entities for federal and provincial income tax purposes. Tax on the net income (loss) is borne by the individual partners through the allocation of taxable income.

(i) Restricted cash

Cash that is restricted as to withdrawal or use under the terms of certain contractual agreements is classified as restricted cash.

(j) Bank indebtedness

Bank indebtedness includes short-term advances and/or bankers' acceptances drawn on the Corporation's credit facility with a maturity date of three months or less, and outstanding cheques. Cash and bank indebtedness are offset and the net amount is presented on the consolidated balance sheet when, and only when, the Corporation has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

3. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

(k) Financial instruments

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

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

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

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

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

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

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

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

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

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

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

[in thousands of Canadian dollars]

3. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

(l) Property, plant and equipment

Property, plant and equipment consist principally of land, buildings and fixtures, electricity distribution and infrastructure, furniture and equipment, rolling stock, generating equipment, reservoirs, dams and waterways, civil structures and assets under construction. Right-of-use assets under *IFRS 16 – Leases*, as described in Note 3(u), are classified within property, plant and equipment in these consolidated financial statements.

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

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

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

Gains and losses on disposal of retired, sold or otherwise derecognized property, plant and equipment are recognized in income and are calculated as the difference between net proceeds from disposal and the carrying amount of the asset. Compensation from third parties for property, plant and equipment lost, impaired or given up is measured at fair value and recognized when the compensation becomes receivable.

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

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

Land, buildings and structures	
Land	Indefinite
Buildings and fixtures	10 to 100 years
Civil structures	100 years
Electricity distribution infrastructure	10 to 60 years
Generation and other	
Generating equipment	10 to 50 years
Reservoirs, dams and waterways	100 to 125 years
Furniture and equipment	5 to 40 years
Rolling stock	7 to 15 years

Assets under construction and land are not subject to depreciation.

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.

3. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

(m) Intangible assets

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

Intangible assets with finite lives are measured at cost less accumulated amortization and accumulated impairment losses, if any. Intangible assets with finite lives are amortized on a straight-line basis over the estimated service lives of the related assets while those with indefinite lives are not amortized.

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

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

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

Land rights	50 years
Water rights with a definite useful life	7 to 100 years
Computer software	5 to 15 years
Other contractual rights	
Capital contribution agreements	45 years
Power purchase agreements ['PPA']	15 years
Deferred contract costs	15 years

(n) Investment properties

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

(o) Impairment of non-financial assets

At the end of each reporting period, or earlier if required, the Corporation assesses whether there is an indication that a non-financial asset [or 'CGU'] may be impaired. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. If any indication exists, the Corporation estimates the asset's recoverable amount, which is the higher of an asset or CGU's fair value less costs of disposal and its value in use. If the carrying value of a non-financial asset materially exceeds its recoverable amount, the difference is immediately recognized as an impairment loss in the consolidated statement of income.

Intangible assets with indefinite useful lives [i.e. certain water rights] and assets under development are tested for impairment [within their respective CGUs] at least annually, and whenever there is an indication that the asset may be impaired.

3. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

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

When determining the recoverable amount, the Corporation determines its value-in-use by discounting estimated future cash flows to their present value using a discount rate that reflects changes in the time value of money and the risks specific to the asset of the CGU. The discount rate estimated and used by management represents the weighted average cost of capital determined for the CGU being tested. Terminal values are included in the determination of management's value-in-use calculations and are based on an earnings multiple approach via a terminal capitalization rate.

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

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

(p) Employee future benefits

(i) Pension plans

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

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

CHLP is the sponsoring employer of the Pension Plan for Employees of Chaudiere Hydro L.P. and Participating Employers ['Chaudiere Hydro Pension Plan' or 'CHPP'] which provides pension benefits for certain of the Corporation's employees and is accounted for as follows:

- CHPP assets are held by an insurance corporation and are measured at fair value, which are determined as follows: bond, equity and other investment funds are valued using the unit values supplied by the fund manager, which reflects the fund's proportionate share of underlying net assets at fair values determined using closing quotations from Canadian investment dealers, and short-term investments are valued at cost, including accrued interest, which due to their short-term maturity approximates fair value.

- Defined benefit obligations of the CHPP are determined based on the expected future benefit payments discounted using market interest rates on high-quality debt instruments that match the timing and amount of expected benefit payments.

3. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

(p) Employee future benefits [continued]

(i) Pension plans [continued]

- The cost of pension earned by employees is actuarially determined using the projected benefit method prorated on services, and management’s best estimate of salary escalation, retirement ages and life expectancy.

- The defined benefit expense is presented in employee benefits in net income on the consolidated statement of income and includes, as applicable, the estimated cost of employee benefits for the current year service, interest cost, interest income on CHPP's assets, plan amendments, curtailments, other administration costs of the pension plans and any gain or loss on settlement. Current service cost, interest income on CHPP's assets and interest costs are computed by applying the discount rate used to measure the plan obligation at the beginning of the annual period.

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

- Past service costs are included in the cost of the CHPP for the year when they arise.

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

(ii) Other post-employment benefits

Other post-employment benefits provided by the Corporation include life insurance, a retirement grant and other benefits. These plans provide benefits to certain employees when they are no longer providing active service.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

(p) Employee future benefits [continued]

(iii) Employee benefits

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

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

(q) Customer deposits

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

(r) Provisions and contingencies

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

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

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

(s) Deferred revenue

In certain situations, financial assistance in the form of contributions is required from customers and developers to finance additions to property, plant and equipment. This occurs when the estimated revenue resulting from the addition to property, plant and equipment is less than the cost of providing the service or where special equipment is needed to supply the customers' specific requirements. Since the contributions will provide customers with ongoing access to the supply of electricity, these contributions are classified as deferred revenue, and recognized in revenue in accordance with [Note 3(e)(v)].

(t) Debt-issuance costs

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

3. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

(u) Leases

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

(i) As a lessee

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

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

Lease liabilities are subsequently measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Corporation's estimate of the amount expected to be payable under a residual value guarantee, or if the Corporation changes its assessment of whether it will exercise a purchase, extension or termination option. When a lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero. Payments under lease liabilities are apportioned between interest expense and a reduction of the outstanding lease liability.

Where the Corporation is reasonably certain it will obtain ownership of the ROU asset before the end of the lease term, the asset is depreciated over its useful life on a straight-line basis. Otherwise, depreciation is calculated over the shorter period of the lease term and the asset's useful life. The lease term includes periods covered by an option to extend if the Corporation is reasonably certain to exercise that option. Initial direct costs incurred prior to the commencement of the lease are not depreciated.

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

(ii) As a lessor

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

(v) Inventory

Inventory consists of materials and supplies used in the installation and maintenance of streetlights as part of the Corporation's commercial services. Inventory is measured at the lower of weighted average variable costs and net realizable value. Under the weighted average cost formula, the cost of each item is determined from the weighted average of the cost of similar items at the beginning of a period and the cost of similar items purchased during the period. Net realizable value is the estimated selling price in the ordinary course of business less any applicable selling expenses.

[in thousands of Canadian dollars]

4. ACCOUNTS RECEIVABLE

	2020 $	2019 $
Receivables from contracts with customers		
Electricity receivable	**64,846**	58,218
Unbilled receivables related to electricity	**79,710**	78,417
IESO receivable	**27,615**	24,900
Trade and other receivables	**10,730**	9,425
Amounts due from related parties [Note 28]	**21,138**	18,036
Less: loss allowance [Note 19(c)]	**(3,992)**	(2,046)
	200,047	186,950
Receivables from other sources		
Conservation and demand management	**1,958**	2,472
Sales tax receivable	**1,796**	3,974
Insurance proceeds recoverable - Unit 1 Event	**-**	2,554
Insurance proceeds recoverable - Flood [Note 21]	**2,978**	1,196
	206,779	197,146

During the year and based on the latest information from its insurer, the Corporation increased its insurance claims receivable relating to a 2019 flood at EONY's Dolgeville generating station. In 2020, the Corporation received a cash payment of $779 with respect to its property insurance claim outstanding as at December 31, 2019. The Corporation expects to receive all outstanding amounts in 2021, of which $432 pertains to a business interruption insurance claim also pertaining to the Dolgeville flooding.

During the year, the Corporation settled its warranty and insurance claim with respect to a 2017 mechanical failure of the Unit 1 turbine-generator [of 4 Units] at its CHLP generating station ['Unit 1 Event']. Unit 1 went back into service on June 9, 2019, at which time the Corporation stopped making claims for lost revenues under its applicable contract and insurance policy. Through this settlement and true-up of previous estimates made, business interruption proceeds of $47 were recognized during the year [2019 – $2,887].

