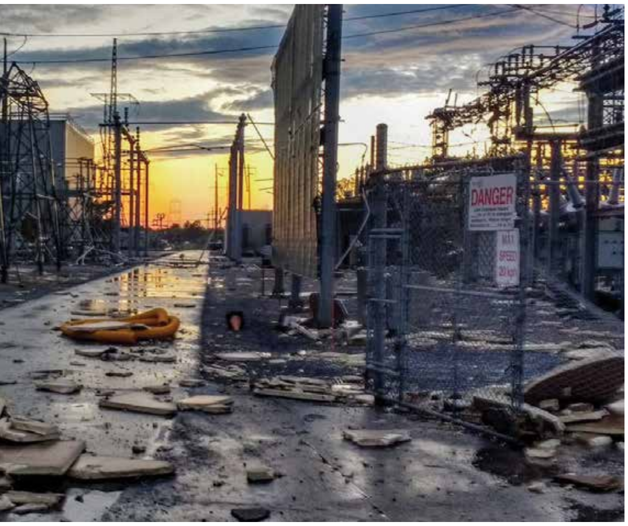
HydroOttawa
Holding Inc.









Annual Report 2018



Our Mission

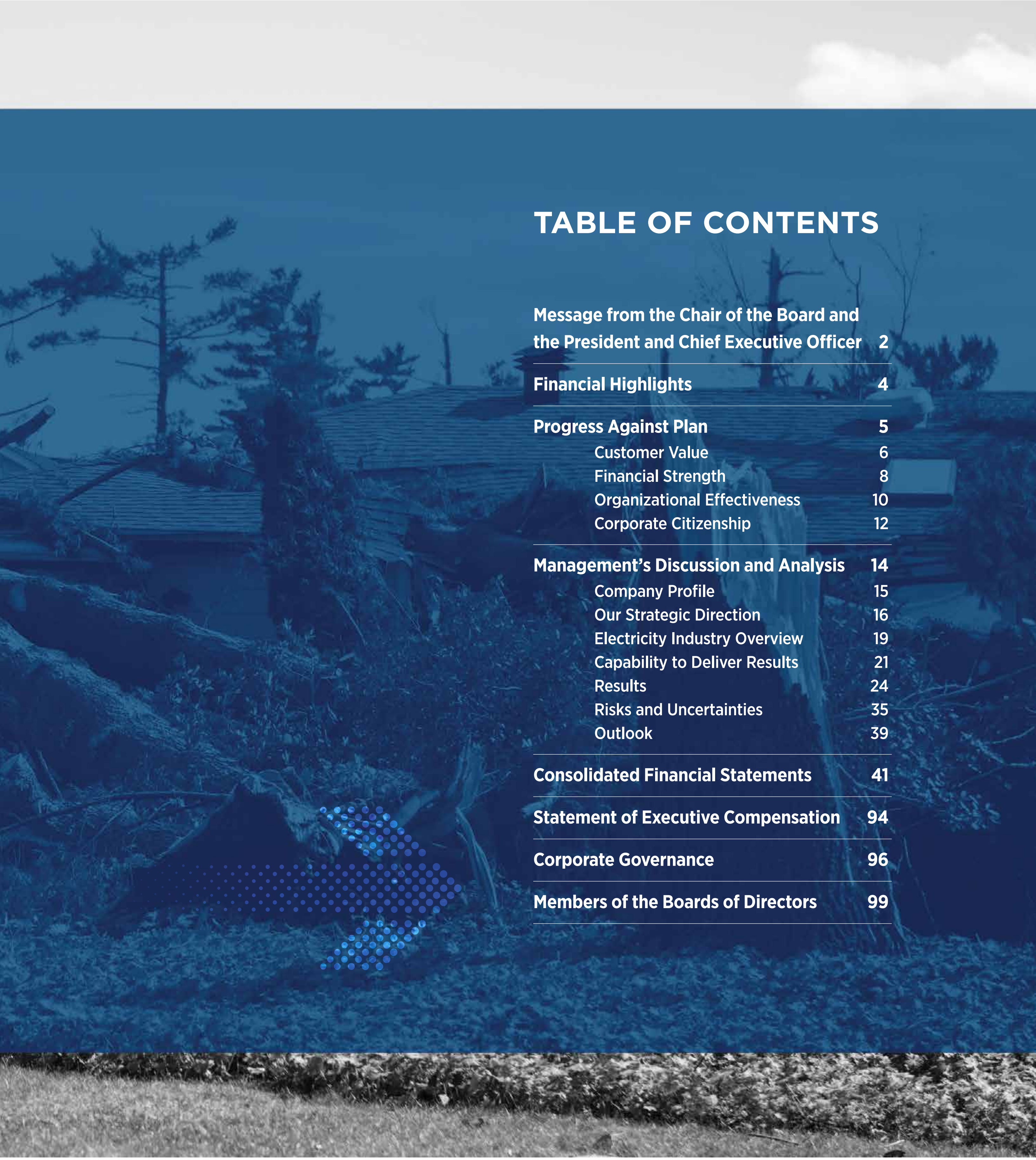
To create long-term value for our shareholder, benefitting our customers and the communities we serve

Our Organizational Values

Teamwork, Integrity, Excellence and Service

Our Vision

Hydro Ottawa – a leading partner in a smart energy future



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

On behalf of the Board of Directors of Hydro Ottawa Holding Inc., our management and employees, we are pleased to provide this 2018 Annual Report to our shareholder, the City of Ottawa. This report marks our third year of reporting on progress towards the vision and commitments laid out in our 2016-2020 Strategic Direction, which was endorsed by our shareholder in June 2016.

Once again in 2018 – and in fact even more so – key defining events in the life of our city and the conduct of our business were weather related. The ice and wind storms of the spring, while extreme in their own right, paled in comparison to the tornadoes that struck our service territory on Friday, September 21. The devastation in several neighbourhoods was profound, and power was interrupted over wide swaths of the city. It was the worst damage we have suffered since the 1998 ice storm, and affected not only our own distribution grid, but also one of the two critical power transformer stations we rely on to connect to the provincial electricity supply.

We activated our crisis response plan, dispatched crews and staffed an incident command centre round-the-clock, communicated extensively with customers, and kept a sharp focus on employee and public safety. By the early hours of Monday, September 24, service was restored to 95 percent of affected customers with all areas re-energized by Wednesday. Crucially, we achieved this feat with no lost-time injuries. This left us with three takeaways: our employees are remarkably dedicated, our customers are highly supportive, and our ongoing investments in infrastructure resilience are essential.

Despite disruptive weather effects, our financial performance remained strong in 2018. Consolidated net income at $42.1 million was up $6.2 million over 2017, strengthened by a one-time Conservation and Demand Management incentive payment of $4.1 million. This resulted in a $22.3 million dividend payment to the City of Ottawa, while our consolidated return on equity rose to 9.4 percent.

It is important to note that in March 2019, the provincial government announced its intention to refocus and centralize delivery of conservation and demand management programs. The programs that will remain in place will be delivered by the Independent Electricity System Operator [IESO] rather than by local distribution companies. This will have a significant impact on our business, as CDM programs have contributed to our net income and dividends, and this revenue stream will not be available in future years. Hydro Ottawa and local residents and businesses have been leaders in the field of energy conservation and we will continue to work with the IESO to ensure that our customers have access to the remaining programs. Other electricity policy reforms are underway in Ontario, and we will continue to closely monitor and respond to these developments.

What remains constant is our focus on effectively operating and investing in the electricity grid, while insulating our customers as much as possible from cost increases. In 2018, we continued to respond to our customers' strong expectation that we pursue all available savings, through innovation, productivity improvement and cost-control measures. This helped us rank second among our peers in Ontario in terms of lowest costs per customer.

We also continued to improve the customer experience by improving the flow of information and developing innovative services. Enhancements in 2018 focused on social media, our mobile app, digital outage communication, and making it easier to register for our payment plans and other transactional

activities such as moves. Notably, we became the first Canadian utility whose customers can access account and conservation information via smart home audio assistants.

We made prudent and strategic investments to strengthen aging components of our distribution grid, guided by our OEB-approved capital expenditure plan and the principle of directing investments where they will have the greatest value for customers. Our distribution system capital spending was at its highest level ever, reflecting in part asset-replacement expenses arising out of the extreme weather events.

We also maintained strong performance in our non-distribution businesses. 2018 was the first full year in operation of our new generation facility at Chaudière Falls, which boosted our green energy revenues by 52 percent, or $13.3 million. We continued to invest in our generating assets, commencing refurbishments of our two stations in Gatineau. Upon completion of this work in 2020, these stations will feed power into the Ontario grid under 40-year power purchase agreements, helping to alleviate a forecast capacity shortage in Ottawa's downtown core.

Our community involvement remained extensive, encompassing outreach to key stakeholders, and high-impact charitable investments to enhance community well-being. Within our own walls, employee safety and well-being remained an unwavering priority throughout the year.

In a year when we encountered significant weather-related challenges, Hydro Ottawa achieved 94 percent customer satisfaction – our highest rating in the past decade. For us, this is a signal that we are on the right track. We remain committed to providing safe, reliable and competitively priced electricity, and delivering value to our shareholder, our customers and our community.

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

Bryce Conrad
President and Chief Executive Officer

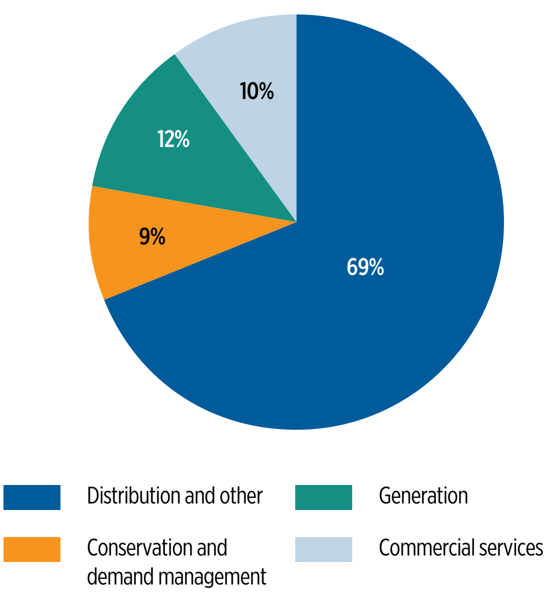
Financial Highlights

[in thousands of Canadian dollars]

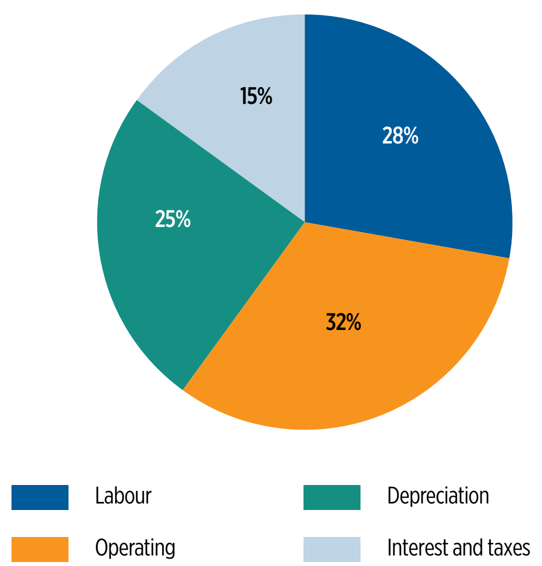
	2018	2017
Operations		
Total revenue [1]	**$ 1,132,294**	$ 1,140,187
Distribution revenue [1]	**$ 180,216**	$ 170,982
Generation revenue	**$ 32,325**	$ 22,898
Commercial services revenue	**$ 28,998**	$ 26,960
Conservation and demand management income	**$ 24,865**	$ 23,976
EBITDA [1]	**$ 141,675**	$ 118,271
Net income	**$ 42,138**	$ 35,975
Dividends	**$ (22,300)**	$ (21,900)
Balance Sheet		
Total assets and regulatory balances	**$ 1,855,616**	$ 1,732,334
Capital assets	**$ 1,573,661**	$ 1,391,356
Debentures	**$ 773,390**	$ 773,168
Shareholder's equity	**$ 462,882**	$ 438,141
Cash Flows		
Operating	**$ 138,979**	$ 91,962
Investing	**$ (182,747)**	$ (148,074)
Financing	**$ (21,900)**	$ (20,600)

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

Revenue by Type [1,2]



Expenses by Type [1,2]



1 Pre-IFRS 14

2 Excludes Power Recovery and Purchased Power

Progress Against Plan

Hydro Ottawa's 2018 Annual Report is the third to report against the Company's *2016–2020 Strategic Direction* that outlines our business strategy and financial projections for the next five years. This strategy retains the core elements of the previous strategic plan [2012–2016 Strategic Direction], while responding to an altered strategic context and reflecting important changes to the Company itself – including the scale of its renewable generation business. It also outlines a new vision for Hydro Ottawa – to be *a leading partner in a smart energy future*.

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

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

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

FOUR KEY AREAS OF FOCUS

Customer Value

STRATEGIC OBJECTIVE

We will deliver value across the entire customer experience

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

Financial Strength

STRATEGIC OBJECTIVE

We will create sustainable growth in our business and our earnings

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

Organizational Effectiveness

STRATEGIC OBJECTIVE

We will achieve performance excellence

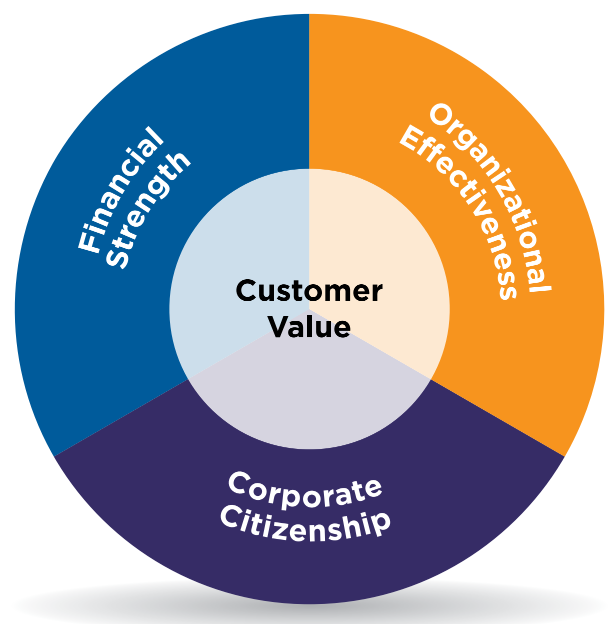
- By cultivating a culture of innovation and continuous improvement

Corporate Citizenship

STRATEGIC OBJECTIVE

We will contribute to the well-being of the community

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



Customer Value

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

99% power restored within three days after tornadoes

$84.7M invested to keep distribution system safe and reliable

The essence of Hydro Ottawa's business strategy is to put the customer at the centre of everything we do. In 2018, we continued to deliver on our core commitment of a reliable supply of electricity – even at a time when weather extremes are becoming increasingly routine.

Our service territory was hit by a major ice storm in April, a major wind storm in May, and then by the tornadoes of September 21, which had devastating effects on several Ottawa neighbourhoods and disrupted the power supply for 174,000 customers. Hydro Ottawa immediately moved onto an emergency-operations footing, and was able to fully restore power to all residents within five days of the tornadoes – despite sustaining more damage to the distribution grid than during any other event since the 1998 ice storm.

While these weather events had an unavoidable impact on average outage duration during the year, we were able to moderate that impact due to improvements we have made to our physical infrastructure and our monitoring and remote-response capabilities, which have increased resilience. In early September, for example, we upgraded our Supervisory Control and Data Acquisition [SCADA] system, and were therefore better able to monitor and respond to grid impacts when the tornadoes struck just days later.