[in thousands of Canadian dollars]

5. REGULATORY BALANCES

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

	Remaining recovery/ reversal [years]	2019 $	Balances arising in the year $	Recovery/ reversal $	Other movements(1) $	2020 $
Regulatory debit balances						
RARA	1	521	4,341	(4,017)	(93)	**752**
Settlement variances	1 - 5	4,941	5,368	-	-	**10,309**
Facilities Y Factor	1	2,592	(2,271)	-	-	**321**
OPEB cash vs accrual	1 - 5	1,250	1,005	-	-	**2,255**
LRAM	1 - 5	4,536	(960)	-	-	**3,576**
Loss on asset disposal	1 - 5	3,601	333	-	-	**3,934**
Regulatory asset for deferred income taxes	(2)	38,059	10,809	-	-	**48,868**
Other variances and deferred costs	1 - 5	3,169	7,835	-	(37)	**10,967**
		58,669	26,460	(4,017)	(130)	**80,982**
Regulatory credit balances						
RLRA	1	1,751	4,176	(3,914)	(93)	**1,920**
Settlement variances	1 - 5	10,753	5,889	-	-	**16,642**
ESM	1 - 5	3,774	1,736	-	-	**5,510**
Gain on sale of former facilities	1	2,152	-	-	-	**2,152**
OPEB deferral account	1-5	6	5	-	-	**11**
Other variances and deferred costs	1-5	3,278	4,346	-	(37)	**7,587**
		21,714	16,152	(3,914)	(130)	**33,822**

[in thousands of Canadian dollars]

5. REGULATORY BALANCES [CONTINUED]

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

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

Details and descriptions pertaining to the above regulatory debit and credit accounts are disclosed in Note 3(d) of these consolidated financial statements.

On March 25, 2020, the OEB established the COVID-19 Emergency Deferral Account in recognition that distributors will incur incremental costs and lost revenues resulting from the COVID-19 pandemic. The OEB is currently conducting a consultation process to assist it in the development of new accounting guidance related to the COVID-19 Emergency Deferral Account. Final guidance is expected to be released in Spring 2021. As a result of the uncertainty of recoverability through rates, the Corporation has not recorded any balance in this account at December 31, 2020.

[in thousands of Canadian dollars]

6. PROPERTY, PLANT AND EQUIPMENT

	Land, buildings and structures $	Distribution $	Generation and other $	Assets under construction $	Total $
Cost					
Balance as at December 31, 2018	206,132	1,008,647	252,260	182,482	1,649,521
Additions, net of transfers	79,002	130,865	25,462	(82,869)	152,460
Additions re: refurbishment projects	-	-	-	99,663	99,663
Right-of-use assets: January 1, 2019	2,389	-	-	-	2,389
Disposals	(20,641)	(5,260)	(8,738)	-	(34,639)
Transfer to investment properties	(1,827)	-	-	-	(1,827)
Exchange differences	(863)	-	(1,937)	(20)	(2,820)
Balance as at December 31, 2019	264,192	1,134,252	267,047	199,256	1,864,747
Additions, net of transfers	9,624	108,308	12,287	16,661	146,880
Additions re: refurbishment projects, net of transfers	17,678	-	57,525	(22,006)	53,197
Disposals	(912)	(1,760)	(3,938)	-	(6,610)
Exchange differences	(851)	-	(881)	401	(1,331)
Balance as at December 31, 2020	**289,731**	**1,240,800**	**332,040**	**194,312**	**2,056,883**
Accumulated depreciation					
Balance as at December 31, 2018	(18,219)	(137,459)	(44,052)	-	(199,730)
Depreciation	(7,527)	(36,358)	(14,584)	-	(58,469)
Disposals	7,310	2,530	5,517	-	15,357
Exchange differences	98	-	254	-	352
Balance as at December 31, 2019	(18,338)	(171,287)	(52,865)	-	(242,490)
Depreciation	(7,272)	(39,331)	(16,103)	-	(62,706)
Disposals	461	623	958	-	2,042
Exchange differences	161	-	114	-	275
Balance as at December 31, 2020	**(24,988)**	**(209,995)**	**(67,896)**	**-**	**(302,879)**
Net book value					
As at December 31, 2019	245,854	962,965	214,182	199,256	1,622,257
As at December 31, 2020	**264,743**	**1,030,805**	**264,144**	**194,312**	**1,754,004**

At December 31, 2020, land, buildings and structures include $2,191 [2019 – $2,406] of right-of-use assets with remaining lease terms ranging between 13 and 20 years, comprising of a cost of $2,626 [2019 – $2,530] and accumulated depreciation of $435 [2019 – $124] .

[in thousands of Canadian dollars]

6. PROPERTY, PLANT AND EQUIPMENT [CONTINUED]

On February 13, 2020, the Corporation judged to have substantially completed a significant refurbishment project at its CHLP North generation facility which resulted in the componentization of many assets previously under construction; the commencement of depreciation thereon; and the ceasing of borrowing cost capitalization. At December 31, 2020, assets under construction comprises primarily of the ongoing Hull Energy LP refurbishment project as referenced in Note 1 of these consolidated financial statements and the construction of a new electricity distribution station. In 2019, the Corporation completed the construction of new administrative and operations buildings which had been classified as under construction at December 31, 2018.

During the year, the Corporation capitalized borrowing costs of $4,954 [2019 – $5,122] to property, plant and equipment. The average annual interest rate for 2020 was 3.4% [2019 – 3.4%].

During the year, the Corporation wrote-off property, plant and equipment of $3,100 relating to changes in scope to Hull Energy LP's refurbishment project which has been included in general and administrative expenses as part of operating costs. In 2019, the Corporation sold two facilities [including land and buildings] inherited from pre-amalgamation utilities [i.e. prior to October 3, 2000] to third parties for total cash proceeds of $16,000.

The Corporation has entered into non-cash transactions that have been excluded from the statement of cash flows as detailed in Note 24. In addition, $18,530 [2019 – $5,250] of property, plant and equipment was contributed by developers, the directly related liability of which is included in deferred revenue.

7. INTANGIBLE ASSETS

	Land rights and water rights $	Computer software $	Other contractual rights $	Assets under development $	Total $
Cost					
Balance as at December 31, 2018	62,460	67,340	26,297	13,384	169,481
Additions, net of transfers	438	1,972	11,710	(1,529)	12,591
IFRS 16 transfer to property, plant and equipment	-	-	-	(227)	(227)
Exchange differences	(1,263)	(19)	-	-	(1,282)
Disposals	-	(1,969)	-	-	(1,969)
Balance as at December 31, 2019	61,635	67,324	38,007	11,628	178,594
Additions, net of transfers	6	9,542	2,986	23,374	35,908
Exchange differences	(495)	(7)	-	-	(502)
Disposals	-	(4,192)	-	-	(4,192)
Balance as at December 31, 2020	**61,146**	**72,667**	**40,993**	**35,002**	**209,808**

[in thousands of Canadian dollars]

7. INTANGIBLE ASSETS [CONTINUED]

	Land rights and water rights $	Computer software $	Contractual rights $	Assets under development $	Total $
Accumulated amortization					
Balance as at December 31, 2018	(8,058)	(35,464)	(2,089)	-	(45,611)
Amortization	(3,656)	(6,305)	(758)	-	(10,719)
Exchange differences	373	14	-	-	387
Disposals	-	1,959	-	-	1,959
Balance as at December 31, 2019	(11,341)	(39,796)	(2,847)	-	(53,984)
Amortization	(3,636)	(5,999)	(1,338)	-	(10,973)
Exchange differences	314	28	-	-	342
Disposals	-	4,192	-	-	4,192
Balance as at December 31, 2020	**(14,663)**	**(41,575)**	**(4,185)**	**-**	**(60,423)**
Net book value					
As at December 31, 2019	50,294	27,528	35,160	11,628	124,610
As at December 31, 2020	**46,483**	**31,092**	**36,808**	**35,002**	**149,385**

Other contractual rights includes connection and cost recovery agreements ['capital contribution agreements'] that govern the construction by Hydro One Networks Inc. ['HONI'] of new or modified transformer stations for the purpose of serving Hydro Ottawa's customers, including anticipated electricity load growth. Each of Hydro Ottawa's capital contribution agreements has a term of 25 years. All terms and conditions of CCRAs follow the *Transmission System Code* [the 'Code'] issued by the OEB. At December 31, 2020, assets under development primarily relates to line connection contribution costs associated with a new electricity distribution station.

During the year, the Corporation capitalized borrowing costs of $688 [2019 – $316] to intangible assets. The average annual interest rate for 2020 was 3.4% [2019 – 3.4%].

During the year, the Corporation disposed of fully amortized computer software no longer in use with a cost of $4,192.