48% e-billing participation – highest in Ontario

Launched market leading smart speaker service

94% customer satisfaction rate – highest in a decade

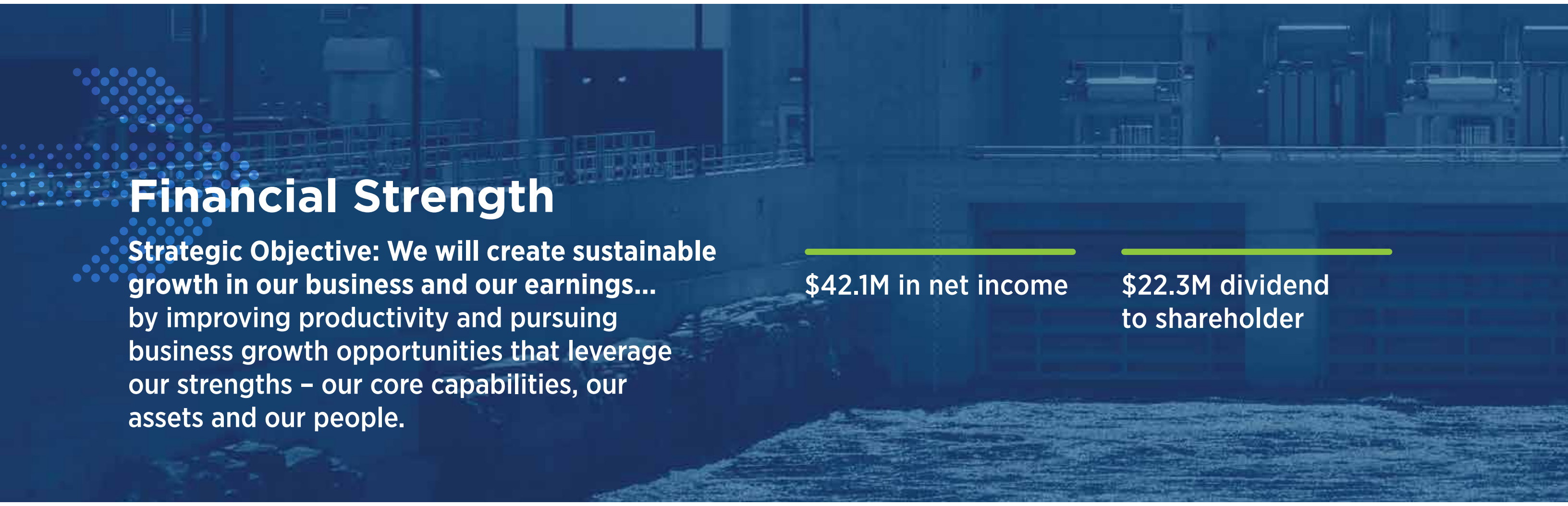
Our investments in system renewal totaled $84.7 million in 2018, including asset-replacement costs arising out of the extreme weather events. Consistent with both our customer-value focus and our OEB-approved capital plan, these investments targeted aging infrastructure and other imminent reliability risks. We invested a further $40.9 million to meet growing demand and to connect new customers to the grid, and gross distribution-related capital spending reached its highest-level ever in 2018.

We also continued to advance well beyond traditional utility service models in 2018. We made it easier for customers to report outages, to stay informed through social media, and to access detailed information through our outage map. We became the first Canadian utility whose customers can access account and conservation information via their Alexa and Google home audio assistants, and launched a residential electric vehicle charging pilot project.

We also made transactions more convenient by simplifying electronic payments and equal-monthly-payment services. Nearly half of our customers now use our e-billing option.

We continued to offer services and information to support energy conservation, including various features of the Hydro Ottawa App, while also continuing to deliver a broad suite of both commercial and residential conservation and demand management programs in 2018.

We achieved a 94 percent overall customer satisfaction score, which was the highest level in the past decade. We also received favourable customer and stakeholder feedback on the effectiveness of our response to the tornadoes and other weather events.



Financial Strength

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

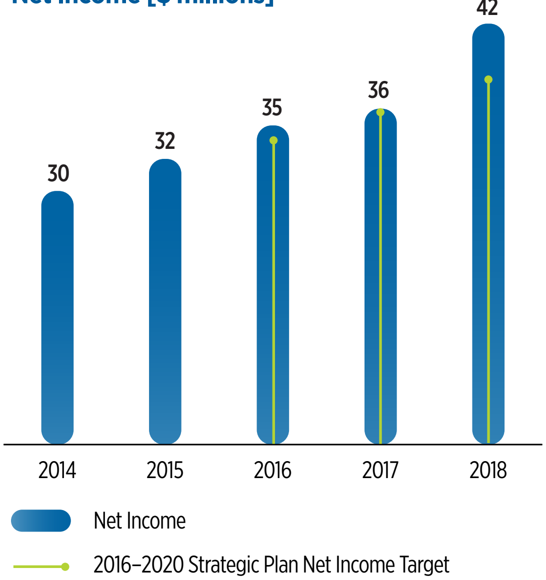
$42.1M in net income

$22.3M dividend to shareholder

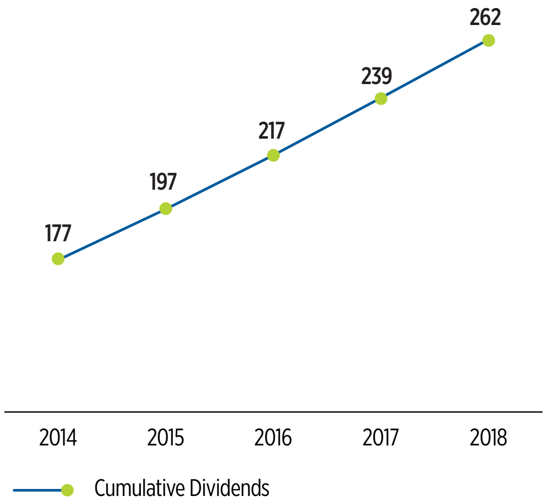
Hydro Ottawa achieved excellent financial results again in 2018. Key contributing factors included a one-time conservation and demand management [CDM] incentive payment of $4.1 million; the first full year in operation of the new Chaudière generating station on the Ottawa River, resulting in a 52 percent [$13.3 million] increase in generation revenues; and continued development of new business lines and revenues. Due to provincial policy changes announced in March 2019, Hydro Ottawa will not receive CDM incentive payments in future years.

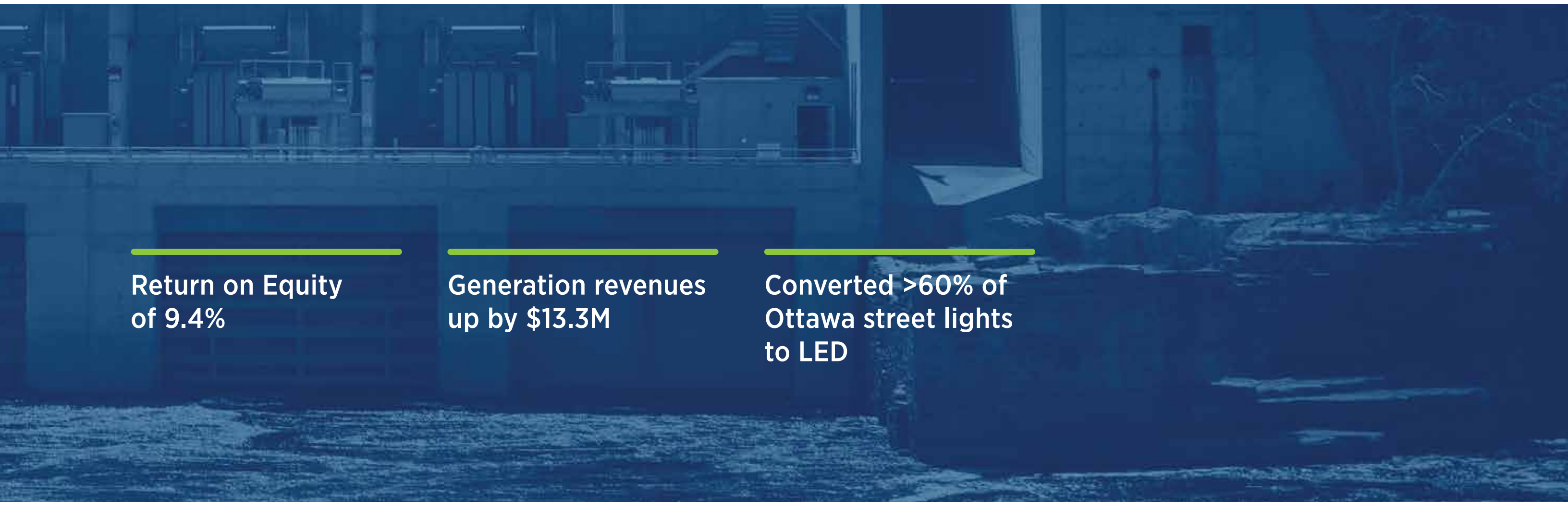
Our consolidated net income rose by $6.2 million to $42.1 million, surpassing the commitment in our 2016-2020 Strategic Direction by 11 percent. With a consolidated return on equity of 9.4 percent, Hydro Ottawa continued to create value for its sole shareholder, the City of Ottawa. Our 2018 performance generated a dividend payment of $22.3 million, well above the floor of $20 million, due in large part to the CDM incentive payment. This brought cumulative dividends paid to $262 million since 2005.

Net Income [$ millions]



Cumulative Dividends [$ millions]





Return on Equity of 9.4%

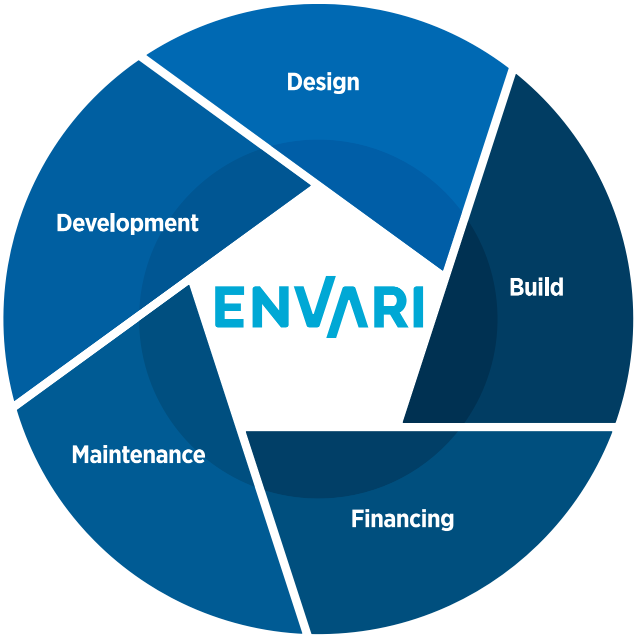
Generation revenues up by $13.3M

Converted >60% of Ottawa street lights to LED

These results were achieved despite the financial impacts of the tornadoes and other major weather events during the year; and despite the cancellation of Ontario's cap-and-trade program, which previously helped customers finance the purchase of energy-efficiency services and products. Productivity and cost containment gains were key to our financial success. In 2018, Hydro Ottawa ranked second for lowest costs per customer among large distributors in Ontario.

In July 2018, we suspended operations at two generating stations in Québec to commence significant refurbishments. Once this work is fully completed in 2020, Hydro Ottawa will sell electricity from these stations to the Province of Ontario under a 40-year contract with the IESO, helping to alleviate a forecast capacity shortage in Ottawa's downtown core.

At the end of 2018, our energy and utility-services business was separated from our generation business, and is now pursuing a growth and diversification strategy under the Envari brand. Envari's largest current project is the City of Ottawa streetlight conversion contract, which is almost two-thirds complete and delivering earlier and higher than projected energy savings to the City. Envari is also exploring and developing a range of other services. To date, it has seen particularly encouraging interest in its cable testing service, which achieved significant revenue growth in 2018.



Organizational Effectiveness

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

Safety remained our top priority

Renewed our trades workforce with 15 new apprentices

We believe that achieving the objectives set out in our 2016-2020 Strategic Direction for enhancing customer, shareholder and community value requires an effective and constantly learning organization, with the right skills and organizational capacity to deliver on existing and new business lines. As such, in 2018 we continued to focus on three main outcomes: a safe and healthy work environment; an engaged, aligned and prepared workforce; and effective and efficient operations that enhance the customer experience.

Protection of employee and public health and safety remained our top priority, with a particular focus on employee wellness, and mindful and safe work practices. We provided an average of 20 hours of safe work practices training per employee, and more than 33 hours for employees in higher risk trades. Our Occupational, Health, Safety and Environment [OHSE] management system continued to be certified to the internationally recognized standards of OHSAS 18001 and ISO 14001.

We reached two noteworthy safety-related milestones, the first being zero lost-time injuries during our demanding emergency responses to the tornadoes and other extreme weather events during the spring and fall. And we achieved a full one-million hours worked without a new lost time injury during the year.

Like many other utilities, Hydro Ottawa faces challenging workforce demographics. But with the benefit of a proactive and long-standing Talent Management Strategy, we have been successful in getting in front of this trend and in achieving significant workforce renewal. In 2018, we had apprentices in

the pipeline in all trades required for our operations and the percentage of employees eligible to retire began to decrease. Our partnership with Algonquin College to replenish the Powerline Technician Trade remained strong, and the College recognized Hydro Ottawa with an Employer of the Year Award for our commitment to training and hiring its alumni.

Our summer and co-op student programs continued, as did our retiree and older-worker engagement programs, and our second diversity and inclusion plan progressed well. Inaugural celebrations of International Women's Day and Lineworker Appreciation Day were part of a much broader suite of initiatives aimed at advancing workforce diversity, inclusion, engagement and appreciation.

Productivity and performance improvement remained a focal point. Significant initiatives in 2018 included new vegetation management service contracts that reduced tree trimming costs; and digitization of our distribution system design, review and sign off processes. Technology also continued to play a key role in our efforts to enhance performance and productivity, as well as customer service. In 2018, we invested $10.2 million in next generation technology to support customer service, operational efficiency, grid modernization and cybersecurity.

The construction phase of our Facilities Renewal Program neared completion in 2018. In 2019 we will dispose of two facilities – inherited from pre-amalgamation utilities – and relocate into modern operations centres and administrative office, which have been designed and located to match the current scale and configuration of our service territory.

Corporate Citizenship

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

Raised >$370K through charitable fundraising

Educated >18,000 students on electrical safety

In 2018, Hydro Ottawa remained true to its heritage as a responsible company – one that is well-governed, open and engaged with our stakeholders, environmentally responsible, and an active contributor to community well-being.

We were highly visible to and engaged with our stakeholders, while also providing high-impact support in diverse and carefully chosen ways within our service territory. And we took steps to further reduce our own environmental footprint, while contributing to the wider transition to a greener economy and lifestyles in our service territory.

We communicated regularly in 2018 with the City of Ottawa [and its mayor and councillors] as our sole shareholder, as well as with community associations and business improvement areas, and with Ottawa residents generally. We hosted open houses to discuss our planned work projects and their community impacts, sponsored or participated in more than 400 community events, and educated more than 18,000 local students about electrical safety. And we maintained a high profile on both traditional and social media channels.

Our Community Investment Program continued to be a leading source of targeted charitable contributions in Ottawa. We raised over $370,000 as part of our 2018 employee driven charitable fundraising campaign, with funds directed to a five-year, $1 million arrangement with The Ottawa Hospital to help build the Breast Health Centre as well as to the United Way, including their mental health programs.

Special Needs Day continued to be one of the year's employee volunteer highlights making it possible for children and adults with intellectual and/or physical disabilities to experience a day at the Capital Fair. We also maintained our long-standing corporate support for Christie Lake Kids, whose programming benefits economically disadvantaged youth. Numerous additional smaller scale community-partnership investments were directed primarily to youth-focused organizations, and to initiatives ranging from the Help Santa Toy Parade to the Capital Pride Community Fair.

Strong waste diversion, local purchasing, and installation of solar arrays at our new operating facilities were among the practices that reduced our own environmental footprint. In combination with the important role we play in green-energy generation and in facilitating broader electrification, this helped earn us recognition in 2018 as one of Canada's Greenest Employers for the seventh time.

We were once again pleased to have earned third-party recognition in 2018 for the quality of our performance in relation to best employer, corporate social responsibility, leading safety and customer programs, and human resources innovation. [See the inside back cover for full list.] Consistent with our ongoing focus on diversity and inclusion, we were recognized for the first time in 2018 as one of Canada's Best Diversity Employers.

Management's Discussion and Analysis

INTRODUCTION

The Management's Discussion and Analysis ['MD&A'] reviews Hydro Ottawa Holding Inc.'s operational performance and financial results, and should be read in conjunction with the audited consolidated financial statements and accompanying notes for the year ended December 31, 2018. On January 1, 2015, Hydro Ottawa Holding Inc. adopted International Financial Reporting Standards ['IFRS'] including early adoption of *IFRS 14 Regulatory Deferral Accounts* ['IFRS 14']. The accompanying consolidated financial statements are prepared in accordance with IFRS, as issued by the International Accounting Standards Board ['IASB'], and are expressed in thousands of Canadian dollars.

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

CORE BUSINESS AND STRATEGY

Company Profile

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

Hydro Ottawa Limited, the first of these subsidiaries, is a regulated electricity local distribution company [‘LDC’] operating in the City of Ottawa and the Village of Casselman. As the third-largest municipally owned electrical utility in Ontario, Hydro Ottawa Limited maintains one of the safest, most reliable and cost-effective electricity distribution systems in the province, serving approximately 335,000 residential and commercial customers across 1,116 square kilometres. As a condition of its distribution licence, the Company is required to meet conservation and demand management [‘CDM’] targets established by the Ontario Energy Board [‘OEB’]. The Company’s customer base grows by an average of one percent per year.

Energy Ottawa Inc. [‘Energy Ottawa’], the second of these subsidiaries, is the largest Ontario-based municipally owned producer of green power. Energy Ottawa owns and operates six run-of-the-river hydroelectric generation plants at Chaudière Falls near Ottawa’s core, along with the historic Ottawa River Ring Dam, and 10 other run-of-the-river facilities in Ontario and New York. It also holds majority interests in two landfill gas-to-energy joint ventures, which produce clean, renewable energy from landfill gas at the Trail Road and Laflèche landfill sites in Ottawa and in Moose Creek, Ontario; and has 14 solar installations across the City of Ottawa. In total, Energy Ottawa has over 128 megawatts of installed green generation capacity – enough to power 107,000 homes.

Envari Holding Inc. [‘Envari’], the third of these subsidiaries, sells energy solutions to municipalities, to industrial and commercial clients, and to various LDCs. Envari manages large energy transformation projects on behalf of its clients, offers a portfolio of energy efficient and environmentally friendly products and services, and provides operations and maintenance capabilities to its customer base. These activities were previously under Energy Ottawa until December 31, 2018.

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

Our Strategic Direction

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

Strategy

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

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

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

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

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

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

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

Mission, Vision & Guiding Principles

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

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

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

OUR GUIDING PRINCIPLES

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

OUR ORGANIZATIONAL VALUES

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

OUR COMMITMENTS TO OUR STAKEHOLDERS

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

Employees

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

Customers

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

Suppliers and Contractors

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

Community and the Environment

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

Shareholder and Other Suppliers of Finance

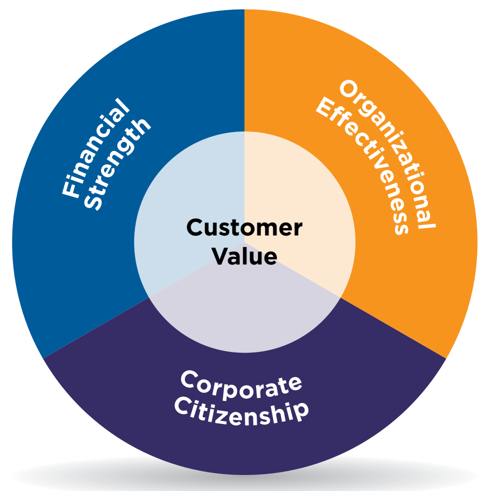
We are financially accountable to our shareholder and to the institutions that underwrite our operations, and communicate to them all matters material to our organization. We protect our shareholder's investment, and manage risks effectively. We communicate to our shareholder all matters that are material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

Four Key Areas of Focus

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

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

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



Electricity Industry Overview

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

Electricity Generation

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

Electricity Transmission

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

Electricity Distribution

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

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

System Operators

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

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

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

Regulatory Framework

In Ontario, the Ministry of Energy ['the Ministry'] sets the overall policy for the energy sector, guided by relevant laws and regulations. The Ministry oversees the IESO and the Ontario Energy Board [OEB], which regulate the energy sector as set out primarily in three statutes — the *Ontario Energy Board Act*, *199*8 ['OEB Act']; the *Electricity Act, 1998*; and the *Energy Consumer Protection Act, 2010*. The OEB Act establishes the authority of the OEB to approve and fix all rates for the transmission and distribution of electricity in Ontario, and to set standards of service, conduct and reporting that must be adhered to as a condition of being licensed.

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

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

Rates

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

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

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

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

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

Energy Ottawa's hydroelectric generation rates are set through facility-specific contracts. For hydroelectric facilities delivering power to Ontario and Québec, Energy Ottawa operates under agreements with the IESO and Hydro-Québec respectively, whereby a "base contractual rate" is determined at the outset of each agreement. In Ontario, an indexing factor is applied on an annual basis until the completion of the contract term; while in Québec the rate is locked in for the first two years after which it fluctuates based on applicable market rates. In July 2018, the Corporation suspended operations at its two generating stations in Québec in order to commence significant refurbishments – once this is completed in 2020, the Corporation will sell its electricity from these stations to the Province of Ontario under a contract with the IESO. For hydroelectric stations located in upstate New York, Energy Ottawa's power purchase agreements – all of which are with the Niagara Mohawk Power Corporation, a subsidiary of National Grid plc – are currently market-based. As a result, the rates that determine generation revenues from these stations fluctuate.

CAPABILITY TO DELIVER RESULTS

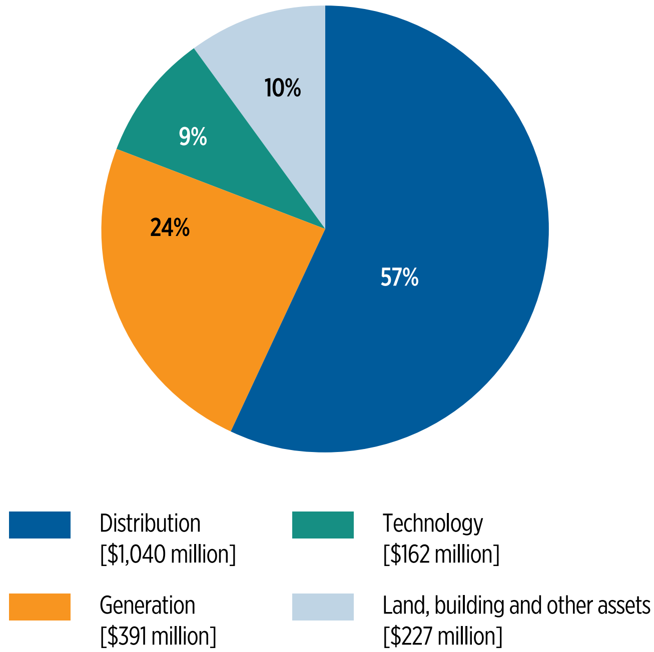
Hydro Ottawa's capability to achieve the objectives set out in its strategic direction is a function of its tangible and intangible assets, expertise, systems, and capital resources across the following areas.

Assets

Hydro Ottawa's gross asset base is $1.82 billion, with significant ongoing investments in distribution and generation infrastructure and technology systems. Like all utilities, Hydro Ottawa is affected by the reality of aging infrastructure, and continues to manage this through increased infrastructure investments and a detailed Distribution System Plan to target spending where it will have the most benefit. In 2018, the Corporation invested $85 million to maintain its distribution system and a further $41 million to expand the system to meet customer needs [see 'Investing Activities' for more details]. These investments are having the desired impact, with electricity service reliability remaining strong system-wide despite the occurrence of major-weather-event days in 2018. Hydro Ottawa has also recognized the need to replace core work and operational centres that are at the end of their useful life. In 2018, work progressed on its facilities renewal project, including construction and preparations for the move in 2019. Hydro Ottawa also continues to grow its renewable generation infrastructure with $49 million invested in 2018.

- ***Electricity Distribution Assets*** – For more than 100 years, Hydro Ottawa and its predecessor companies have delivered a reliable supply of electricity to homes and businesses.
  - › Service Area – 1,116 square kilometers
  - › Circuitry – 5,767 kilometers
  - › Substations – 88
  - › Transformers – 46,536
  - › Poles – 48,514
- ***Renewable Generation Assets*** – Largest Ontario-based municipally owned producer of green power with 128 megawatts of installed generation capacity, enough to power 107,000 homes.
  - › Run-of-the-River Hydroelectric Generating Stations – 16
  - › Landfill Gas-to-Energy Plants – 2
  - › Solar Installations – 14

Gross Tangible and Intangible Assets



Workforce

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

Hydro Ottawa employed approximately 750 people at the end of 2018 across the enterprise, with Hydro Ottawa Limited accounting for 87 percent of this workforce.

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

- ***Training:*** Our in-house apprenticeship and engineering internship programs continued to grow in 2018 with 15 new apprentices hired [bringing the total to 45, or 25 percent of our trades workforce]. Seven apprentices reached journeyperson status in 2018.
- ***Succession:*** Succession planning and management programs ensure that there are qualified employees in the talent pipeline for key positions.
- ***Knowledge Management & Transfer:*** A proactive approach for key positions includes an older worker and retiree engagement strategy to help seamlessly transition work from our veteran workforce to the next generation.
- ***Diversity & Inclusion:*** A plan fosters an inclusive culture that leverages diversity and enhances employee engagement and innovation.
- ***Partnerships:*** These include, most notably, collaborations with Algonquin College to deliver the College's Powerline Technician programs in the eastern Ontario region, and with Carleton University's Sustainable and Renewable Energy Engineering Department for the establishment of a smart grid laboratory. The latter fosters innovative research on electrical power systems and promotes the training of engineers in the smart grid environment.

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

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

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

Systems and Processes

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

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

Examples of initiatives undertaken in 2018 include:

- implemented a new SCADA [Supervisory Control and Data Acquisition] System providing enhanced visibility for system control personnel, field crews and management into the state of the electrical grid;

- expanded outage reporting to enable customers to report a power outage via the Hydro Ottawa MyAccount [web portal] and our mobile app;
- continued to digitize processes and to reduce overall paper footprint by leveraging various technologies such as Blue Beam and DocuSign; and
- became the first utility in Canada to launch a smart audio skill to allow customer inquiries and conservation through Alexa and Google Home devices.

Capital Resources

Liquidity and Capital Resources

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

On August 10, 2018, the Corporation renewed its credit facility for $340 million. The Corporation may use up to $190 million of the facility for general operating requirements and annual capital expenditures. The remaining $150 million provides short-term bridge financing for large capital projects and acquisitions.

Capital expenditure requirements in excess of the credit facility, if any, will be funded through future bond issuances. The utility sector continues to be a very attractive investment in the capital markets with strong demand across all bond tenures. This provides the Corporation access to significant market capacity to support its ongoing investment requirements. The Corporation's existing corporate bond profile is very strong with a weighted average maturity of 19 years at an average weighted cost of 3.49 percent. A $204 million, 40-year non-recourse project bond was issued in 2016 for the hydroelectric generation expansion at Chaudière Falls at a rate of 4.08 percent. For additional details regarding the Corporation's sources of liquidity and capital resources, see Notes 13, 17 and 18 to the consolidated financial statements.

Credit Ratings

On July 31, 2018, Dominion Bond Rating Service Inc. ['DBRS'] reaffirmed Hydro Ottawa's rating at 'A' with a stable trend during the year. While Hydro Ottawa's portfolio of generation assets have long-term power purchase agreements with creditworthy counterparties, DBRS noted that Hydro Ottawa's business risk profile may be negatively affected if earnings from the non-regulated segment exceed 20 percent. On November 7, 2018, Standard & Poor's ['S&P'] confirmed its rating at 'BBB+' with a stable outlook. S&P noted that Hydro Ottawa continues to have an excellent business risk profile due to its operation under a transparent, consistent, and predictable regulatory framework for electricity distribution; its large and diverse customer base; and the quality of its government-backed power purchase agreements for the majority of the generation assets, which provide steady, predictable and stable cash flows.

RESULTS – PROGRESS AGAINST PLAN

To ensure Hydro Ottawa makes steady progress towards achieving the corporate strategy set out in our 2016–2020 Strategic Direction, the Company has set enterprise-wide strategic objectives in each of its four key areas of focus, and established Board-approved performance goals. The table below summarizes performance in relation to its goals for 2018.

KEY AREAS OF FOCUS	ENTERPRISE STRATEGIC OBJECTIVES	2018 PERFORMANCE GOALS	2018 PERFORMANCE HIGHLIGHTS
CUSTOMER VALUE	We will deliver value across the entire customer experience *by providing reliable, responsive and innovative services at competitive rates*	Assist customers in managing their energy consumption and electricity costs Deliver on customer expectations for service quality and responsiveness Maintain overall distribution system reliability	• Reliability remained strong excluding three major weather events – an ice storm [April], a wind storm [May] and tornadoes [September] that severely impacted our distribution system – the tornadoes more so than any other event in the last 20 years • Invested $84.7M to keep our distribution system safe and reliable • Achieved 94% customer satisfaction rate, and accolades for our response and customer service during the tornadoes • Ranked second for operating efficiency [lowest costs per customer] among large distributors in Ontario • Expanded outage reporting to include customer reporting via the web and our mobile App • Achieved highest e-billing participation rate among Ontario LDCs [48% of customers], saving $1.6M per year • Became the first utility in Canada to enable customer inquiries and conservation through Alexa and Google Home devices
FINANCIAL STRENGTH	We will create sustainable growth in our business and our earnings *by improving productivity and pursuing business growth opportunities that leverage our strengths – our core capabilities, our assets and our people*	Grow revenues from new sources Enhance / protect revenues from existing business lines	• Achieved consolidated net income of $42.1M, surpassing the 2016–2020 Strategic Direction commitment by $4.1M; attributable in large part to a mid-term incentive of $4.1M for successful Conservation and Demand Management efforts • On track for completion in 2020 of remaining refurbishments at our Chaudière Falls generating stations in Quebec. Once operational, these stations will sell power under 40-year agreements into the Ontario grid alleviating the forecast shortage in Ottawa's downtown core • Continued to diversify our revenue streams with the launch of the Envari brand in 2018 › Converted 14,260 City of Ottawa street lights to LED for a cumulative total of 35,787 – over 60% savings in kWh › Completed energy retrofit projects for industrial and commercial clients › Increased revenues and expanded customer base for Cable Q [a subsidiary of Envari that offers non-destructive cable testing]

KEY AREAS OF FOCUS	ENTERPRISE STRATEGIC OBJECTIVES	2018 PERFORMANCE GOALS	2018 PERFORMANCE HIGHLIGHTS
ORGANIZATIONAL EFFECTIVENESS	We will achieve performance excellence *by cultivating a culture of innovation and continuous improvement*	Continue to enhance operational performance and productivity Maintain leading health and safety record Enhance organizational and employee capability	• Maintained safety as our top priority, providing an average of 20 hours of safe work practices training for all employees, and reached one million hours worked with no new lost time injury • Continued our focus on productivity and continuous improvement • Invested $10.2M in next-generation technology to support customer service, operational efficiency, grid modernization, and cybersecurity • Maintained certifications for our Occupational Health, Safety and Environment Management System to internationally recognized standards • Advanced the final construction stages of the facilities renewal project and prepared for occupancy in 2019 • Continued to renew our workforce through apprentice and journeyperson hiring [without increasing total positions], and through implementation of comprehensive talent management programs
CORPORATE CITIZENSHIP	We will contribute to the well-being of the community *by acting at all times as a responsible and engaged corporate citizen*	Enhance our brand image in the community and the industry Continue to improve our environmental performance and reduce our impact on the environment	• Supported our communities though employee volunteer efforts, our Community Investment Program, and local delivery of provincial financial assistance programs • Raised over $370K as part of our 2018 Employee Charitable Fundraising campaign • Increased our engagement with the community: › Attended more than 400 community events › Educated almost 18,000 students [K–12] about electricity safety and conservation and renewable energy › Hosted nine Open Houses for planned work › Increased social media engagements by 344%, and grew followers across all platforms [Twitter, Facebook and LinkedIn] • Continued our participation in the North Atlantic Mutual Assistance Group [NAMAG], which facilitates not-for-profit assistance among utilities during times of crisis • Diverted more than 91% of our non-hazardous solid and liquid waste away from landfill • Received 13 awards for performance excellence, including: › Canada's Best Diversity Employers [1st year] › Canada's Top Employer's for Young People [5th year] › One of the National Capital Region's Top Employers [10th year] and › Chartwell Best Practices Award for Outage Communications

FINANCIAL RESULTS

The selected consolidated financial results of the Corporation presented below should be viewed in conjunction with the audited consolidated financial statements and accompanying notes for the year ended December 31, 2018.