A significant portion of the Corporation's water rights with indefinite lives [82% or $16,941] stems from a historical 1889 lease agreement with Public Services and Procurement Canada. This contract provides rights to waters on the Ottawa River at Chaudière Falls for two of the Corporation's CGUs – the CHLP CGU [water rights carrying value of $9,575] and the CHLP North CGU [water rights carrying value of $7,366] – and renews every 21 years into perpetuity. The Corporation also retains water rights with indefinite lives [18% or $4,289 translated US-to-CAD] at two of its EONY generating stations which stem from historical agreements with the U.S. Federal Energy Regulatory Commission ['FERC']. These FERC licenses have an indefinite life as the Corporation is granted a legal exemption from re-qualifying for these licenses due to the size of the stations.

The Corporation's annual impairment tests with respect to the CHLP and CHLP North CGUs were based on value-in-use calculations. Management's VIU calculations – subject to certain estimates as described in Note 2(d)(v) – are based on discounted future cash inflows to be earned under each CGUs' 40-year HESOP contract, while the cash outflows are based on management's industry experience and third party input; taking into account the estimated cost to complete the refurbishment projects. The key assumption in each VIU calculation was a weighted average cost of capital ['WACC'] of 3.6% [2019 – 4.0%].

[in thousands of Canadian dollars]

7. INTANGIBLE ASSETS [CONTINUED]

The Corporation's impairment test at December 31, 2020, performed in light of the circumstances disclosed in Note 2(d)(ix) was based on a value-in-use calculation. Management's VIU calculation involved third-party consultation in the forecasting of New York energy prices and supplementary revenue. Other key assumptions in the VIU calculation were a discount rate via a weighted average cost of capital ['WACC'] of 6.1% [2019 – 6.1%], a US inflation rate of 2.3% [2019 – 2.3%], and a terminal capitalization rate of 4.3% [2019 – 6.2%]. Historical production and future capital and maintenance plans were also important assumptions in the VIU analysis. After conducting its impairment test, management concluded that the carrying value of the aforementioned generating assets exceeded its value-in-use by an immaterial amount. This amount is included in depreciation and amortization in these consolidated financial statements. The Corporation's prior year VIU calculation, performed under the same circumstances, exceeded its carrying value at December 31, 2019, also by an immaterial amount, which is included in the comparative amounts of depreciation and amortization in these consolidated financial statements.

8. INVESTMENT PROPERTIES

	2020 $	2019 $
Net book value, beginning of year	**4,262**	2,482
Additions	**523**	82
Transfer from property, plant and equipment	**-**	1,827
Disposals	**(4)**	-
Depreciation	**(122)**	(129)
Net book value, end of year	**4,659**	4,262

The fair value of investment properties is $7,651. The fair value is based on a combination of the latest Municipal Property Assessment Corporation valuation dated May 14, 2020 and a third party appraisal for a specific parcel of land transferred from property, plant and equipment in 2019.

9. INVESTMENTS IN JOINT VENTURES

(a) Investment in joint ventures summary

	2020 $	2019 $
Moose Creek LP [50.05%]		
Investment in joint venture, beginning of year	**5,240**	4,734
Share of profit	**435**	506
Investment in joint venture, end of year	**5,675**	5,240

[in thousands of Canadian dollars]

9. INVESTMENTS IN JOINT VENTURES [CONTINUED]

(a) Investment in joint ventures summary [continued]

	2020 $	2019 $
PowerTrail [60%]		
Investment in joint venture, beginning of year	**4,953**	4,737
Share of profit, net of tax	**337**	214
Dividends received	**(720)**	-
Other adjusting items related to profit	**15**	8
Non-cash distribution	**-**	(6)
Investment in joint venture, end of year	**4,585**	4,953
Zibi Community Utility LP [50%]		
Investment in joint venture, beginning of year	**5,080**	2,219
Capital investments	**4,055**	2,920
Share of loss	**(258)**	(59)
Investment in joint venture, end of year	**8,877**	5,080
Total investments in joint ventures	**19,137**	15,273

(b) Balance sheet and statement of income summary

	2020 $	2019 $
Moose Creek LP		
Current assets	**1,002**	623
Non-current assets	**12,110**	11,932
Total assets	**13,112**	12,555
Current liabilities	**1,103**	1,063
Non-current liabilities	**428**	780
Total liabilities	**1,531**	1,843
Revenue	**3,648**	3,676
Net income	**869**	1,012

[in thousands of Canadian dollars]

9. INVESTMENTS IN JOINT VENTURES [CONTINUED]

(b) Balance sheet and statement of income summary [continued]

	2020 $	2019 $
PowerTrail		
Current assets	**1,325**	954
Non-current assets	**10,026**	10,397
Total assets	**11,351**	11,351
Current liabilities	**1,114**	460
Non-current liabilities	**2,283**	2,298
Total liabilities	**3,397**	2,758
Revenue	**3,647**	3,717
Net income	**561**	357
Zibi Community Utility LP		
Current assets	**5,830**	3,715
Non-current assets	**16,376**	8,881
Total assets	**22,206**	12,596
Current liabilities	**2,240**	1,517
Non-current liabilities	**2,225**	928
Total liabilities	**4,465**	2,445
Revenue	**430**	160
Net loss	**(515)**	(117)

(c) Credit facility

PowerTrail maintains an operating revolving line of credit of $1,000 for general business purposes that bears annual interest at the prime rate. PowerTrail continues to also maintain a credit facility of $200 [2019 – $200] to provide standby letters of credit to the IESO. As at December 31, 2020, PowerTrail had drawn an amount of $133 [2019 – $133] in standby letters of credit and had no outstanding balances drawn against its operating revolving line of credit [2019 – $nil]. Both facilities contain customary covenants and events of default, including a covenant to maintain a tangible net worth of $1,000.

[in thousands of Canadian dollars]

10. NOTES RECEIVABLE FROM RELATED PARTIES

	2020 $	2019 $
Moose Creek LP promissory note, 6.0%, due January 1, 2025	**391**	793
City of Ottawa note, 3.0%	**11,058**	14,713
	11,449	15,506
Less: current portion	**(8,457)**	(8,564)
	2,992	6,942

(a) Moose Creek LP

The note receivable from Moose Creek LP is an unsecured ten-year promissory note with quarterly blended repayments. Future principal and interest payments on the notes receivable are as follows: 2021 – $200 and 2022 – $220.

(b) City of Ottawa

The Corporation is party to two agreements with the City of Ottawa [the 'City'] regarding the provision of streetlight services. Over a span of an estimated six years from the contract signing date in February 2016, the Corporation is engaged to convert legacy street lights to LED ['S/L conversion contract'] and to provide maintenance services to all legacy and converted LED street lights ['S/L maintenance contract'].

While quarterly payments due under the S/L maintenance contract are under standard 30-day terms, amounts with respect to the S/L conversion contract are facilitated through an interest-bearing long-term open note at a fixed rate of 3%. Amounts billed to the City under the S/L conversion contract are added to the note receivable as progress towards ultimate completion occurs. As stipulated in the S/L conversion contract, the City is to make quarterly payments to the Corporation based on a combination of electricity savings, maintenance savings and capital expenditure savings the City has realized as result of the more efficient LED streetlights installed to date, until the note is repaid in full. Of the total note receivable outstanding at December 31, 2020, $152 represents work-in-progress billed in early 2021 [2019 – $1,818 billed in early 2020. The Corporation estimates that $8,280 will be repaid in 2021 and expects the remaining $2,778 to be collected in 2022.

The Corporation carries inventory of $1,292 relating to City of Ottawa streetlight conversion and maintenance endeavours at December 31, 2020 [2019 – $1,128]. During the year, the Corporation expensed $1,061 of inventory as cost of goods sold which is included in operating costs [2019 – $4,338].

11. CREDIT FACILITY

During the year, the Corporation maintained its credit facility in an amount of $340,750 and US$200 at December 31, 2020 [2019 – $340,750 and US$200]. The facility continues to be structured into four types of credit availability and consists of a $190,000 [2019 – $190,000] revolving operating line maturing on August 1, 2022; a $150,000 [2019 – $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 [2019 – $750 and US$200] commercial card facility. The revolving operating lines can be used by way of direct advances, bankers' acceptances, and/or by way of letters of credit and other guarantees. The credit facility is unsecured and has customary covenants including a maximum debt to total capitalization of 75% and a negative pledge not to encumber the assets of the Corporation, Hydro Ottawa or Energy Ottawa, other than those permitted in the credit facility.

At December 31, 2020, the Corporation had drawn $15,300 in direct advances against the revolving operating line of credit [2019 – $25,300], $60,000 in bankers' acceptances against the $190,000 revolving operating line [2019 – $nil] and $150,000 in bankers' acceptances against the $150,000 revolving operating term line [2019 – $150,000].