Consolidated Statement of Income [Summary]

With the adoption of IFRS in 2015 – including the early adoption of IFRS 14 – several of the Corporation's line items in its audited consolidated statement of income are subject to high volatility. Specifically, IFRS 14 requires a one-line separate presentation of the net movement within the Corporation's regulatory deferral accounts related to income [i.e. the debit and credit balances, net of taxes] within its consolidated statement of income. This net movement of regulatory balances primarily arises when there is a timing difference between the cost of power purchased and the cost of power recovered. This difference is recorded as a settlement variance, representing future amounts to be recovered from or refunded to customers through future billing rates approved by the OEB. Consequently, the Corporation's power recovery and purchased power line items can be significantly impacted by these timing differences. For the purposes of the analysis and interpretation of financial variances presented below, management has identified and excluded impacts resulting from the adoption of IFRS 14, and used pre-IFRS 14 results as the basis for its discussion unless otherwise noted. Management believes this more accurately represents the true financial performance of the Corporation, given its rate-regulated environment as prescribed by the OEB.

[in thousands of Canadian dollars]

	2018	IFRS 14 Impact	2018 (Pre-IFRS 14)(1)	2017	IFRS 14 Impact	2017 (Pre-IFRS 14)(1)	Change (Pre-IFRS 14)(1)
Revenue and other income							
Power recovery	**857,383**	**(5,434)**	**851,949**	896,528	(10,849)	885,679	(33,730)
Distribution	**181,050**	**(834)**	**180,216**	171,400	(418)	170,982	9,234
Generation	**32,325**	**–**	**32,325**	22,898	–	22,898	9,427
Commercial services	**28,998**	**–**	**28,998**	26,960	–	26,960	2,038
Conservation and demand management	**24,865**	**–**	**24,865**	23,976	–	23,976	889
Net gain from insurance proceeds	**6,865**	**–**	**6,865**	2,939	–	2,939	3,926
Other	**7,076**	**–**	**7,076**	6,753	–	6,753	323
	1,138,562	**(6,268)**	**1,132,294**	1,151,454	(11,267)	1,140,187	(7,893)
Expenses							
Purchased power	**857,877**	**(12,493)**	**845,384**	908,649	(25,131)	883,518	(38,134)
Operating costs	**145,694**	**162**	**145,856**	139,797	(307)	139,490	6,366
Depreciation and amortization	**62,180**	**–**	**62,180**	54,800	–	54,800	7,380
	1,065,751	**(12,331)**	**1,053,420**	1,103,246	(25,438)	1,077,808	(24,388)
Income before undernoted items	**72,811**	**6,063**	**78,874**	48,208	14,171	62,379	16,495
Financing costs, interest income and taxes	**45,986**	**(8,629)**	**37,357**	36,838	(9,342)	27,496	9,861
Share of profit from joint ventures	**(621)**	**–**	**(621)**	(1,092)	–	(1,092)	471
	45,365	**(8,629)**	**36,736**	35,746	(9,342)	26,404	10,332
Net income	**27,446**	**14,692**	**42,138**	12,462	23,513	35,975	6,163
Net movements in regulatory balances, net of tax	**14,692**	**(14,692)**	**–**	23,513	(23,513)	–	–
Net income after net movements in regulatory balances	**42,138**	**–**	**42,138**	35,975	–	35,975	6,163

(1) Non-GAAP financial measure

Net Income

Net income increased by approximately $6.2 million or 17 percent in 2018. This increase was primarily due to a $9.2 million increase in distribution sales, an $11.5 million increase in generation and commercial services revenue, the realization of a $4.1 million CDM mid-term incentive, and continuing recognition of insurance proceeds for lost revenue of $3.9 million. The increase in net income is further supported by a $4.4 million decrease in purchased power costs [net of power recovery]. These positive variances were partially offset by increases in operating costs excluding CDM costs of $9.7 million, in depreciation and amortization of $7.4 million, and in financing costs [net of interest income] and taxes of $9.8 million.

Revenue and Other Income

Revenue and other income are earned from electricity distribution, renewable energy generation, energy management and utility services, as well as from CDM programs and sundry activities. In 2018, Hydro Ottawa's total revenue amounted to approximately $1.1 billion, which is on par with 2017.

The largest component of Hydro Ottawa's total revenue is the cost of power recovered from customers through provincially established rates. The cost of power is a flow-through amount, which poses limited risk to Hydro Ottawa's financial performance. However, variances arise between the cost of power purchased and the cost of power recovered, due to timing differences in invoicing from the IESO for the former, and receipt of payment from customers for the latter. This difference is recorded as a settlement variance. Hydro Ottawa Limited's power recovery revenue decreased by $33.7 million, mainly due to decreased global adjustment rates included in purchased power costs.

Distribution sales are recorded based on OEB-approved distribution rates, set at a level intended to recover the costs incurred by Hydro Ottawa Limited in delivering electricity to customers, and they include revenue related to the collection of OEB-approved rate riders. 2018 marks the third year of rates approved under Hydro Ottawa Limited's 2016–2020 custom incentive rate application. Distribution sales revenue increased $9.2 million or five percent from 2017 largely due to higher 2018 electricity distribution rates and higher electricity consumption resulting from warmer weather relative to 2017. The Ontario Fair Hydro Plan does not have any effect on Hydro Ottawa's distribution sales.

CABLEQ
NON-DESTRUCTIVE TESTING




Energy Ottawa's generation revenues grew by $9.4 million in 2018. The increase was largely due to the expanded Chaudière facility, which commenced commercial operations on August 18, 2017. Despite the fact that one of its four generating units was out-of-service throughout 2018 – due to a manufacturer's defect and resulting mechanical failure upon start up in 2017 – production exceeded budgeted expectations. The affected unit is expected to be in service in 2019. The Corporation continues to receive compensation from its insurers to mitigate lost revenues from this unit. In July 2018, the Corporation suspended operations at its two generating stations in Québec [acquired from Hydro Québec in 2016 and Domtar in 2012] in order to commence significant refurbishments. Once this is completed in 2020, the Corporation will sell its electricity from these stations to the Province of Ontario under a 40-year Hydroelectric Standard Offer Program [Municipal Steam] contract with the IESO.

In 2018, commercial services revenue increased by $2.0 million largely due to service work related to distribution operations. During the year, the Ontario government repealed the province's cap-and-trade program – which funded rebates for energy-efficient renovations and other initiatives – impacting the sales of energy services and infrastructure products to external clients, and limiting other commercial services revenue. The City of Ottawa street light conversion project, through which a cumulative total of 35,787 LED streetlights have been installed since 2016, progressed as planned. New endeavors gained momentum, including non-destructive cable testing services provided through an exclusive license with the National Research Council of Canada. The CDM program successfully achieved its mid-term conservation target triggering an incentive payment of $4.1 million to the Corporation from the IESO.

In 2018, the Corporation recognized a net gain of $6.9 million from insurance proceeds. The gain related to lost-revenue compensation resulting from the mechanical failure of a unit at the expanded Chaudière facility that occurred in August 2017. In 2017, the Corporation recognized $1.6 million in lost revenue compensation from the mechanical failure, and a further $1.3 million relating to business interruption and property damages arising from the shutdown of the facilities at Chaudière Falls, Rideau Falls and Kingston Mills due to a once-in-one-hundred-year flood event, for a total net gain from insurance proceeds of $2.9 million.

Expenses

Purchased Power and Operating Costs

Purchased power represents the cost of electricity delivered to customers within Hydro Ottawa Limited's distribution service territory. These costs consist of the commodity, wholesale market service charges, transmission charges and the global adjustment. The cost of purchased power decreased by $38.1 million in 2018, mainly due to decreased global adjustment rates.

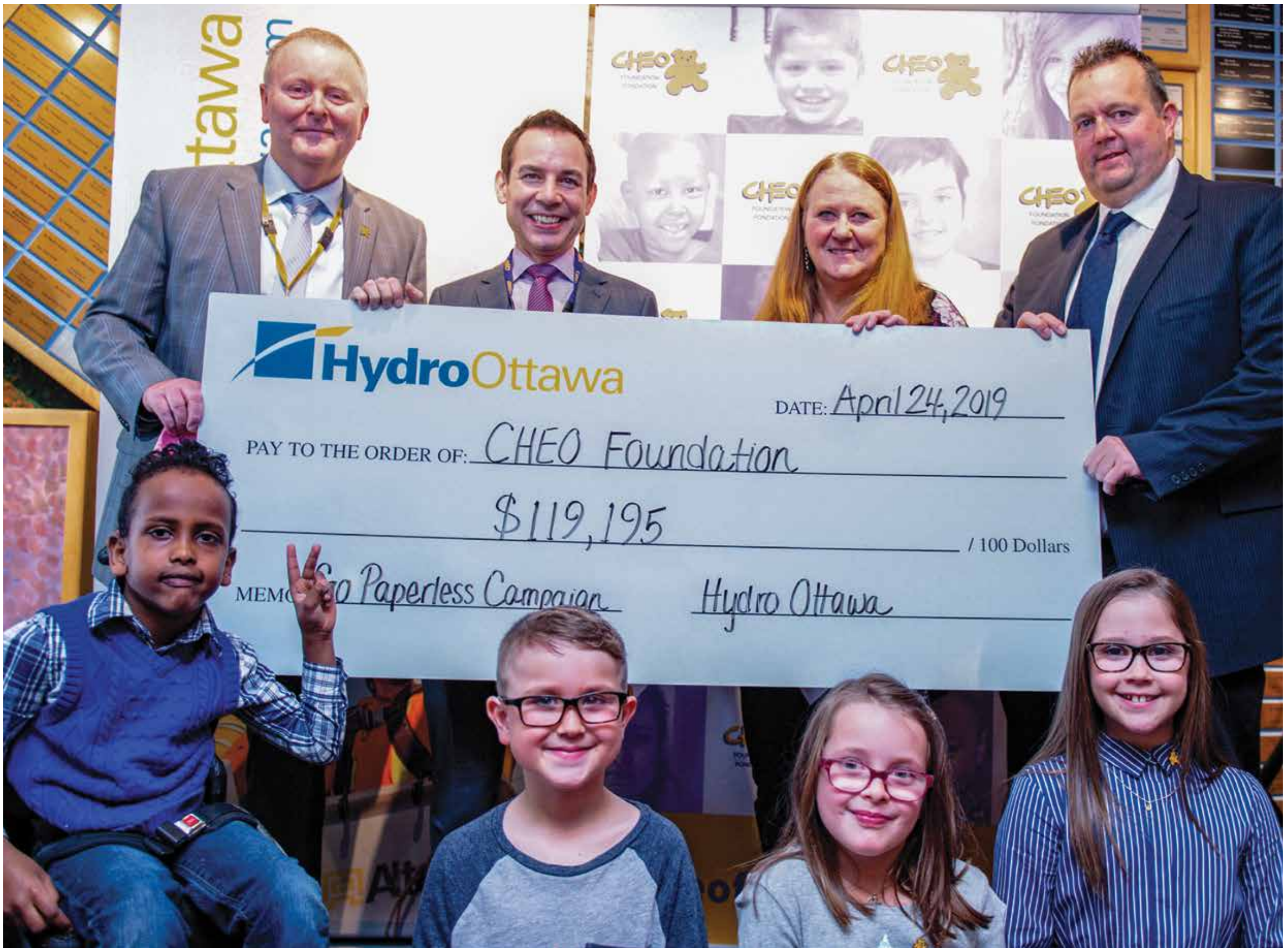
Operating costs in 2018 of $145.9 million were up by $6.4 million due in part to an increase in costs arising from a full year's operation at the newly expanded Chaudière facility. In addition, there were operating expenses related to emergency power restoration due to three major weather events in 2018, including most significantly the tornadoes that touched down in the City of Ottawa in September 2018.

Depreciation and Amortization

Depreciation and amortization on Hydro Ottawa's property, plant and equipment, and intangible assets increased in 2018 by $7.4 million primarily due to the ongoing investment in the Corporation's electricity distribution infrastructure and the expansion of its generation assets.

Share of Profit from Joint Ventures

Share of profit from joint ventures represents the Corporation's share of net income from the continuing operations of Moose Creek Energy LP [50.05 percent] and of PowerTrail Inc. [60.00 percent]. In 2018, the Corporation entered into a partnership with Windmill Dream Limited Partnership to form Zibi Community Utility LP [50.00 percent] – established to build, own and operate a utility for the Zibi development in downtown Ottawa and Gatineau. For more information regarding the Corporation's joint ventures, see Note 10 to the consolidated financial statements.



Financing Costs [net of Interest Income] and Taxes

Financing costs [net of interest income] increased by $6.8 million due to borrowings to finance general operating requirements and annual capital expenditures, and the recognition of interest costs related to the Chaudière Falls expansion project, which had been capitalized during the construction phase.

The Corporation's effective tax rate slightly decreased from 29.15 percent in 2017, to 28.92 percent in 2018, as a result of permanent and temporary differences between the accounting treatment and tax basis of assets and liabilities that arose during the year. The $3.1 million increase in income tax expense is largely the result of an increase in pre-tax income and taxable income. For more information regarding income taxes, see Note 24 to the consolidated financial statements.

Net Movement in Regulatory Balances [Net of Tax]

In accordance with IFRS 14, the Corporation has separately presented the net movement in regulatory balances in the consolidated statements of income and comprehensive income. The changes in the regulatory debit and credit balances for the year [$9.2 million and $4.8 million respectively] on the consolidated balance sheet, equal the net movement in regulatory balances, net of tax, on the consolidated statements of income and comprehensive income [increase of $14.7 million and a decrease of $0.7 million respectively]. The impact of the IFRS 14 adjustments of $14.7 million is shown on the Consolidated Statement of Income [Summary]. As Hydro Ottawa Limited passes on the benefit of deferred income taxes through annual distribution rate adjustments approved by the OEB, it records a regulatory deferral account credit [or debit] balance for the amounts of deferred income taxes expected to be refunded to [or recovered from] customers in future rates.