[in thousands of Canadian dollars]

11. CREDIT FACILITY [CONTINUED]

At December 31, 2020, the Corporation has drawn $14,738 [2019 – $14,738] against its facilities in standby letters of credit. Drawings include a $10,000 [2019 – $10,000] letter of credit to cover its prudential support obligation as described in Note 26; a letter of credit to the Receiver General of Canada on behalf of Fisheries and Oceans Canada of $538 [2019 – $538] in connection with a generating facility at Chaudière Falls; and a letter of credit to BNY Trust Company of Canada of $4,200 [2019 – $4,200] in connection with the Trust Indenture relating to the Series 2016-1 debentures as described in Note 15. No amounts have been drawn on any of these letters of credit.

On April 13, 2020, the Corporation secured a temporary credit facility of $200,000 as a precautionary measure to safeguard against a potential material increase in payment in arrears at the height of the COVID-19 pandemic lockdown, which remained undrawn throughout the year and expired on December 31, 2020.

12. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2020 $	2019 $
Purchased power payable	**91,412**	88,494
Trade accounts payable and accrued liabilities	**49,811**	60,448
Customer deposits	**35,492**	18,944
Customer credit balances	**13,000**	11,739
Construction holdbacks: refurbishment projects	**5,101**	9,051
Accrued interest on long-term debt	**7,839**	7,812
Due to related parties [Note 28]	**372**	170
	203,027	196,658

In 2019, the Corporation conducted a true-up calculation in connection with one of its cost recovery agreements with HONI as described in Note 26. The Corporation determined that it was obligated to make up a shortfall and accordingly set-up a provision of $2,200. In 2020, the Corporation refined its true-up calculation and increased the provision by $500, to $2,700, which is included in accounts payable and accrued liabilities.

13. DEFERRED REVENUE

	2020 $	2019 $
Capital contributions from customers	**84,773**	65,186
Capital contributions from developers	**89,907**	65,807
	174,680	130,993

[in thousands of Canadian dollars]

14. 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, 2020 amounted to $6,650 [2019 – $6,650]. The Corporation also provides retirement benefits to certain employees through the Chaudiere Hydro Pension Plan.

Information about the Chaudiere Hydro Pension Plan is as follows:

(i) Defined benefit obligation

	2020 $	2019 $
Balance, beginning of year	**7,288**	6,293
Current service cost	**136**	106
Interest cost	**224**	243
Benefits paid	**(358)**	(237)
Employee contributions	**67**	66
Actuarial loss	**1,368**	817
Balance, end of year	**8,725**	7,288

(ii) Plan assets

	2020 $	2019 $
Fair value, beginning of year	**7,021**	6,220
Interest credit	**219**	244
Employer contributions	**283**	269
Benefits paid	**(358)**	(237)
Non-investment expenses	**(80)**	(80)
Employee contributions	**67**	66
Actuarial gain	**370**	539
Fair value, end of year	**7,522**	7,021

(iii) Funded status

	2020 $	2019 $
Net defined benefit liability, beginning of year	**(267)**	(73)
Change in net defined benefit liability	**(936)**	(194)
Net defined benefit liability, end of year	**(1,203)**	(267)

[in thousands of Canadian dollars]

14. EMPLOYEE FUTURE BENEFITS [CONTINUED]

(a) Pension plans [continued]

The assets of the Chaudiere Hydro Pension Plan are held and managed by an independent custodian and accounted for separately in the Corporation's pension plan. The asset allocation structure is subject to diversification requirements and constraints which reduce risk by limiting exposure to individual equity investments, credit rating categories and foreign currency exposures. Based on the fair value of assets held as at December 31, 2020, the Chaudiere Hydro Pension Plan's assets were comprised of 72.8% [2019 – 90.4%] fixed income Canadian bonds, 23.6% [2019 – 6.3%] Canadian and international equities and 3.6% [2019 – 3.3%] in alternative investments. The Chaudiere Hydro Pension Plan's investments are primarily held and managed in pooled funds, and thus do not have a quoted market price in an active market.

Employee future benefits under the Chaudiere Hydro Pension Plan are calculated using an annual compensation rate of 2.0% [2019 – 2.0%], an inflation rate of 2.0% [2019 – 2.0%] and a discount rate of 2.5% [2019 – 3.1%]. The valuations also include several other economic and demographic assumptions including mortality rates, which are based on the Canadian Pensioners' Mortality report published by the Canadian Institute of Actuaries in February 2014.

An actuarial extrapolation was performed at December 31, 2020 and December 31, 2019. The last actuarial valuation was performed at January 1, 2018.

Significant actuarial assumptions for defined benefit obligation measurement purposes are discount rate and salary scale. The following sensitivities are based on reasonable changes of the assumptions, in isolation of one another, occurring at the end of the reporting period. A 1.0% decrease in discount rate would increase the defined benefit obligation by $1,287 or 29.7% [2019 – $1,295 or 36.1%], while a 1.0% increase in salary scale would increase the defined benefit obligation by $248 or 6.1% [2019 – $250 or 7.5%].

(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% [2019 – 2.0%] and a discount rate of 2.5% [2019 – 3.1%]. Cost trends for health are estimated to increase [at a declining rate from 6.8% to 5.0%] and dental benefits are estimated to increase by 5.0% per annum. The valuations also include several other economic and demographic assumptions including mortality rates, which are based on the Canadian Pensioners' Mortality report published by the Canadian Institute of Actuaries in February 2014.

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

	2020 $	2019 $
Defined benefit obligation, beginning of year	**15,473**	13,339
Current service costs	**445**	353
Interest on defined benefit obligation	**578**	897
Benefits paid	**(776)**	(738)
Actuarial loss	**1,147**	1,622
Defined benefit obligation, end of year	**16,867**	15,473

An actuarial extrapolation was performed as at December 31, 2020. As a result of this exercise, the Corporation increased the accumulated liability by $1,394 [2019 – increased by $2,134 based on an actuarial valuation].

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

[in thousands of Canadian dollars]

15. LONG-TERM DEBT

	2020 $	2019 $
Senior unsecured debentures		
Series 2006-1, 4.97%, due December 19, 2036	**50,000**	50,000
Series 2013-1, 3.99%, due May 14, 2043	**150,000**	150,000
Series 2015-1, 2.61%, due February 3, 2025	**200,000**	200,000
Series 2015-2, 3.64%, due February 2, 2045	**175,000**	175,000
Senior secured amortizing bonds		
Series 2016-1, 4.08%, due March 31, 2057	**203,802**	203,802
Series 2019-1, 3.53%, due December 31, 2059	**290,514**	290,514
	1,069,316	1,069,316
Less: unamortized debt-issuance costs	**(8,420)**	(8,583)
	1,060,896	1,060,733

(a) Senior unsecured debentures

Interest payments on each of the above debentures are payable semi-annually in arrears in equal installments. Each debenture contains customary covenants and events of default, including a covenant to ensure that the aggregate principal amount of the consolidated funded obligations does not exceed 75% of the total consolidated capitalization. Interest payments on these debentures will be $20,067 per year between 2021 and 2024, and $17,457 in 2025.

(b) Senior secured amortizing bonds

The Series 2019-1 senior secured amortizing green bonds [the '2019-1 bonds'] totalling $290,514 were issued on behalf of Hull Energy LP and CHLP North [refurbishment 'project owners'] in 2019. The Series 2019-1 bonds carry an interest rate of 3.53% and mature on December 31, 2059. Equal semi-annual interest-only payments are due and payable on June 30 and December 31 each year until and including June 30, 2024. Thereafter, semi-annual blended repayments of principal and interest will be due and payable on June 30 and December 31 each year commencing on December 31, 2024 until and including the maturity date. In addition, a balloon payment of $43,577 [15% of the principal] will be due and payable on the maturity date. Debt issuance costs of $162 were netted against the bond proceeds in the current year [2019 - $3,440].

The Corporation's senior secured amortizing bonds [the '2016-1 bonds'] carry an interest rate of 4.08% and mature on March 31, 2057. Equal semi-annual interest-only payments are due and payable on March 31 and September 30 each year until and including March 31, 2022. Thereafter, semi-annual blended payments of principal and interest will be due and payable on March 31 and September 30 in each year commencing on September 30, 2022 until and including the maturity date. In addition, a balloon payment of $30,570 [15% of the principal] will be due and payable on the maturity date.