Consolidated Balance Sheet [Summary]

[in thousands of Canadian dollars]

	2018	2017	Change
Current assets	**208,337**	284,005	(75,668)
Non-current assets	**1,612,612**	1,422,863	189,749
Total assets	**1,820,949**	1,706,868	114,081
Regulatory account balances	**34,667**	25,466	9,201
Total assets and regulatory account balances	**1,855,616**	1,732,334	123,282
Current liabilities	**404,994**	328,462	76,532
Non-current liabilities	**968,048**	941,222	26,826
Total liabilities	**1,373,042**	1,269,684	103,358
Shareholder's equity	**462,882**	438,141	24,741
Total liabilities and shareholder's equity	**1,835,924**	1,707,825	128,099
Regulatory account balances	**19,692**	24,509	(4,817)
Total liabilities, shareholder's equity and regulatory account balances	**1,855,616**	1,732,334	123,282

Assets

Total assets increased by approximately $114 million in 2018. This increase is largely attributable to property, plant and equipment, and to intangible assets – which have collectively increased by $182 million. This collective increase is a result of the refurbishment of the Chaudiere Hydro North LP and Hull Energy LP generating stations, the facilities renewal project, and continuing investments in electrical distribution and generation infrastructure. The increase in assets was partially offset by a $64 million decrease in restricted cash arising out of the project financing arrangement for the Chaudière Falls expansion project. The restricted cash was released upon final completion as per the terms of the trust indenture. The proceeds from the distribution were ultimately used to fund the capital program and other growth initiatives.

Liabilities

Total liabilities increased by $103 million in 2018. The Corporation's current liabilities increased by $77 million largely because of an increase in bank indebtedness of $69 million, and an increase in accounts payable and accrued liabilities and income taxes payable of $8 million. The Corporation also saw a $20 million increase in deferred revenue due to capital contributions received in 2018, net of amortization and of an increase of $15 million in deferred income taxes, offset by a decrease of $5 million in customer deposits. The higher level of customer deposits in the prior year stems from the $14.6 million asset transfer with Public Services and Procurement Canada that occurred in December 2017.

Regulatory Account Balances

IFRS 14 defines a regulatory account balance as the balance of any expense or [income] account that would not be recognized as an asset or liability in accordance with other IFRS standards, but that qualifies for deferral because it is included, or is expected to be included, by the regulator in establishing the rate[s] that can be charged to customers. As at December 31, 2018, Hydro Ottawa Limited has recognized $34.7 million in regulatory account debit balances [assets] and $19.7 million in regulatory account credit balances [liabilities].

The $9.2 million increase in regulatory account debit balances is largely due to a $9.0 million increase in the regulatory asset for deferred income taxes; and to a $0.5 million increase in the Lost Revenue Adjustment Mechanism, which tracks and disposes of lost electricity distribution revenues that result from approved CDM programs.

The $4.8 million decrease in regulatory account credit balances is largely due to a $7.3 million decrease in the settlement of electricity and global adjustment pass-through-cost credit balances. Offsetting this decrease is a $2.0 million increase in the Earnings Sharing Mechanism variance account, which captures 50 percent of any regulated earnings above Hydro Ottawa's approved return on equity for years 2016 to 2020, and an increase of $0.5 million in other variances and deferred costs.

Consolidated Statement of Cash Flows [Summary]

[in thousands of Canadian dollars]

	2018	2017	Change
Bank indebtedness, beginning of year	**(144,490)**	(67,769)	**(76,721)**
Cash provided by Operating Activities	**138,979**	91,962	**47,017**
Cash used in Investing Activities	**(182,747)**	(148,074)	**(34,673)**
Cash provided by Financing Activities	**(21,900)**	(20,600)	**(1,300)**
Foreign exchange impact on cash held in US dollars	**52**	(9)	**61**
Bank indebtedness, end of year	**(210,106)**	(144,490)	**(65,616)**
Cash (bank indebtedness) consists of:			
Cash	**16,737**	13,570	**3,167**
Bank indebtedness	**(226,843)**	(158,060)	**(68,783)**
	(210,106)	(144,490)	**(65,616)**

Operating Activities

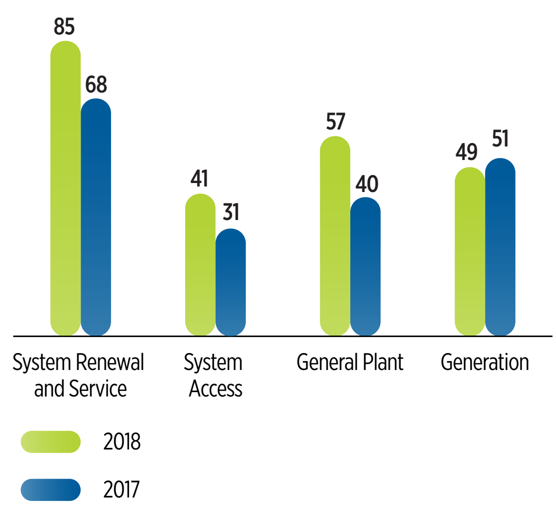
Cash generated by operating activities increased by $47.0 million in 2018. The majority of this increase relates to the change in customer deposits and the net movement in regulatory balances, which in turn is primarily due to changes impacting settlement variance balances. In addition, the Corporation saw an improvement in net income adjusted for non-cash charges, and a decrease in income taxes paid [net of refunds received].

Investing Activities

Cash used in investing activities increased by $34.7 million in 2018. The increase is due to the refurbishment of the Chaudiere Hydro North LP and Hull Energy LP generating stations, to the facilities renewal project, and to our continuing investment in electrical distribution and generation infrastructure. The increase was partially offset by the release of restricted cash held in-trust, in accordance with the Chaudière expansion project financing trust indenture. Total investment in property, plant and equipment and in intangible assets was $231.5 million in 2018. The chart to the right shows Hydro Ottawa's capital investments by category for both 2018 and 2017.

Capital investments in 2018 included: $85 million on system renewal and service capital to replace aging infrastructure and to modify the existing distribution system; $41 million on system access projects, including third-party-driven growth projects such as new residential or commercial installations,

Gross Capital Expenditures [$ millions]



and municipal improvement projects such as the City of Ottawa's Light Rail Transit project; $57 million on general plant, including the facilities renewal project, information technology infrastructure, fleet, and other sundry items; and $49 million on generating plants, of which 75 percent relates to the refurbishment of the Chaudiere Hydro North LP and Hull Energy LP generating stations.

Financing Activities

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

Dividends were paid to the Shareholder in 2018 in accordance with the approved dividend policy. The 2018 payment totaled $21.9 million based on 2017 results, and the 2017 payment totaled $20.6 million based on 2016 results. The policy sets dividends at the greater of 60 percent of Hydro Ottawa Limited's net income, or $20 million.

Accounting Matters

Significant Accounting Estimates and Judgments

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

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

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

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

New Accounting Pronouncements

A number of new standards, amendments and interpretations have either been adopted for the year ended December 31, 2018, or, have been issued but are not yet effective and have therefore not been applied in preparing the accompanying consolidated financial statements.

Recently adopted accounting standards

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

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

  The adoption of IFRS 15 did not have an impact on the Corporation's existing revenue recognition practices as reported in the comparative year. As a result, there have been no adjustments recognized upon the adoption of IFRS 15. The new standard did result in additional disclosures [see notes 15 and 21].
- **Financial instruments:** On January 1, 2018, the Corporation adopted IFRS 9 – *Financial Instruments* ['IFRS 9'] on a retrospective basis, which replaces IAS 39 – *Financial Instruments: Recognition and Measurement* ['IAS 39']. The Corporation has chosen not to restate comparative information with respect to classification and measurement requirements. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9, but rather those of IAS 39.

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

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

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

Recently issued accounting guidance not yet adopted

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

  The new standard becomes effective for reporting periods beginning on or after January 1, 2019. The Corporation plans to adopt IFRS 16 using the modified retrospective application method, as a result of which the 2018 comparatives will not be restated. In addition, the Corporation will apply the recognition exemptions in IFRS 16 for low-value leases, and for leases that end within 12 months of the date of initial application [which will be accounted for as short-term leases]. The Corporation continues to analyze IFRS 16 and the potential impact on its consolidated financial statements.

- **Uncertain tax positions:** On June 7, 2017, the IASB, through the International Financial Reporting Interpretations Committee, issued *Interpretation 23 Uncertainty over Income Tax Treatments* ['IFRIC 23']. IFRIC 23 requires an entity to contemplate whether uncertain tax treatments should be considered separately or together as a group, to determine if it is probable that the tax authorities will accept the uncertain tax treatment, and to measure the tax uncertainty based on the most likely amount or expected value. IFRIC 23 is applicable for annual periods beginning on or after January 1, 2019. The Corporation is currently evaluating IFRIC 23, however management does not expect it to have a material impact on the Corporation's consolidated financial statements.

RISKS AND UNCERTAINTIES

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

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

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

Policy and Regulatory Environment

Long-term policy direction for the electricity sector

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

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

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

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

Actual performance versus forecasts in electricity distribution

Hydro Ottawa Limited expects to be able to carry out its planned capital programs, provide safe and reliable electricity to its customers, and earn the allowed rate of return, in accordance with the approval it has obtained from the OEB for a re-basing of its distribution rates for 2016–2020. However, results may be affected if actual loads and energy consumption vary substantially from forecast; or if actual costs of operations, maintenance, administration, capital and financing materially exceed projections included in the approved revenue requirements.

Market Prices for Electricity

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

Approximately 18 percent of the Corporation's installed generation capacity is directly linked to the market price for electricity in the state of New York. In the absence of a fixed rate power purchase agreement, the Corporation may explore a number of options to reduce its exposure to market fluctuations.

Major Project Execution

The successful and timely completion of major projects is critical to the Corporation's long-term strategic direction, in particular its projected growth in generation revenue.

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

Distribution & Generation Infrastructure

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

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

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

Exchange Rate Fluctuations

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

Economy

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

Credit Ratings and Interest Rates

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

Around 80 percent of the Corporation's debt is subject to a fixed rate of interest, and is accordingly insulated from the impact of upward revision of interest rates. A rise in interest rates would affect the Corporation's credit facility, though its impact is not expected to be material.

Technology Infrastructure

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

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

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

Cybersecurity

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

Customer and Media Perceptions

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

Pension Plans

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

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

Labour Force Demographics

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

Consolidation of Labour Bargaining Power

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

Weather and Hydrology

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

Weather is also of potential direct relevance to Energy Ottawa's renewables generation portfolio, in particular its solar and hydroelectric assets. Hydroelectric generation depends on weather-sensitive water flows, which have both seasonal and annual variations, and which may be further impacted by either natural disaster or government policy and controls.

OUTLOOK

In 2019, Hydro Ottawa expects to continue to earn stable returns and to pursue significant capital expenditures as set out in its current five-year rate structure and capital investment plan. This will be the penultimate year in the period covered by that plan, and by the current corporate Strategic Direction. These frameworks will continue to help ensure Hydro Ottawa can provide safe, reliable and competitively priced electricity throughout its service territory, despite what may be a sustained increase in extreme weather events. Hydro Ottawa will continue to leverage the commercial advantages associated with its extensive non-regulated business, while applying innovation to future-proof the competitiveness of all business lines during a period of ongoing industry transformation.

As is typical following a change in government, wide-reaching electricity policy reform is underway in Ontario, and the implications for Hydro Ottawa's business lines cannot yet be precisely foreseen as evidenced by the government's announcements with respect to CDM and OEB reform in March 2019. Hydro Ottawa will proceed in 2019 with preparation of its 2021–25 rate application, which it expects to publicly file at year-end. Hydro Ottawa – while incorporating sufficient capital investment and responsiveness to customer needs into its application – will at the same time take due account of the heightened importance of affordability among provincial government priorities. Electricity procurement policy is also undergoing significant transformation, although Hydro Ottawa has the benefit of long-term power purchase agreements for all of its generated electricity sold onto the Ontario grid.

The Corporation will maintain the resiliency of the local distribution grid in 2019, and continue to expand it [and its connectivity with the provincial transmission network] in tandem with local demand. Productivity and cost efficiency will be further advanced in 2019 by – among other initiatives – relocation to modern and purpose-designed operational and administrative facilities. Beyond these foundational focal points, Hydro Ottawa will continue to carefully select investments in response to emerging needs and opportunities in areas such as electric vehicle use and demand response; and will continuously refine its risk-management readiness relative to cybersecurity threats.

Acquisitions and expansions in recent years have increased the scope of revenues derived from electricity generation, and further momentum is foreseen in 2019. The expanded Chaudière facility performed well even at a reduced capacity in 2018 and in 2019 is expected to achieve full-capacity operation when a fourth generating unit is brought online. Progress towards 2020 completion of the refurbishment of two generating stations located in Québec will continue. In energy and utility services, Envari will move forward with a strategy to significantly expand its scope of business across diverse client segments, service offerings and geographies. Hydro Ottawa will also advance partnerships such as the one entered into in 2018 for development of a community utility at the Zibi development in central Ottawa-Gatineau – a project representative of the highly tailored, collaborative and sustainable approaches that are likely to increasingly characterize its business in 2019 and beyond.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Hydro Ottawa Holding Inc.

Consolidated Financial Statements

December 31, 2018

Report of Management

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

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

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

On behalf of Management,

Bryce Conrad
President and Chief Executive Officer

Geoff Simpson
Chief Financial Officer

KPMG LLP
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Ottawa ON K2P 2P8
Canada
Telephone 613-212-5764
Fax 613-212-2896

INDEPENDENT AUDITORS' REPORT

To the Shareholder of Hydro Ottawa Holding Inc.

Opinion

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

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

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

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

Basis for Opinion

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

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

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

Other Information

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

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

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

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

We have nothing to report in this regard.

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

We also:

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

KPMG

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Ottawa, Canada

April 16, 2019

Hydro Ottawa Holding Inc.

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

	2018	2017
	$	$
Revenue and other income		
Power recovery revenue	**857,383**	896,528
Distribution revenue [Note 21]	**181,050**	171,400
Generation revenue	**32,325**	22,898
Commercial services revenue [Note 21]	**28,998**	26,960
Other revenue [Note 21]	**7,076**	6,753
Conservation and demand management income	**24,865**	23,976
Net gain from insurance proceeds [Note 11]	**6,865**	2,939
	1,138,562	1,151,454
Expenses		
Purchased power	**857,877**	908,649
Operating costs [Note 22]	**145,694**	139,797
Depreciation [Notes 7 and 9]	**50,273**	45,234
Amortization [Note 8]	**11,907**	9,566
	1,065,751	1,103,246
Income before the undernoted items	**72,811**	48,208
Financing costs [Note 23]	**30,372**	22,683
Interest income	**(1,530)**	(648)
Share of profit from joint ventures [Note 10(a)]	**(577)**	(1,063)
Income before income taxes	**44,546**	27,236
Income tax expense [Note 24]	**17,144**	14,803
Net income	**27,402**	12,433
Net movements in regulatory balances, net of tax [Note 6]	**14,692**	23,513
Net income after net movements in regulatory balances	**42,094**	35,946
Attributable to non-controlling interest	**(44)**	(29)
Net income after net movements in regulatory balances attributable to equity shareholder	**42,138**	35,975

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

Hydro Ottawa Holding Inc.

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

	2018	2017
	$	$
Net income after net movements in regulatory balances attributable to equity shareholder	**42,138**	35,975
Other comprehensive income		
Items that may be subsequently reclassified to net income		
Exchange differences on translation of foreign operations, net of tax	**4,415**	(3,722)
Items that will not be subsequently reclassified to net income		
Actuarial gain (loss) on post-employment benefits, net of tax	**806**	(663)
Net movement in regulatory balances related to other comprehensive income, net of tax	**(674)**	405
Total comprehensive income	**46,685**	31,995

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

Hydro Ottawa Holding Inc.

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

	2018	2017
	$	$
Assets		
Current assets		
Cash	**16,737**	13,570
Accounts receivable [Note 5]	**179,049**	192,696
Income taxes receivable	**147**	1,448
Prepaid expenses	**4,394**	3,690
Inventory [Note 12(c)]	**1,435**	2,162
Current portion of notes receivable from related parties [Note 12]	**6,575**	4,641
Restricted cash [Note 17(b)]	**-**	65,798
	208,337	284,005
Non-current assets		
Property, plant and equipment [Note 7]	**1,449,791**	1,261,191
Intangible assets [Note 8]	**123,870**	130,165
Investment properties [Note 9]	**2,482**	2,602
Investments in joint ventures [Note 10(a)]	**11,690**	8,869
Other asset [Note 11(a)]	**5,771**	5,771
Notes receivable from related parties [Note 12]	**9,386**	8,767
Restricted cash [Note 17(b)]	**1,350**	-
Deferred income tax asset [Note 24]	**8,272**	5,498
Total assets	**1,820,949**	1,706,868
Regulatory balances [Note 6]	**34,667**	25,466
Total assets and regulatory balances	**1,855,616**	1,732,334
Liabilities and equity		
Current liabilities		
Bank indebtedness [Note 13]	**226,843**	158,060
Accounts payable and accrued liabilities [Note 14]	**173,727**	170,286
Income taxes payable	**4,424**	116
	404,994	328,462
Non-current liabilities		
Deferred revenue [Note 15]	**108,395**	88,570
Employee future benefits [Note 16]	**13,412**	14,439
Customer deposits	**26,503**	31,423
Long-term debt [Notes 17 and 26]	**773,390**	773,168
Deferred income tax liability [Note 24]	**45,213**	30,133
Other liabilities	**1,135**	3,489
Total liabilities	**1,373,042**	1,269,684
Equity		
Share capital [Note 19]	**228,453**	228,453
Accumulated other comprehensive income	**5,204**	657
Retained earnings	**229,318**	209,080
Non-controlling interest	**(93)**	(49)
Total liabilities and equity	**1,835,924**	1,707,825
Regulatory balances [Note 6]	**19,692**	24,509
Total liabilities, equity and regulatory balances	**1,855,616**	1,732,334

Contingent liabilities and commitments [Notes 27 and 28]

On behalf of the Board:

Director

Director

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

Hydro Ottawa Holding Inc.

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

	Share capital $	Accumulated other comprehensive income $	Non-controlling interest $	Retained earnings $	Total $
Balance at December 31, 2016	228,453	4,637	(20)	193,705	426,775
Net income after net movements in regulatory balances	-	-	(29)	35,975	35,946
Other comprehensive income	-	(3,980)	-	-	(3,980)
Dividends [Note 19(b)]	-	-	-	(20,600)	(20,600)
Balance at December 31, 2017	228,453	657	(49)	209,080	438,141
Net income after net movements in regulatory balances	-	-	(44)	42,138	42,094
Other comprehensive income	-	4,547	-	-	4,547
Dividends [Note 19(b)]	-	-	-	(21,900)	(21,900)
Balance at December 31, 2018	**228,453**	**5,204**	**(93)**	**229,318**	**462,882**

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, 2018
[in thousands of Canadian dollars]

	2018	2017
	$	**$**
Net inflow (outflow) of cash related to the following activities:		
Operating		
Net income after net movements in regulatory balances	**42,094**	35,946
Adjustments for:		
Depreciation	**50,273**	45,234
Amortization	**11,907**	9,566
Loss on disposal of non-financial assets	**131**	581
Amortization of debt-issuance costs	**222**	165
Share of profit from joint ventures	**(577)**	(1,063)
Amortization of deferred revenue [Note 21]	**(2,811)**	(2,180)
Employee future benefits	**205**	280
Financing costs, net of interest income	**28,842**	22,035
Income tax expense	**17,144**	14,803
Other	**(563)**	(53)
Changes in non-cash working capital and other operating balances [Note 25]	**2,000**	(2,169)
Income taxes paid, net of refunds received	**(2,929)**	(6,045)
Financing costs paid, net of interest income received	**(28,654)**	(21,122)
Capital contributions from customers	**10,985**	10,964
Capital contributions from developers	**11,651**	8,578
Change in customer deposits	**13,751**	(45)
Net movements in regulatory balances	**(14,692)**	(23,513)
	138,979	91,962
Investing		
Acquisition of property, plant and equipment	**(239,993)**	(167,992)
Acquisition of intangible assets	**(4,190)**	(19,830)
Proceeds from disposal of property, plant and equipment	**573**	1,183
Payments relating to the acquisition of subsidiaries	**-**	(10,000)
Investment in joint venture [Note 10(a)]	**(2,276)**	-
Financing costs paid	**(2,639)**	(10,109)
Restricted cash held in-trust	**64,448**	58,288
Repayment of notes receivable from joint ventures	**1,330**	386
	(182,747)	(148,074)
Financing		
Dividends paid [Note 19(c)]	**(21,900)**	(20,600)
Effects of exchange rate changes on cash held in U.S. dollars	**52**	(9)
Net change in cash	**(65,616)**	(76,721)
Bank indebtedness, net of cash, beginning of year	**(144,490)**	(67,769)
Bank indebtedness, net of cash, end of year	**(210,106)**	(144,490)

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

[in thousands of Canadian dollars]

1. DESCRIPTION OF BUSINESS AND CORPORATE INFORMATION

Hydro Ottawa Holding Inc. ['HOHI' or the 'Corporation'] is a holding company incorporated on October 3, 2000 whose sole shareholder is the City of Ottawa. The Corporation's primary operations, as carried out by its subsidiaries and joint ventures below, are the distribution of electricity within the City of Ottawa, the generation of renewable energy, and the provision of distribution and energy related commercial services. The Corporation is domiciled in Canada with its registered head office located at 3025 Albion Road North, Ottawa, Ontario, K1G 3S4.

Significant subsidiaries, each of which is wholly-owned by the Corporation as at December 31, 2018, are as follows:

Subsidiary	Principal activity
Hydro Ottawa Limited ['Hydro Ottawa']	An electricity distribution company regulated by the Ontario Energy Board ['OEB'] that owns and operates electrical infrastructure in the City of Ottawa and the Village of Casselman. In additional to distribution services, Hydro Ottawa Limited invoices customers for amounts it is required to pay to other organizations in Ontario's electricity system for providing wholesale generation and transmission services.
Energy Ottawa Inc. ['Energy Ottawa']	Owns and operates 16 hydroelectric generating stations totalling 115MW located in Ontario and Québec [at Chaudière Falls] and New York state. Significant subsidiaries of Energy Ottawa include Chaudiere Hydro L.P. ['CHLP'], Hull Energy L.P. ['Hull Energy LP'], EONY Generation Limited ['EONY'], Chaudiere Hydro North L.P. ['CHLP North'], and EO Generation LP ['EO Gen'].
Envari Holding Inc. ['Envari']	Incorporated on November 29, 2018, Envari provides expert energy management and infrastructure services previously delivered by Energy Ottawa. These services primarily include energy turnkey solutions, streetlight design, conversion and maintenance services and proprietary non-destructive cable testing. Significant subsidiaries of Envari include Envari Energy Solutions Inc. and Energy Ottawa Cable Testing Services Inc. ['Cable Q']

Joint ventures the Corporation is a party of as at December 31, 2018, are as follows:

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

2. BASIS OF PRESENTATION

(a) Statement of compliance

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

(b) Basis of measurement

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

(c) Functional and presentation currency

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

(d) Use of estimates and judgments

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

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

(i) Accounts receivable

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

(ii) Regulatory balances

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

(iii) Revenue recognition

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

2. BASIS OF PRESENTATION [CONTINUED]

(d) Use of estimates and judgments [continued]

(iv) Useful lives of depreciable assets

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

(v) Impairment of non-financial assets

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

(vi) Employee future benefits

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

(vii) Capital contributions

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

(viii) Deferred income taxes

Tax interpretations, regulations and legislation in the various jurisdictions in which the Corporation and its subsidiaries operate are subject to change. Deferred income tax assets are assessed by management at the end of each reporting period to determine the likelihood that they will be realized from future taxable income. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax assets and unused tax losses can be utilized.

(ix) Indicator of asset impairment

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

2. BASIS OF PRESENTATION [CONTINUED]

(d) Use of estimates and judgments [continued]

(ix) Indicator of asset impairment [continued]

Based on management's judgment, an indicator of impairment [under International Accounting Standards 36 Impairment of Assets ['IAS 36']] existed within EONY at December 31, 2018 pertaining to the energy market prices in New York State. However, management's discounted cash flow analysis under the value-in-use method [as prescribed by IAS 36] resulted in no impairment to be recognized in the 2018 fiscal year. Assumptions with respect to these cash flows are sensitive to the various inputs into the value-in-use calculation, and thus are subject to measurement uncertainty [Note 2(d)(v)].

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of consolidation

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

One subsidiary has a non-controlling interest which is presented as part of equity.

(b) Joint ventures

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

(c) Foreign currency translation

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

(d) Regulation – Hydro Ottawa

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

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

Hydro Ottawa applies for distribution rates based on estimated costs. Once rates are approved, they are not adjusted as a result of actual costs being different from those that were estimated, other than for certain prescribed costs that are eligible for deferral treatment and are either collected or refunded in future rates. The OEB has the general power to include or exclude costs and revenue in the rates of a specific period.

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

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

Regulatory balances principally comprise of the following:

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

3. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

(d) Regulation – Hydro Ottawa [continued]

Other variances and deferred costs include the following:

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

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

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

(e) Revenue recognition

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

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

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

(i) Power recovery

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

(ii) Distribution

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

(iii) Generation

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

3. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

(e) Revenue recognition [continued]

(iv) Commercial services

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

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

(v) Other

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

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

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

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

(f) Interest income and financing costs

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

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

3. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

(g) Government grant income

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

(h) Income taxes

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

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

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

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

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

(i) Restricted cash

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

(j) Bank indebtedness

Bank indebtedness includes short-term advances and/or bankers' acceptances drawn on the Corporation's credit facility with a maturity date of three months or less, and outstanding cheques. Cash and bank indebtedness are offset and the net amount is presented on the consolidated balance sheet when, and only when, the Corporation has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously. At December 31, 2017, $12,637 of cash previously netted against bank indebtedness has been reclassified to cash as there is no legal right to offset against the Corporation's credit facility.

3. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

(k) Financial instruments

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

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

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

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

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

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

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

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

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

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

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

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

[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.

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

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

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

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

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

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

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

Assets under construction and land are not subject to depreciation.

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

3. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

(m) Intangible assets

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

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

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

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

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

Land rights	50 years
Water rights with a definite useful life	7 to 100 years
Computer software	5 to 10 years
Other contractual rights	
Capital contribution agreements	45 years
Power purchase agreements ['PPA']	15 years
Deferred contract costs	15 years

(n) Investment properties

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

(o) Impairment of non-financial assets

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

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

3. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

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

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

Where the assets and liabilities of a CGU containing water rights with indefinite useful lives have not changed significantly; the CGU is not impacted by events or circumstances that would cause its value in use ['VIU'] calculation to significantly change; and the most recent VIU calculation resulted in an amount that exceeded the CGUs' carrying amount by a substantial margin; the most recently performed VIU calculation will continue to be used in the Corporation's evaluation of impairment in the current year.

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

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

(p) Employee future benefits

(i) Pension plans

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

(p) Employee future benefits [continued]

(i) Pension plans [continued]

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

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

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

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

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

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

(ii) Other post-employment benefits

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

(p) Employee future benefits [continued]

(iii) Employee benefits

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

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

(q) Customer deposits

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

(r) Provisions and contingencies

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

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

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

(s) Deferred revenue

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

(t) Debt-issuance costs

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

3. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

(u) Leases

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

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

(v) Inventory

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

4. NEW ACCOUNTING PRONOUNCEMENTS

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

(a) Recently adopted accounting standards

(i) Revenue from contracts with customers

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

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

The adoption of IFRS 15 did not have an impact on the Corporation's existing revenue recognition practices as reported in the comparative year. As a result, there have been no adjustments recognized upon the adoption of IFRS 15. The new standard did result in additional disclosures, see Notes 15 and 21.

4. NEW ACCOUNTING PRONOUNCEMENTS [CONTINUED]

(a) Recently adopted accounting standards [continued]

(ii) Financial instruments

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

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

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

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

(b) Recently issued accounting guidance not yet adopted

(i) Leases

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

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

[in thousands of Canadian dollars]

4. NEW ACCOUNTING PRONOUNCEMENTS [CONTINUED]

(b) Recently issued accounting guidance not yet adopted [continued]

(ii) Uncertain tax positions

On June 7, 2017, the IASB issued International Financial Reporting Interpretations Committee 23 – Uncertainty over Income Tax Treatments ['IFRIC 23']. IFRIC 23 requires an entity to contemplate whether uncertain tax treatments should be considered separately or together as a group, to determine if it is probable that the tax authorities will accept the uncertain tax treatment, and to measure the tax uncertainty based on the most likely amount or expected value. IFRIC 23 is applicable for annual periods beginning on or after January 1, 2019. The Corporation continues to evaluate IFRIC 23 and the potential impact on its consolidated financial statements.

5. ACCOUNTS RECEIVABLE

	2018	2017
	$	$
Receivables from contracts with customers		
Electricity receivable	**59,933**	54,056
Unbilled revenue related to electricity	**80,180**	84,963
Trade and other receivables	**18,801**	44,124
Amounts due from related parties [Note 29]	**15,009**	9,031
Less: loss allowance [Note 20(c)]	**(2,541)**	(2,512)
	171,382	189,662
Receivables from other sources		
Conservation and demand management	**1,503**	1,813
Sales tax receivable	**6,164**	1,221
	179,049	192,696

[in thousands of Canadian dollars]

6. REGULATORY BALANCES

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

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

[in thousands of Canadian dollars]

6. REGULATORY BALANCES [CONTINUED]

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

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

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

– The RARA/RLRA includes accrued interest costs of $145 [2017 – $129].

– Settlement variances include accrued interest costs of $52 [2017 – $137].

– Other variance and deferred costs include accrued interest earned of $36 [2017 – $37].