[in thousands of Canadian dollars]

15. LONG-TERM DEBT [CONTINUED]

(b) Senior secured amortizing bonds [continued]

The 2019-1 bonds are secured by the total refurbishment project assets, where the project assets of Hull Energy LP and CHLP North represent 76.8% and 23.2% of the security, respectively. Until such time each project owner has met its Recourse Release Date in accordance with the Trust Indenture [i.e. achievement of commercial operation, engineering signoffs etc.], the Corporation has guaranteed the payment of pro-rata principal and outstanding interest on behalf of each project owner. Should one project owner achieve its Recourse Release Date before the other, the Corporation's guarantee becomes limited to the pro-rata portion of bonds payable related to the uncompleted project. The 2016-1 bonds are secured by a first-charge interest on the assets of CHLP, and CHLP is required to maintain a minimum debt-coverage service ratio ['DCSR']. The DCSR divides the sum of CHLP's net operating and investing cash flows [as defined by the 2016-1 bonds Trust Indenture] by the current interest and principal repayments due within the next calendar year. CFLP will be subject to the same DCSR in due course once commercial operations begin. The Corporation was in compliance with all financial covenants associated with the 2019-1 and 2016-1 bonds at December 31, 2020 and 2019, as applicable.

As required by the applicable Trust Indenture, CHLP must maintain, in a reserve account, an amount equal to the next six months of interest and principal; and in a major maintenance account, an amount that covers projected major maintenance in the coming three years. CFLP is subject to the same conditions in due course as commercial operations begin for each project owner. Amounts held in such reserve accounts are classified as restricted cash on the Corporation's consolidated balance sheet.

16. OTHER LIABILITIES

	2020	2019
	$	$
Lease liabilities	**1,836**	1,960
Other	**198**	966
	2,034	2,926

The Corporation's lease liabilities are calculated under the assumption that all applicable renewal periods at the Corporation's option will be exercised, and thus have lease terms ranging between 2033 and 2040.

17. CAPITAL DISCLOSURES

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

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

[in thousands of Canadian dollars]

17. CAPITAL DISCLOSURES [CONTINUED]

The Corporation's capital consists of the following:

	2020 $	2019 $
Bank indebtedness, net of cash	**188,901**	74,764
Long-term debt	**1,060,896**	1,060,733
Total debt	**1,249,797**	1,135,497
Equity	**480,224**	470,297
Total capital	**1,730,021**	1,605,794

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

At December 31, 2020, the Corporation's debt capitalization ratio, the calculation of which takes into account outstanding letters of credit, was 72.2% [2019 – 71.6%]. The Corporation is in compliance with all financial covenants and limitations associated with its credit facilities and its long-term debt.

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

18. SHARE CAPITAL

(a) Authorized

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

The above shares are without nominal or par value.

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

(b) Issued

	2020 $	2019 $
214,901,003 Class A common shares	**228,453**	228,453

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

18. SHARE CAPITAL [CONTINUED]

(b) Issued [continued]

A shareholder's resolution directs the Corporation to target dividends at the greater of 60% of its subsidiary, Hydro Ottawa's net income or $20,000, provided that the Corporation is in compliance with the *Business Corporations Act (Ontario)* and relevant OEB Guidelines; is not in breach of any covenants on its senior unsecured debentures or credit facility obligations; and the payment thereof does not negatively impact the Corporation's credit rating.

On June 16, 2020, the Board of Directors declared a $22,600 dividend to the City of Ottawa, which was paid in increments of $10,000, $5,000, and $7,600 on June 23, 2020, October 6, 2020 and December 8, 2020, respectively [April 16, 2019 the Board of Directors declared a $22,300 dividend to the City of Ottawa, which was paid on April 23, 2019].

(c) Non-controlling interest

On January 31, 2019, the Corporation acquired the remaining capital of a subsidiary [which has since been wound-up] from a third party for one dollar. Effective on that date, the Corporation no longer has a non-controlling interest.

19. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

(a) Fair value disclosures

The carrying value of the Corporation's financial instruments, except for the instruments described below, approximate fair value because of the short maturity and nature of the instruments. The fair value measurement of the financial instrument for which the fair value has been disclosed is included in Level 2 of the fair value hierarchy [Note 3(k)].

The Corporation has estimated the fair value of notes receivable from joint ventures as at December 31, 2020 as amounting to $403 [2019 – $809]. The fair value has been determined based on discounting all estimated future repayments of principal and imputed interest required to fully repay the loans at the estimated interest rate of 4.1% [2019 – 4.9%] that would be available to Moose Creek LP on December 31, 2020.

The Corporation has estimated the fair value of the senior unsecured debentures as at December 31, 2020 as amounting to $699,359 [2019 – $636,214]. The fair value has been determined based on discounting all future repayments of principal and interest between February 3, 2025 and March 31, 2057 at the estimated interest rate of 2.1% [2019 – 2.9%] that would be available to the Corporation on December 31, 2020.

The Corporation has estimated the fair value of its senior secured amortizing bonds as at December 31, 2020 as amounting to $557,571 [2019 – $513,467]. The fair value has been determined based on discounting all estimated future repayments of principal and interest required to fully repay the bonds at the estimated interest rate of 3.0% [2019 – 3.5%] that would be available to the Corporation at December 31, 2020.

(b) Market risk

The Corporation is exposed to market risk, which is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices are comprised of three types of risks: interest rate risk, foreign exchange risk and commodity price risk. As the Corporation has not entered into significant hedging transactions or derivative contracts, there is no little exposure to commodity price risk.

19. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT [CONTINUED]

(b) Market risk [continued]

(i) Interest rate risk

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

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

A sensitivity analysis was conducted to examine the impact of a change in the prime rate on the Corporation's outstanding drawings on its credit facility. A variation of 1% [100 basis points], with all other variables held constant, would increase or decrease the annual interest expense by approximately $2,253.

(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 equals CDN $0.79 as at December 31, 2020 would increase or decrease the equity of the Corporation by approximately $2,713.

(c) Credit risk

Credit risk is the risk that a counterparty will default on its obligations, causing a financial loss to the Corporation. As a result of the COVID-19 pandemic, certain segments of the Corporation's customer base experienced business shutdowns, employment layoffs or other displacements, which negatively affected the customers' ability to pay utility bills on a timely basis. Furthermore, the Corporation was ordered to cease all service disconnections for nonpayment during the pandemic by the OEB through an extension of the winter disconnection ban to July 31, 2020 (from April 30, 2020).

Concentration of credit risk associated with electricity related accounts receivable is limited due to the large number of customers the Corporation services. The Corporation has approximately 346,000 customers served by Hydro Ottawa, the majority of which are residential. As a result, the Corporation does not earn a significant amount of electricity-related revenue and does not have a significant electricity-related receivable from any individual customer. The Corporation is exposed to a concentration of credit risk in generation-related accounts receivable due to the small number of entities the Corporation services. The Corporation relies on its power purchase agreements with the IESO and the Niagara Mohawk Power Corporation to support its Canadian and U.S. generation operations.

[in thousands of Canadian dollars]

19. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT [CONTINUED]

(c) Credit risk [continued]

The Corporation performs ongoing credit evaluations of customers serviced by Hydro Ottawa and requires collateral to support non-residential customer accounts receivable on specific accounts to mitigate significant losses in accordance with OEB legislation. As at December 31, 2020, the Corporation held security deposits related to power recovery and distribution revenue in the amount of $14,406 [2019 – $14,713] with respect to these customers. The Corporation's other subsidiaries limit credit risk by dealing with customers that are considered to be of high credit quality. These customers include government agencies, utilities, municipalities, universities, school boards, hospitals, and customers with investment grade credit ratings.

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

The Corporation applies the *IFRS 9 – Financial Instruments* simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade and other receivables. The expected loss rates for trade receivables are based on the payment profiles of sales over a period of 12 months before December 31, 2020 or December 31, 2019 respectively and the corresponding historical credit losses experienced within this period and other information. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. Given the high degree of uncertainty caused by the COVID-19 pandemic, the estimates and judgments made by management in the preparation of the loss allowance are subject to a high degree of estimation uncertainty. Based on the Corporation's current estimates and assumptions, including but not limited to recent trend for customer collections and current and forecasted economic conditions, the Corporation adjusted the loss allowance to account for the higher level of expected customer defaults at the balance sheet date.

On that basis, the loss allowance as at December 31, 2020 and December 31, 2019 was determined as follows for trade and other receivables.