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

[in thousands of Canadian dollars]

7. PROPERTY, PLANT AND EQUIPMENT

	Land, buildings and structures $	Distribution $	Generation and other $	Assets under construction $	Total $
Cost					
Balance as at December 31, 2016	126,127	803,916	161,759	163,073	1,254,875
Additions, net of transfers	71,053	97,518	85,471	(82,835)	171,207
Disposals	-	(2,602)	(8,762)	-	(11,364)
Exchange differences	(1,186)	-	(2,443)	(102)	(3,731)
Balance as at December 31, 2017	195,994	898,832	236,025	80,136	1,410,987
Additions, net of transfers	8,662	110,378	13,666	102,560	235,266
Disposals	-	(563)	(617)	(290)	(1,470)
Exchange differences	1,476	-	3,186	76	4,738
Balance as at December 31, 2018	**206,132**	**1,008,647**	**252,260**	**182,482**	**1,649,521**
Accumulated depreciation					
Balance as at December 31, 2016	(9,415)	(75,550)	(23,740)	-	(108,705)
Depreciation	(3,962)	(30,277)	(10,883)	-	(45,122)
Disposals	-	1,206	2,619	-	3,825
Exchange differences	55	-	151	-	206
Balance as at December 31, 2017	(13,322)	(104,621)	(31,853)	-	(149,796)
Depreciation	(4,878)	(33,221)	(12,054)	-	(50,153)
Disposals	-	383	230	-	613
Exchange differences	(19)	-	(375)	-	(394)
Balance as at December 31, 2018	**(18,219)**	**(137,459)**	**(44,052)**	**-**	**(199,730)**
Net book value					
As at December 31, 2017	182,672	794,211	204,172	80,136	1,261,191
As at December 31, 2018	**187,913**	**871,188**	**208,208**	**182,482**	**1,449,791**

At December 31, 2018, assets under construction include expenditures towards the ongoing construction of the Corporation's new administration and operational facilities, and towards significant refurbishments of the generation facilities held by Hull Energy LP and CHLP North [the 'refurbishment projects']. Upon completion of the refurbishment projects, Hull Energy LP and CHLP North will sell electricity to the Province of Ontario under two separate forty-year Hydroelectric Standard Offer Program – Municipal Steam Contracts with the Independent Electrical System Operator ['IESO'].

On October 20, 2017, the Corporation substantially completed a significant expansion of a generating facility at Chaudière Falls. This resulted in the componentization of significant assets previously under construction; the commencement of depreciation thereon; and the ceasing of borrowing cost capitalization. Amounts componentized to land, buildings and structures in 2017 included $56,514 in civil structures pertaining to this expansion.

During the year, the Corporation capitalized borrowing costs of $2,639 [2017 – $6,676] to property, plant and equipment. The average annual interest rate for 2018 was 3.4% [2017 – 4.0%].

[in thousands of Canadian dollars]

8. INTANGIBLE ASSETS

	Land rights and water rights $	Computer software $	Other contractual rights $	Assets under development $	Total $
Cost					
Balance as at December 31, 2016	62,039	52,451	22,228	9,909	146,627
Additions, net of transfers	11	14,202	2,218	3,102	19,533
Exchange differences	(1,704)	(26)	-	-	(1,730)
Disposals	-	(1,063)	-	-	(1,063)
Balance as at December 31, 2017	60,346	65,564	24,446	13,011	163,367
Additions, net of transfers	(5)	1,743	1,851	613	4,202
Exchange differences	2,119	33	-	12	2,164
Disposals	-	-	-	(252)	(252)
Balance as at December 31, 2018	**62,460**	**67,340**	**26,297**	**13,384**	**169,481**
Accumulated amortization					
Balance as at December 31, 2016	(3,432)	(20,650)	(877)	-	(24,959)
Amortization	(2,258)	(6,763)	(545)	-	(9,566)
Exchange differences	250	10	-	-	260
Disposals	-	1,063	-	-	1,063
Balance as at December 31, 2017	(5,440)	(26,340)	(1,422)	-	(33,202)
Amortization	(2,136)	(9,104)	(667)	-	(11,907)
Exchange differences	(482)	(20)	-	-	(502)
Disposals	-	-	-	-	-
Balance as at December 31, 2018	**(8,058)**	**(35,464)**	**(2,089)**	**-**	**(45,611)**
Net book value					
As at December 31, 2017	54,906	39,224	23,024	13,011	130,165
As at December 31, 2018	**54,402**	**31,876**	**24,208**	**13,384**	**123,870**

During the year, the Corporation capitalized borrowing costs of $79 [2017 – $900] to intangible assets. The average annual interest rate for 2018 was 3.4% [2017 – 3.9%].

Other contractual rights largely includes connection and cost recovery agreements ['capital contribution agreements'] that govern the construction by HONI of new or modified transformer stations for the purpose of serving Hydro Ottawa's customers. Each of Hydro Ottawa's capital contribution agreements has a term of 25 years.

[in thousands of Canadian dollars]

8. INTANGIBLE ASSETS [CONTINUED]

A significant portion of the Corporation's water rights with indefinite lives [70% or $16,941] stems from a historical 1889 lease agreement with Public Services and Procurement Canada. This contract provides rights to waters on the Ottawa River at Chaudière Falls for two of the Corporation's CGUs – the CHLP CGU [water rights carrying value of $9,575] and the CHLP North CGU [water rights carrying value of $7,366] – and renews every 21 years into perpetuity. The Corporation also retains water rights with indefinite lives [30% or $7,092 translated US to CAD] at two of its EONY generating stations which stem from historical agreements with the U.S. Federal Energy Regulatory Commission ['FERC']. These FERC licenses have an indefinite life as the Corporation is granted a legal exemption from re-qualifying for these licenses due to the size of the stations.

The Corporation's annual impairment tests with respect to the CHLP and CHLP North CGUs were based on value-in-use calculations and resulted in no impairment for the 2018 fiscal year [2017 – $nil]. Management's VIU calculations – subject to certain estimates as described in Note 2(d)(v) – are based on discounted future cash inflows to be earned under each CGUs' 40-year HESOP contract, while the cash outflows are based on management's industry experience and third party input; taking into account the estimated cost of the refurbishment projects in the case of CHLP North. The key assumption in each VIU calculation was a weighted average cost of capital ['WACC'] of 4.6% [2017 – 4.6%].

The Corporation's impairment test performed in light of the circumstances disclosed in Note 2(d)(ix) was based on a value-in-use calculation and resulted in no impairment for the 2018 fiscal year. Management's VIU calculation involved third-party consultation in the forecasting of New York energy prices specific to its operating zone over a 20-year timeframe [a typical period in the electricity industry]. Other key assumptions in the value-in-use calculation was a WACC of 6.9%, a US inflation rate of 2.2%, and a terminal capitalization rate of 6.7%.

9. INVESTMENT PROPERTIES

	2018 **$**	2017 $
Net book value, beginning of year	**2,602**	2,297
Additions	**-**	417
Depreciation	**(120)**	(112)
Net book value, end of year	**2,482**	2,602

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

[in thousands of Canadian dollars]

10. INVESTMENTS IN JOINT VENTURES

(a) Investment in joint ventures summary

	2018 $	2017 $
Moose Creek LP [50.05%]		
Investment in joint venture, beginning of year	**4,503**	4,055
Share of profit	**231**	448
Investment in joint venture, end of year	**4,734**	4,503
PowerTrail [60%]		
Investment in joint venture, beginning of year	**4,366**	3,820
Share of profit, net of tax	**382**	594
Other adjusting items related to profit	**21**	21
Non-cash (distribution) contribution	**(32)**	(69)
Investment in joint venture, end of year	**4,737**	4,366
Zibi Community Utility LP [50%]		
Investment in joint venture, beginning of year	**-**	-
Capital investments	**2,276**	-
Share of loss	**(57)**	-
Investment in joint venture, end of year	**2,219**	-
Total investments in joint ventures	**11,690**	8,869

[in thousands of Canadian dollars]

10. INVESTMENTS IN JOINT VENTURES [CONTINUED]

(b) Balance sheet and statement of income summary

	2018 **$**	2017 $
Moose Creek LP		
Current assets	**946**	1,306
Non-current assets	**12,625**	13,269
Total assets	**13,571**	14,575
Current liabilities	**2,271**	2,016
Non-current liabilities	**1,600**	3,320
Total liabilities	**3,871**	5,336
Revenue	**3,590**	2,739
Net income	**461**	895
PowerTrail		
Current assets	**1,192**	1,182
Non-current assets	**11,134**	11,167
Total assets	**12,326**	12,349
Current liabilities	**1,557**	859
Non-current liabilities	**2,523**	3,826
Total liabilities	**4,080**	4,685
Revenue	**3,638**	3,682
Net income	**636**	990

Assets, liabilities, revenues and net income pertaining to the Zibi Community Utility LP joint venture are not considered to be significant to the Corporation as at December 31, 2018.

(c) Credit facility

PowerTrail maintains an operating revolving line of credit of $1,000 for general business purposes that bears annual interest at the prime rate. PowerTrail continues to also maintain a credit facility of $200 [2017 – $200] to provide standby letters of credit to the IESO. As at December 31, 2018, PowerTrail had drawn an amount of $133 [December 31, 2017 – $133] in standby letters of credit and had no outstanding balances drawn against its operating revolving line of credit [December 31, 2017 – $nil]. Both facilities contain customary covenants and events of default, including a covenant to maintain a tangible net worth of $1,000.

[in thousands of Canadian dollars]

11. NET GAIN FROM INSURANCE PROCEEDS

	2018	2017
	$	$
Unit 1 Event	**6,865**	1,600
Flood Event	**-**	1,339
	6,865	2,939

(a) Unit 1 Event and other long-term asset

On August 19, 2017, the Unit 1 turbine-generator [of 4 Units] of CHLP experienced a mechanical failure while in operation due to a manufacturer defect and sustained significant damage, requiring a complete overhaul [the 'Unit 1 Event']. Pursuant to the contractual warranty provisions, the subcontractor is responsible for, and has agreed to, reconstruct Unit 1. As a result, the various asset components relating to Unit 1, totaling $5,771, were derecognized in the previous year from property, plant and equipment and the Corporation recognized an asset under warranty of the same amount on its consolidated balance sheet at December 31, 2017 and 2018. Construction with respect to Unit 1 is expected to be fully complete in 2019, at which point the warranty asset shall be reclassified to property, plant and equipment.

The Corporation's contract with said subcontractor and its insurance policy relating to the construction of the new generating facility at CHLP provides business interruption compensation in circumstances such as the Unit 1 Event. Consequently, the Corporation has recognized a gain on insurance proceeds of $6,865 [2017 – $1,600] which compensates the Corporation for lost generation revenues. The Corporation has received $8,000 in cash proceeds pertaining to the Unit 1 Event claims through December 31, 2018. The Corporation will continue to make claims for lost revenues going forward to the maximum allowable amount under this contract and its insurance policy until such time Unit 1 is back in service in 2019.

(b) Flood Event

In May 2017, spring melt and heavy rain led to a flooding of the Ottawa River system [the 'Flood Event'] – resulting in a shut-down of several of the Corporation's generating stations, predominately at Chaudière Falls. Remediation efforts commenced as soon as water levels permitted and the affected stations came back into operation between October and November 2017. As a result, the Corporation recorded a net gain on insurance proceeds of $1,339 in 2017 and the insurance proceeds were received by the Corporation in the current year.

12. NOTES RECEIVABLE FROM RELATED PARTIES

	2018	2017
	$	$
Moose Creek LP promissory note, 6.0%, due January 1, 2025	**1,653**	2,324
PowerTrail promissory notes, non-interest bearing	**798**	1,338
City of Ottawa note, 3.0%	**13,510**	9,746
	15,961	13,408
Less: current portion	**(6,575)**	(4,641)
	9,386	8,767

12. NOTES RECEIVABLE FROM RELATED PARTIES [CONTINUED]

(a) Moose Creek LP

The note receivable is an unsecured ten-year promissory note with quarterly blended repayments. As approved by the Board of Directors of Moose Creek LP in 2018, accelerated principal payments in the aggregate of $500 are to be made to the Corporation in addition to the regular quarterly blended payments in 2019. Future principal and interest payments on the notes receivable are therefore as follows: 2019 – $943, 2020 – $442, and 2021 – $405.

(b) PowerTrail

To fund the construction of its gas generation plant at the Trail Road landfill site, between 2005 and 2007, the Corporation provided unsecured, non-interest bearing grid promissory notes to PowerTrail totaling $4,860. Pursuant to the Shareholder Agreement, loans from the Corporation to PowerTrail are made on a pro rata basis – based upon its share of contributions of capital in the Corporation [60%]. Repayments on the grid promissory notes are made when possible as agreed to by the shareholders. The initial fair value of each advance was calculated using discount rates ranging between 7.6% and 8.0%. Future cash repayments on the notes receivable are estimated to be as follows: 2019 – $660 and 2020 – $180 while the remaining imputed interest to be earned by the Corporation over the next two years is $42.

(c) City of Ottawa

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

While payment terms under the S/L maintenance contract are in accordance with the Corporation's usual credit terms, the Corporation and the City have negotiated a 3% interest bearing note, calculated on a quarterly basis with open repayment terms, for the S/L conversion contract. Under such terms, the City is to pay the Corporation on a quarterly basis an amount calculated based on the City's electricity, maintenance and capital expenditure savings resulting from the LED street light conversions. Of the total $13,510 outstanding at December 31, 2018, $2,412 represents accrued work billed in early 2019. The Corporation estimates that $5,064 will be repaid in 2019.

The Corporation carries inventory of $1,435 [December 31, 2017 – $2,162] relating to City of Ottawa street light conversion and maintenance endeavours at December 31, 2018. During the year, the Corporation expensed $5,423 of inventory as cost of goods sold which is included in operating costs [2017 – $4,826].

13. CREDIT FACILITY

The Corporation maintains a credit facility for an amount of $340,750 and US$200 [December 31, 2017 – $340,750 and US$200]. The facility consists of a $190,000 [2017 – $190,000] revolving operating line maturing on August 1, 2021, a $150,000 [2017 – $150,000] 364 day revolving operating term line which may be used to assist with refinancing debt and support day to day operations and a $750 and US$200 [2017 – $750 and US$200] commercial card facility – all of which matures on August 1, 2021. The revolving operating lines can be used by way of direct advances, bankers' acceptances, and/or by way of letters of credit and other guarantees.

The credit facility is unsecured and has customary covenants including a maximum debt to total capitalization of 75% and a negative pledge not to encumber the assets of the Corporation, Hydro Ottawa, or Energy Ottawa Inc., other than those permitted in the credit facility.

[in thousands of Canadian dollars]

13. CREDIT FACILITY [CONTINUED]

At December 31, 2018, the Corporation had drawn $33,400 in direct advances against the revolving operating line of credit [2017 – $28,400], $42,000 in bankers' acceptances against the $190,000 revolving operating line [2017 – $nil] and $150,000 in bankers' acceptances against the $150,000 revolving operating term line [2017 – $129,000].

At December 31, 2018, the Corporation has drawn $14,738 [2017 – $24,771] against its facilities in standby letters of credit. Drawings include a $10,000 [December 31, 2017 – $10,000] letter of credit to cover its prudential support obligation as described in Note 27; a letter of credit to the Receiver General of Canada on behalf of Fisheries and Oceans Canada of $538 [December 31, 2017 – $538] in connection with its completed expansion of a generating facility at Chaudiere Falls; and a letter of credit to BNY Trust Company of Canada of $4,200 [December 31, 2017 – $12,900] in connection with the Trust Indenture dated September 7, 2016 as described in Note 17. No amounts have been drawn on any of these letters of credit.

14. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2018	2017
	$	$
Purchased power payable	**74,747**	79,120
Trade accounts payable and accrued liabilities	**60,061**	56,081
Customer deposits	**20,092**	16,017
Customer credit balances	**10,964**	11,203
Accrued interest on long-term debt	**7,809**	7,812
Due to related parties [Note 29]	**54**	53
	173,727	170,286

15. DEFERRED REVENUE

	2018	2017
	$	$
Capital contributions from customers	**53,771**	44,202
Capital contributions from developers	**54,624**	44,368
	108,395	88,570

16. EMPLOYEE FUTURE BENEFITS

(a) Pension plans

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

The Corporation's participating employer contributions under OMERS for the year ended December 31, 2018 amounted to $6,726 [2017 – $6,434]. The Corporation also provides retirement benefits to certain employees through the Chaudiere Hydro Pension Plan. As at December 31, 2018, CWPI and Chaudiere Hydro North L.P. are the only two entities with employees who are part of the CHPP.