	Gross carrying amount $	Weighted average loss rate	Loss allowance $	Net carrying amount $
December 31, 2020				
Outstanding for 30 days or less	**121,091**	0.00 %	-	121,091
Outstanding for more than 30 days but no more than 120 days	**6,162**	20.06 %	1,236	4,926
Outstanding for more than 120 days	**3,808**	42.57 %	1,621	2,187
Unbilled receivables relating to electricity	**79,710**	1.42 %	1,135	78,575
	210,771		3,992	206,779
December 31, 2019				
Outstanding for 30 days or less	**110,339**	0.00 %	-	110,339
Outstanding for more than 30 days but no more than 120 days	**7,543**	6.70 %	506	7,037
Outstanding for more than 120 days	**2,893**	48.60 %	1,407	1,486
Unbilled receivables relating to electricity	**78,417**	0.17 %	133	78,284
	199,192		2,046	197,146

[in thousands of Canadian dollars]

19. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT [CONTINUED]

(c) Credit risk [continued]

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

	2020 $	2019 $
Balance, beginning of year	**2,046**	2,541
Net remeasurement of loss allowance	**2,921**	779
Write-offs	**(1,197)**	(1,496)
Recoveries of amounts previously written-off	**222**	222
Balance, end of year	**3,992**	2,046

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

As at December 31, 2020, 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 11, are maintained to meet obligations as they come due while minimizing standby fees and interest. The Corporation's currently available liquidity is expected to be sufficient to address any reasonably foreseeable impacts that the COVID-19 pandemic may have on the Corporation’s cash requirements.

[in thousands of Canadian dollars]

19. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT [CONTINUED]

(d) Liquidity risk [continued]

Liquidity risks associated with financial commitments are as follows:

	2020		
	Due within one year $	Due between one and five years $	Due after five years $
Bank indebtedness	**225,564**	**-**	**-**
Accounts payable and accrued liabilities	**195,185**	**-**	**-**
Senior unsecured debentures			
Series 2006-1, 4.97%, due December 19, 2036	**-**	**-**	**50,000**
Series 2013-1, 3.99%, due May 14, 2043	**-**	**-**	**150,000**
Series 2015-1, 2.61% due February 3, 2025	**-**	**200,000**	**-**
Series 2015-2, 3.64%, due on February 2, 2045	**-**	**-**	**175,000**
Senior secured amortizing bonds			
Series 2016-1, 4.08%, due March 31, 2057	**-**	**11,313**	**192,489**
Series 2019-1, 3.53%, due December 31, 2059	**-**	**3,642**	**286,872**
Interest to be paid on long-term debt	**38,623**	**159,243**	**638,729**
	459,372	**374,198**	**1,493,090**

Accounts payable and accrued liabilities in the above table exclude $7,842 of accrued interest which is included in interest to be paid on long-term debt.

[in thousands of Canadian dollars]

20. REVENUE FROM CONTRACTS WITH CUSTOMERS AND OTHER SOURCES

The Corporation's revenue breakdown is as follows:

	2020 $	2019 $
Revenue from contracts with customers		
Power recovery and distribution		
Residential service (1)	**464,097**	357,161
General service (2)	**650,633**	658,205
Large users (3)	**70,438**	72,879
Generation	**47,471**	32,239
Commercial services		
Streetlight installation and maintenance	**6,685**	13,179
Turnkey and energy management services	**5,858**	7,435
Service work related to distribution operations	**6,110**	9,073
Pole attachment and duct rental	**4,591**	4,454
Other		
Account-related charges and admin	**4,073**	3,022
Capital contributions from customers amortized to revenue	**2,343**	1,848
	1,262,299	1,159,495
Revenue from other sources		
Other		
Investment property rentals	**535**	850
Capital contributions from developers amortized to revenue	**2,245**	1,719
	1,265,079	1,162,064

(1) Residential service means a service that is for domestic or household purposes, including single family or individually metered multifamily units and seasonal occupancy.

(2) General service means a service supplied to premises other than those receiving Residential Service and Large Users and typically includes small businesses and bulk-metered multi-unit residential establishments. This service is provided to customers with a monthly peak demand of less than 5,000 kW averaged over a twelve-month period.

(3) Large users means a service provided to a customer with a monthly peak demand of 5,000 kW or greater averaged over a twelve-month period.

[in thousands of Canadian dollars]

21. OPERATING COSTS

	2020 $	2019 $
Salaries, wages and benefits	**86,548**	87,405
Contracted services - distribution system maintenance	**10,001**	11,097
Contracted services - customer owned plant	**8,555**	15,669
Contracted services - other	**10,515**	11,651
General and administrative	**42,959**	34,682
Other electricity distribution costs	**11,289**	9,570
Inventory expensed as cost of goods sold and other	**1,061**	4,338
Capital recovery	**(30,496)**	(30,989)
Flood loss - disposal of property, plant and equipment	**-**	1,209
Flood loss - repair, cleanup and mitigation expenses	**409**	2,388
Gain on property insurance proceeds from third party	**(2,533)**	(2,137)
	138,308	144,883

On February 28, 2019, EONY's Dolgeville generating station in New York State was seriously damaged by a flood. In November 2019, the Town of Dolgeville sustained a second flood which caused a significant amount of debris to clog the station's intake – requiring significant repair, cleanup and dredging of waterway expenses in 2019 and 2020. The refurbishment of the Dolgeville generating station was completed during the year and operations resumed in November 2020. The Corporation has recognized property insurance recoveries of $2,533 [2019 – $2,137, net of a $995 deductible] based on claims made with its insurer, which has been offset against operating expenses in these consolidated financial statements. As a result of the floods, the Corporation wrote-off $1,209 of property, plant and equipment and incurred $1,352 of repair and cleanup costs in 2019.

The Corporation has recognized $52 [2019 – $425] in business interruption proceeds from its insurer with respect to the Dolgeville floods which has been recorded as other income in these consolidated financial statements.

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

22. FINANCING COSTS

	2020 $	2019 $
Interest on long-term debt	**38,617**	32,815
Short-term interest and fees relating to credit facility	**3,854**	6,290
Interest on lease liabilities	**97**	99
Less: capitalized borrowing costs	**(5,642)**	(5,438)
	36,926	33,766

[in thousands of Canadian dollars]

23. INCOME TAXES

Income tax expense recognized in net income comprises the following:

	2020 $	2019 $
Current tax expense		
Current income tax expense	**1,466**	2,440
Deferred tax expense		
Origination and reversal of temporary differences	**11,031**	13,343
Income tax expense recognized in net income	**12,497**	15,783

Income tax recovery recognized in OCI comprises the following:

	2020 $	2019 $
Income tax effect on exchange differences on translation of foreign subsidiary	**(273)**	(912)
Other	**(664)**	(623)
Income tax recovery recognized in other comprehensive income	**(937)**	(1,535)

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:

	2020 $	2019 $
Federal and Ontario statutory income tax rate	**26.50 %**	26.50 %
Income attributable to equity shareholder before income taxes	**46,617**	48,305
Income taxes at statutory rate	**12,354**	12,801
Increase (decrease) in income taxes resulting from:		
Permanent differences	**1,330**	1,141
Tax rate differential	**(263)**	(263)
Impact on foreign exchange translation on subsidiary	**(138)**	(330)
Foreign tax rate differential	**41**	38
Unrecognized tax benefit	**14**	1,651
Tax impact on joint venture	**(209)**	(193)
Changes in tax reserve	**(565)**	-
Other	**(67)**	938
	12,497	15,783
Effective income tax rate	**26.81 %**	32.67 %

[in thousands of Canadian dollars]

23. INCOME TAXES [CONTINUED]

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

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

	2020 $	2019 $
Property, plant and equipment and intangible assets	**5,462**	2,918
Employee future benefits	**308**	76
Non-capital loss carryforwards	**9,142**	6,705
Other temporary differences	**639**	436
	15,551	10,135

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

	2020 $	2019 $
Property, plant and equipment and intangible assets	**(82,771)**	(63,655)
Tax recognized in OCI related to foreign subsidiary translation	**(888)**	(1,161)
Exchange differences and other	**166**	(142)
Non-capital loss carryforwards	**125**	1
Employee future benefits	**5,762**	5,266
Other	**2,385**	188
	(75,221)	(59,503)

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

	2020 $	2019 $
Deferred tax asset, beginning of year	**10,135**	8,272
Impact of foreign exchange rate change on opening deferred tax asset balance	**(208)**	(292)
Recognized in net income	**5,443**	2,110
Recognized in OCI	**181**	45
Deferred tax asset, end of year	**15,551**	10,135

[in thousands of Canadian dollars]

23. INCOME TAXES [CONTINUED]

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

	2020 $	2019 $
Deferred tax liability, beginning of year	**(59,503)**	(45,213)
Recognized in net income	**(16,474)**	(15,637)
Recognized in OCI	**756**	1,490
Other	**-**	(143)
Deferred tax liability, end of year	**(75,221)**	(59,503)

The Corporation's regulatory deferral account debit balance for the amounts of deferred income taxes expected to be collected from customers in future electricity rates is $48,868 [2019 – $38,059].

As at December 31, 2020, the Corporation had Canadian capital losses of $708 [2019 – $708] and Canadian non-capital losses of $1,251 [2019 – $1,199] for which the tax benefit has not been recognized in the consolidated financial statements. At December 31, 2020, the Corporation had U.S. losses of $5,943 [2019 – $6,062] for tax purposes, for which the tax benefit has not been recognized in these consolidated financial statements.

At December 31, 2020, the Corporation had Canadian non-capital losses of $11,764 for tax purposes for which the tax benefit has been recognized in these consolidated financial statements.

The Corporation has U.S. losses carried forward of $30,182 [2019 – $25,948], of which $15,413 [2019 – $15,724] expires between 2035 and 2037. The remaining losses of $14,769 [2019 – $10,224] can be carried forward indefinitely. Losses of $24,239 [2019 – $19,886] are considered more likely than not to be realized, resulting in a recognized deferred tax asset of $6,335 [2019 – $5,197].

Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax assets and unused tax losses can be utilized. Net deferred tax assets of $9,333 [2019 – $6,577] have been recognized in EONY as there is sufficient positive evidence to demonstrate that it is probable that a net deferred tax asset will be realized. Factors considered include: historic and expected future taxable income and the nature, amount and expected timing of reversal of taxable temporary differences.

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

[in thousands of Canadian dollars]

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

	2020 $	2019 $
Accounts receivable	**(7,789)**	(17,326)
Prepaid expenses	**2,399**	(2,200)
Note receivable from parent	**3,656**	(792)
Accounts payable and accrued liabilities	**(10,713)**	22,232
Inventory	**(165)**	307
Customer deposits in accounts receivable	**-**	1,158
Net change in accruals related to property, plant and equipment	**12,918**	(7,562)
Net change in accruals related to intangible assets	**264**	(4,800)
	570	(8,983)

25. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

	2020 **$**	2019 $
Long-term debt, beginning of year	**1,060,733**	773,390
Amortization of debt-issuance costs expensed	**325**	270
Proceeds from issuance of long-term debt	**-**	290,513
Debt-issuance costs	**(162)**	(3,440)
Long-term debt, end of year	**1,060,896**	1,060,733

26. CONTINGENT LIABILITIES

Purchasers of electricity from the IESO are required to provide security to mitigate the risk of their default based on their expected activity in the market. The IESO could draw on these guarantees if the Corporation fails to make a payment required by a default notice issued by the IESO. A prudential support obligation is calculated based upon a default protection amount and the distributor's trading limit less a reduction for the distributor's credit rating. As at December 31, 2020, the Corporation had drawn standby letters of credit in the amount of $10,000 [2019 – $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.

26. CONTINGENT LIABILITIES [CONTINUED]

The Corporation is party to connection and cost recovery agreements with HONI as described in Note 7 of these consolidated financial statements. Each of the Corporation's CCRAs has a term of 25 years. To the extent that the cost of a project is not recoverable from future transformation connection revenues, the Corporation is obligated to pay a capital contribution equal to the difference between these revenues and the construction costs allocated to the Corporation. These agreements require periodic reviews whereby a comparison of actual to forecasted load is conducted, and a true-up calculation performed. When a true-up calculation shows the Corporation’s actual load for the past period and updated load forecast for the future period are lower than the initial load, the Corporation is obligated to make up this shortfall. When the Corporation's actual load and updated load forecast are higher than the initial load, the Corporation is entitled to a rebate. True-up calculations are made in years 5 and 10 and in year 15 if the difference between the actual incremental load and initial load at the end of year 10 is greater than 20%.

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

27. COMMITMENTS

As at December 31, 2020, the Corporation has $110,788 in total open commitments spanning between 2021 and 2027. These include commitments relating to a call centre services agreement, distribution-related construction projects, overhead and underground services and other services relating to the Corporation's operations. In addition, the Corporation has $6,905 in outstanding purchase commitments relating to a refurbishment project as described in Note 1 of these consolidated financial statements.

The Corporation maintains leases with various entities for the rights to certain lands, waterways, buildings and other generating assets at its generating stations in Ontario, Québec and New York. These leases are in place through various dates, ranging between September 30, 2022 and December 13, 2116. Certain leases have annual payments which have a fixed and contingent portion, the latter of which is based on either annual gross revenues or power generation levels and are not factored in the calculation of the Corporation's lease liability or effective lease term. The Corporation's anticipated future minimum lease payments will be: 2021 to 2025 – $635 and $36,018 thereafter.

28. RELATED PARTY TRANSACTIONS

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

(a) Transactions and balances outstanding with parent

During the year, the Corporation earned power recovery and distribution revenue from the City of Ottawa and its other subsidiaries, which was billed at prices and terms approved by the OEB. In addition, the Corporation earned commercial services revenue from the City of Ottawa and its other subsidiaries totaling $330 [2019 – $455] via its regulated subsidiary, Hydro Ottawa, and $11,024 [2019 – $18,192] via Envari. During the year, the Corporation also received $8,220 [2019 – $4,268] in contributions relating to the upgrade and/or expansion of the Corporation's existing electricity distribution infrastructure; earned $376 [2019 – $357] in interest revenue with respect to the note receivable from the City of Ottawa; incurred $37 [2019 – $40] in lease interest expense and made $47 [2019 – $44] in lease liability repayments with respect to a long-term lease outstanding with the City of Ottawa at December 31, 2020.

[in thousands of Canadian dollars]

28. RELATED PARTY TRANSACTIONS [CONTINUED]

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

The Corporation incurred $5,441 [2019 – $4,651] of operating costs to the City of Ottawa. The Corporation also incurred $248 [2019 – $504] in building permit costs and development charges, which are included in property, plant and equipment.

As at December 31, 2020, the Corporation's accounts receivable and customer deposits include $19,581 [2019 – $16,965] and $1,510 [2019 – $1,053], respectively, while the Corporation's accounts payable and accrued liabilities include $372 [2019 – $170] due to the City of Ottawa and its subsidiaries in respect of the transactions described above. In addition, the Corporation's note receivable from the City of Ottawa is disclosed in Note 10 of these consolidated financial statements and the Corporation's long-term lease liability to the City of Ottawa included in Note 16 at December 31, 2020 is $880 [2019 – $931].

(b) Transactions and balances outstanding with joint ventures

(i) Moose Creek LP

During the year, the Corporation earned interest income in the amount of $33 [2019 – $72] on its note receivable from the Moose Creek LP joint venture, as well as $24 [2019 – $24] in other revenue for the provision of administrative services. As at December 31, 2020, the Corporation's accounts receivable include $7 [2019 – $16] due in respect of the transactions described for balances paid on behalf of Moose Creek LP.

The Corporation's note receivable from Moose Creek LP is disclosed in Note 10 of these consolidated financial statements.

(ii) PowerTrail

During the year, the Corporation earned imputed interest income in the amount of $nil [2019 – $36] on its note receivable from the PowerTrail joint venture that was repaid during the year, as well as $25 [2019 – $26] in other revenue for the provision of administrative services. As at December 31, 2020, the Corporation's accounts receivable include $7 [2019 – $2] due in respect of the transactions described.

(iii) ZCU

At December 31, 2020, accounts receivable includes $33 due from ZCU with respect to amounts paid on the joint venture's behalf [2019 – $nil].

(c) Compensation of key management personnel

	2020 $	2019 $
Salaries, director fees and other short-term benefits	**1,679**	1,660
Employee future benefits	**210**	195
Other long-term benefits	**21**	17
	1,910	1,872

29. COMPARATIVE INFORMATION

Certain comparative figures have been adjusted to conform to the current period's presentation. For the comparative consolidated statement of cash flows, $5,250 was removed from both the acquisition of property, plant and equipment [investing activity] and contributed capital from developers [operating activity] relating to non-cash transactions that should be excluded from the respective line items.

30. SUBSEQUENT EVENTS

On January 22, 2021, the Corporation entered into a loan and grant agreement with the Federation of Canadian Municipalities ['FCM'] to fund an ongoing green district energy construction project undertaken by its 50% owned-and-controlled joint venture, ZCU. Also on January 22, 2021, the Corporation entered into a mirror arrangement with ZCU [under similar terms as those between the Corporation and FCM] which governs the flow-through of funds received by the Corporation from FCM to ZCU. The FCM loan and grant agreement allows the Corporation to borrow the lesser of $20,000 and 69.6% of eligible project expenditures, repayable over a term of 20 years, in addition to a non-repayable grant based on the total project expenditures incurred.

Statement of Executive Compensation

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

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

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

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

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

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

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

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

COMPENSATION OF OFFICERS AND BOARD MEMBERS

Officers

NAME AND PRINCIPAL POSITION[1]	YEAR	BASE SALARY ($)	AT RISK PERFORMANCE INCENTIVE ($)[2]	OTHER COMPENSATION ($)[3]
Bryce Conrad	2020	402,583	N/A	44,826
President and Chief Executive Officer	2019	394,719	N/A	51,599
	2018	387,037	N/A	44,843
Geoff Simpson	2020	207,527	57,173	12,411
Chief Financial Officer	2019	190,491	63,899	8,603
	2018	186,783	61,790	8,548
Guillaume Paradis	2020	168,211	42,287	18,893
Chief Electricity Distribution Officer	2019	157,009[4]	34,175[5]	10,060
Gregory Clarke	2020	197,233	58,040	10,432
Chief Electricity Generation Officer	2019	193,380	63,730	8,616
	2018	189,616	62,727	9,267
Adnan Khokhar	2020	198,612	58,446	12,455
Chief Energy and Infrastructure Services Officer	2019	194,732	41,272	8,731
	2018	121,211[6]	N/A	15,550

1 Officers whose earnings are reported are those who occupied the position at December 31, 2020.

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

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

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

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

6 Mr. Khokhar assumed the position of Chief Energy and Infrastructure Services Officer on May 7, 2018. Had Mr. Khokhar been employed in this position for the entire year, his base salary would have been $191,000.

Board Members

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

- The Board Chair receives an annual stipend of $40,000;
- All other Board members receive an annual stipend of $7,000;
- The Board Chair receives $600 for each board or committee meeting chaired or attended;
- Committee Chairs receive $800 for each meeting of the committee chaired; and
- All other Board members receive $600 for each board or committee meeting attended.

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

Corporate Governance

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

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

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

GOVERNANCE STRUCTURE

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

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

KEY GOVERNANCE PROCESSES AND CONTROLS

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

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

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

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

APPOINTMENTS TO THE BOARDS OF DIRECTORS

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

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

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

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

COMMITTEES

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

Hydro Ottawa Holding Inc.

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

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

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

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

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

BOARD AND COMMITTEE MEETING ATTENDANCE

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

HYDRO OTTAWA HOLDING INC.

DIRECTOR	BOARD MEETINGS	COMMITTEE MEETINGS
Jim Durrell, C.M., ICD.D (Chair)	4/4	13/13
Bryce Conrad (President and CEO)	4/4	N/A
Yaprak Baltacioglu	4/4	6/6
Kim Butler	4/4	7/7
Dale Craig[1]	2/2	2/2
Matt Davies	4/4	7/7
Jacqueline Gauthier[2]	2/2	3/3
Jan Harder	3/4	3/4
Andrea Johnson	4/4	5/5
Cyril Leeder	4/4	6/7
Paul McCarney[2]	2/2	4/4
Lori O'Neill[1]	2/2	3/3
Jenna Sudds[3]	3/4	3/4

1 Denotes outgoing Board member whose term ended on June 30, 2020

2 Denotes incoming Board member whose term took effect July 1, 2020

3 Denotes incoming Board member whose term took effect February 12, 2020

HYDRO OTTAWA LIMITED

DIRECTOR	BOARD MEETINGS	COMMITTEE MEETINGS
Jim Durrell, C.M., ICD.D (Chair)	3/3	N/A
Bryce Conrad (President and CEO)	3/3	N/A
Guillaume Paradis	3/3	N/A

Note: Dale Craig was appointed to the Hydro Ottawa Holding Inc. Board of Directors effective October 1, 2013. He served as the Chair of the Strategic Initiatives Oversight Committee and as a member of the Governance and Management Resources Committee until the end of his term on June 30, 2020.

Lori O'Neill was appointed to the Hydro Ottawa Holding Inc. Board of Directors effective July 1, 2014. She served as a member of the Governance and Management Resources, Investment Review, and Audit Committees, and Chaired the Audit Committee from 2015 to the end of her term on June 30, 2020.

We wish to convey our sincere appreciation to Dale Craig and Lori O'Neill for their dedicated service.

Members of the Boards of Directors

HYDRO OTTAWA HOLDING INC.


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


Bryce Conrad


Yaprak Baltacioglu


Kim Butler


Dale Craig


Matt Davies


Jacqueline Gauthier


Jan Harder


Andrea Johnson


Cyril Leeder


Paul McCarney


Lori O'Neill


Jenna Sudds

HYDRO OTTAWA LIMITED


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

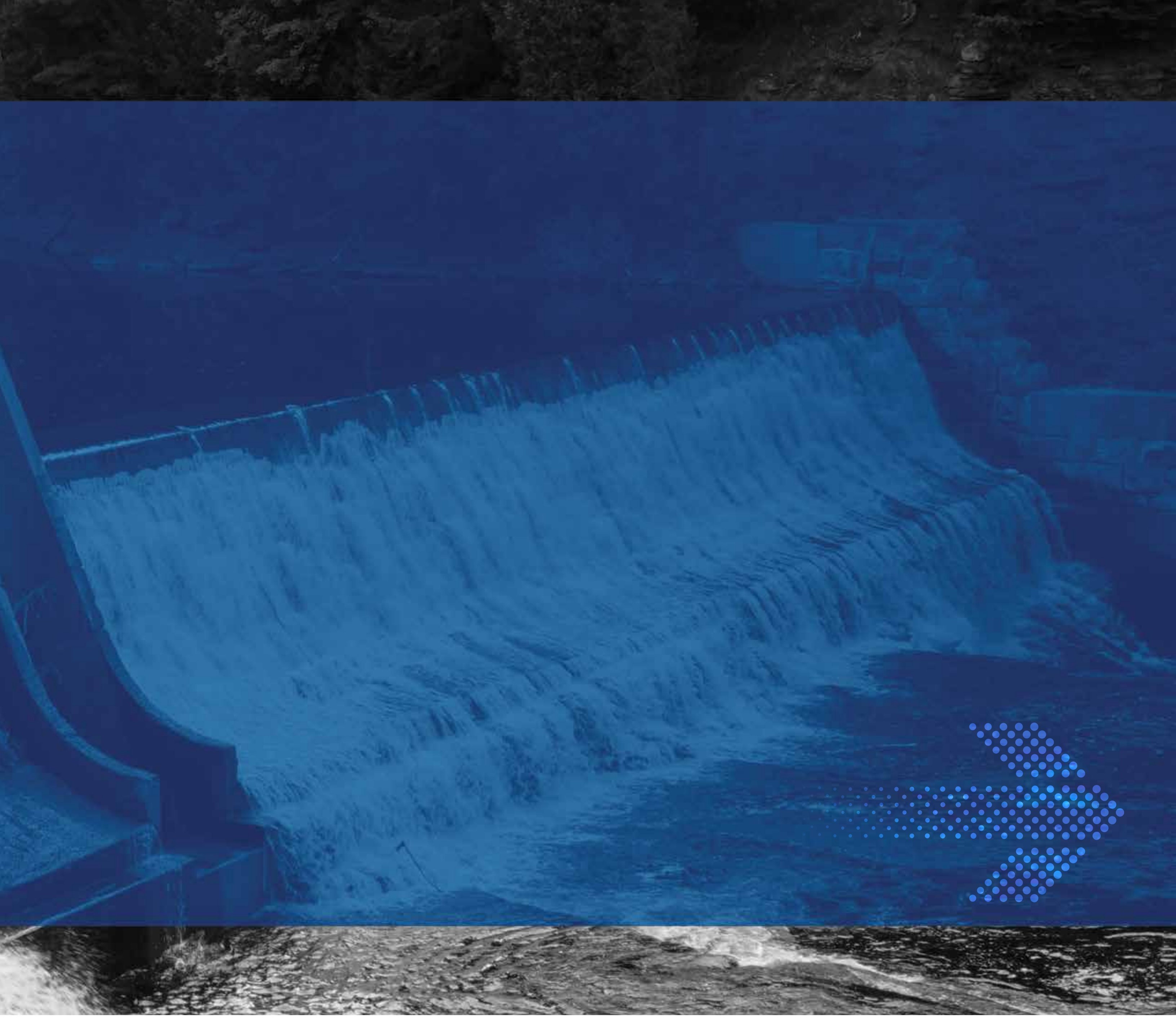

Bryce Conrad


Guillaume Paradis

Best Employers List (Canada)

Expanding Excellence Award for
Innovation in People and Process

Customer Service Award



Emerging Leader of the Year Award – Chris Murphy

Global 100 People Practitioners – Lyne Parent-Garvey

2020 CANADA'S GREENEST EMPLOYERS

President's Award of Excellence for Employee Safety

Hydro Ottawa Holding Inc.

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

La version française du présent rapport annuel est affichée sur le site hydroottawa.com.

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2711 Hunt Club Road
PO Box 8700
Ottawa, Ontario K1G 3S4
Tel (613) 738-5499 ext. 2345

hydroottawa.com