[in thousands of Canadian dollars]

16. EMPLOYEE FUTURE BENEFITS [CONTINUED]

(a) Pension plans [continued]

(i) Defined benefit obligation

	2018 $	2017 $
Balance, beginning of year	**6,549**	5,753
Current service cost	**222**	196
Interest cost	**222**	221
Benefits paid	**(279)**	(111)
Employee contributions	**59**	75
Actuarial (gain) loss	**(480)**	415
Balance, end of year	**6,293**	6,549

(ii) Plan assets

	2018 $	2017 $
Fair value, beginning of year	**6,432**	5,914
Interest credit	**221**	231
Employer contributions	**209**	199
Benefits paid	**(279)**	(111)
Non-investment expenses	**(40)**	(40)
Employee contributions	**59**	75
Actuarial (loss) gain	**(382)**	164
Fair value, end of year	**6,220**	6,432

(iii) Funded status

	2018 $	2017 $
Retirement benefit asset, beginning of year	**(117)**	161
Change in retirement benefit asset	**44**	(278)
Retirement benefit (liability) asset, end of year	**(73)**	(117)

[in thousands of Canadian dollars]

16. EMPLOYEE FUTURE BENEFITS [CONTINUED]

(a) Pension plans [continued]

The assets of the Chaudiere Hydro Pension Plan are held and managed by an independent custodian and accounted for separately in the Corporation's pension plan. The asset allocation structure is subject to diversification requirements and constraints which reduce risk by limiting exposure to individual equity investments, credit rating categories and foreign currency exposures. Based on the fair value of assets held as at December 31, 2018, the Chaudiere Hydro Pension Plan's assets were comprised of 90.5% [2017 – 89.8%] fixed income Canadian bonds, 5.9% [2017 – 6.9%] Canadian and international equities and 3.6% [2017 – 3.3%] in alternative investments. The Chaudiere Hydro Pension Plan's investments are primarily held and managed in pooled funds, and thus do not have a quoted market price in an active market.

Employee future benefits under the Chaudiere Hydro Pension Plan are calculated using an annual compensation rate of 2.0% [2017 – 2.0%], an inflation rate of 2.0% [2017 – 2.0%] and a discount rate of 3.9% [2017 – 3.4%]. The valuations also include several other economic and demographic assumptions including mortality rates, which are based on the Canadian Pensioners' Mortality report published by the Canadian Institute of Actuaries in February 2014.

An actuarial extrapolation was performed at December 31, 2018 and no valuation allowance has been recorded by the Corporation as at December 31, 2018 and December 31, 2017 with respect to the retirement benefit liability [December 31, 2017 – actuarial extrapolation]. The last actuarial valuation was performed at January 1, 2018.

Significant actuarial assumptions for defined benefit obligation measurement purposes are discount rate and salary scale. The following sensitivities are based on reasonable changes of the assumptions, in isolation of one another, occurring at the end of the reporting period. A 1.0% decrease in discount rate would increase the defined benefit obligation by $1,067 or 34.6% [2017 – $1,216 or 37.7%], while a 1.0% increase in salary scale would increase the defined benefit obligation by $187 or 6.6% [2017 – $172 or 5.7%].

(b) Other post-employment and short-term employee benefits

The Corporation provides life, health and dental benefits to certain employees. Employee future benefits are calculated using an annual compensation rate increase of 2.0% [2017 – 2.0%] and a discount rate of 3.9% [2017 – 3.4%]. Cost trends for health are estimated to increase [at a declining rate from 7.5% to 5.0%] and dental benefits are estimated to increase by 5.0% per annum. The valuations also include several other economic and demographic assumptions including mortality rates, which are based on the Canadian Pensioners' Mortality report published by the Canadian Institute of Actuaries in February 2014.

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

	2018 **$**	2017 $
Defined benefit obligation, beginning of year	**14,322**	13,335
Current service costs	**392**	341
Interest on defined benefit obligation	**434**	516
Benefits paid	**(672)**	(661)
Actuarial (gain) loss	**(1,137)**	791
Defined benefit obligation, end of year	**13,339**	14,322

An actuarial extrapolation was performed as at December 31, 2018 and December 31, 2017 and an actuarial valuation was last performed as at December 31, 2016.

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

[in thousands of Canadian dollars]

17. LONG-TERM DEBT

	2018	2017
	$	$
Senior unsecured debentures		
Series 2006-1, 4.97%, due December 19, 2036	**50,000**	50,000
Series 2013-1, 3.99%, due May 14, 2043	**150,000**	150,000
Series 2015-1, 2.61%, due February 3, 2025	**200,000**	200,000
Series 2015-2, 3.64%, due February 2, 2045	**175,000**	175,000
Senior secured amortizing bonds		
Series 2016-1, 4.08%, due March 31, 2057	**203,802**	203,802
	778,802	778,802
Less: unamortized debt-issuance costs	**(5,412)**	(5,634)
	773,390	773,168

(a) Senior unsecured debentures

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

(b) Senior secured amortizing bonds

The Corporation's senior secured amortizing bonds [the 'bonds'] carry an interest rate of 4.08% and are due on March 31, 2057 [the 'maturity date']. Equal semi-annual interest-only payments are due and payable on March 31 and September 30 each year until and including March 31, 2022. Thereafter, semi-annual blended payments of principal and interest will be due and payable on March 31 and September 30 in each year commencing on September 30, 2022 until and including the maturity date. In addition, a balloon payment of $30,570 [15% of the principal] will be due and payable on the maturity date. The bonds are secured by a first-charge interest on the assets of CHLP, and the Corporation is required to maintain a minimum debt-coverage service ratio ['DCSR']. The DCSR divides the sum of CHLP's net operating and investing cash flows [as defined by the Trust Indenture] by the current interest and principal repayments due within the next calendar year. The Corporation was in compliance with all financial covenants associated with the bonds at December 31, 2018 and 2017.

During the year, Final Completion [i.e. the approval of final non-generation construction costs and the expiration of all holdback periods under the *Lien Act* relating to construction] with respect to the Corporation's new generation facility at Chaudière Falls was achieved. This allowed the release of cash proceeds from the bonds to the Corporation that were previously restricted and held in-trust during the construction phase in accordance with the Trust Indenture. As required by the Trust Indenture, the Corporation must maintain, in a reserve account, an amount equal to the next six months of interest and principal; and in a major maintenance account, an amount that covers projected major maintenance in the coming three years.

Annual interest payments on the bonds over the next five years are expected to be $8,315 from 2019 to 2022 and $8,244 in 2023.

[in thousands of Canadian dollars]

18. CAPITAL DISCLOSURES

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

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

The Corporation's capital consists of the following:

	2018	2017
	$	$
Bank indebtedness, net of cash	**210,106**	144,490
Long-term debt	**773,390**	773,168
Total debt	**983,496**	917,658
Equity	**462,882**	438,141
Total capital	**1,446,378**	1,355,799

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

At December 31, 2018, the Corporation's debt capitalization ratio, the calculation of which takes into account outstanding letters of credit, was 68.3% [December 31, 2017 – 68.3%]. The Corporation is in compliance with all financial covenants and limitations associated with its credit facilities and its long-term debt.

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

19. SHARE CAPITAL

(a) Authorized

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

[in thousands of Canadian dollars]

19. SHARE CAPITAL [CONTINUED]

(a) Authorized [continued]

The above shares are without nominal or par value.

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

(b) Issued

	2018	2017
	$	$
214,901,003 Class A common shares	**228,453**	228,453

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

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

On April 19, 2018, the Board of Directors declared a $21,900 dividend to the City of Ottawa, which was paid on April 26, 2018 [April 20, 2017 the Board of Directors declared a $20,600 dividend to the City of Ottawa, which was paid on April 28, 2017].

20. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

(a) Fair value disclosures

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

The Corporation has estimated the fair value of notes receivable from joint ventures as at December 31, 2018 as amounting to $2,488 [December 31, 2017 – $3,745]. The fair value has been determined based on discounting all estimated future repayments of principal and imputed interest required to fully repay the loans at the estimated interest rate of 5.7% [December 31, 2017 – 5.7%] that would be available to PowerTrail and Moose Creek LP on December 31, 2018.

The Corporation has estimated the fair value of the senior unsecured debentures as at December 31, 2018 as amounting to $575,912 [December 31, 2017 – $574,693]. The fair value has been determined based on discounting all future repayments of principal and interest between February 3, 2025 and March 31, 2057 at the estimated interest rate of 3.7% [December 31, 2017 – 3.7%] that would be available to the Corporation on December 31, 2018.

The Corporation has estimated the fair value of its senior secured amortizing bonds as at December 31, 2018 as amounting to $203,802 [December 31, 2017 – $203,802]. The fair value has been determined based on discounting all estimated future repayments of principal and interest required to fully repay the loan at the estimated interest rate of 4.0% [December 31, 2017 – 4.0%] that would be available to the Corporation at December 31, 2018.

20. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT [CONTINUED]

(b) Market risk

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

(i) Interest rate risk

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

(ii) Foreign exchange risk

The Corporation's earnings from, and net investment in, its foreign operating subsidiary, EONY, are exposed to fluctuations in the U.S. dollar to Canadian dollar exchange rate. Also, the Corporation purchases a small proportion of goods and services that are denominated in foreign currencies, predominately the U.S. dollar. The Corporation monitors its exposure to foreign currency fluctuations on a regular basis, and has not used derivative instruments to hedge against these exposures to date. On an annual basis, it is estimated that a 5% increase or decrease in the U.S. dollar relative to the Canadian dollar exchange rate of U.S. $1 = CDN $0.73 as at December 31, 2018 would increase or decrease the equity of the Corporation by approximately $2,979.

(c) Credit risk

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

The Corporation performs ongoing credit evaluations of customers serviced by Hydro Ottawa and requires collateral to support non-residential customer accounts receivable on specific accounts to mitigate significant losses in accordance with OEB legislation. As at December 31, 2018, the Corporation held security deposits related to power recovery and distribution revenue in the amount of $16,009 [December 31, 2017 – $15,121] with respect to these customers. The Corporation's other subsidiaries limit credit risk by dealing with customers that are considered to be of high credit quality. These customers include government agencies, utilities, municipalities, universities, school boards, hospitals, and customers with investment grade credit ratings.

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

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

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

[in thousands of Canadian dollars]

20. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT [CONTINUED]

(c) Credit risk [continued]

	Gross carrying amount $	Weighted average loss rate	Loss allowance $	Net carrying amount $
December 31, 2018				
Outstanding for 30 days or less	**88,565**	0.00 %	-	88,565
Outstanding for more than 30 days but no more than 120 days	**8,319**	8.80 %	736	7,583
Outstanding for more than 120 days	**4,526**	36.50 %	1,654	2,872
Unbilled revenue relating to electricity	**80,180**	0.19 %	151	80,029
	181,590		2,541	179,049
January 1, 2018				
Outstanding for 30 days or less	**100,532**	0.00 %	-	100,532
Outstanding for more than 30 days but no more than 120 days	**6,881**	8.30 %	573	6,308
Outstanding for more than 120 days	**2,832**	66.30 %	1,879	953
Unbilled revenue relating to electricity	**84,963**	0.07 %	60	84,903
	195,208		2,512	192,696

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

	2018 $
Opening loss allowance at January 1, 2018 under IFRS 9	**2,512**
Net remeasurement of loss allowance	**1,726**
Write-offs	**(2,023)**
Recoveries of amounts previously written-off	**326**
Loss allowance at December 31, 2018	**2,541**

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

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

[in thousands of Canadian dollars]

20. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT [CONTINUED]

(d) Liquidity risk

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

Liquidity risks associated with financial commitments are as follows:

	2018		
	Due within one year $	**Due between one and five years $**	**Due after five years $**
Accounts payable and accrued liabilities	**165,918**	**-**	**-**
Senior unsecured debentures			
Series 2006-1, 4.968%, due December 19, 2036	**-**	**-**	**50,000**
Series 2013-1, 3.991%, due May 14, 2043	**-**	**-**	**150,000**
Series 2015-1, 2.614% due February 3, 2025	**-**	**-**	**200,000**
Series 2015-2, 3.639%, due on February 2, 2045	**-**	**-**	**175,000**
Senior secured amortizing bonds			
Series 2016-1, 4.080%, due March 31, 2057	**-**	**-**	**203,802**
Interest to be paid on long-term debt	**28,382**	**113,457**	**471,492**
	194,300	**113,457**	**1,250,294**

Accounts payable and accrued liabilities in the above table exclude $7,809 of accrued interest which is included in interest to be paid on long-term debt.

[in thousands of Canadian dollars]

21. REVENUE FROM CONTRACTS WITH CUSTOMERS AND OTHER SOURCES

The Corporation's revenue breakdown is as follows:

	2018	2017
	$	$
Revenue from contracts with customers		
Power recovery	**857,383**	896,528
Distribution revenue		
Residential service (1)	**101,632**	94,757
General service (2)	**72,847**	70,531
Large users (3)	**6,571**	6,112
Generation revenue	**32,325**	22,898
Commercial services revenue		
Streetlight installation and maintenance	**12,565**	12,632
Turnkey and energy management services	**5,822**	6,400
Service work related to distribution operations	**6,171**	3,612
Pole attachment and duct rental	**4,440**	4,316
Other		
Account-related charges	**3,332**	3,359
Capital contributions from customers amortized to revenue	**1,416**	1,053
	1,104,504	1,122,198
Revenue from other sources		
Other		
Investment property rentals	**933**	1,214
Capital contributions from developers amortized to revenue	**1,395**	1,127
	1,106,832	1,124,539

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

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

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

[in thousands of Canadian dollars]

22. OPERATING COSTS

	2018 **$**	2017 $
Salaries, wages and benefits	**88,756**	84,993
Contracted services - electricity distribution maintenance	**10,828**	10,115
Contracted services - customer owned plant	**19,340**	21,662
Contracted services - other	**10,292**	9,942
General and administrative	**34,777**	32,896
Other electricity distribution costs	**8,331**	7,945
Inventory expensed as cost of goods sold and other	**5,504**	5,252
Capital recovery	**(32,134)**	(33,008)
	145,694	139,797

23. FINANCING COSTS

	2018 **$**	2017 $
Interest on long-term debt	**28,470**	27,725
Short-term interest and fees relating to credit facility	**4,541**	2,534
Less: capitalized borrowing costs	**(2,639)**	(7,576)
	30,372	22,683

24. INCOME TAXES

Income tax expense recognized in net income comprises the following:

	2018 **$**	2017 $
Current tax expense		
Current income tax expense	**6,102**	4,120
Deferred tax expense		
Origination and reversal of temporary differences	**11,042**	10,683
Income tax expense recognized in net income	**17,144**	14,803

[in thousands of Canadian dollars]

24. INCOME TAXES [CONTINUED]

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

	2018 **$**	2017 $
Income tax effect on exchange differences on translation of foreign subsidiary	**1,983**	(1,536)

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

	2018 **$**	2017 $
Federal and Ontario statutory income tax rate	**26.50 %**	26.50 %
Income attributable to equity shareholder before income taxes	**59,282**	50,778
Income taxes at statutory rate	**15,710**	13,457
Increase (decrease) in income taxes resulting from:		
Permanent differences	**4,603**	30
Tax rate differential	**(928)**	-
Reverse tax reserve	**(2,168)**	-
Impact on foreign exchange translation on subsidiary	**492**	(407)
Impact from change in future U.S. tax rate	**-**	1,676
Foreign tax rate differential	**14**	14
Corporate minimum tax, net of tax credit	**-**	79
Unrecognized tax benefit	**-**	189
Tax impact on joint venture	**(168)**	(282)
Adjustment	**-**	(126)
Other	**(411)**	173
	17,144	14,803
Effective income tax rate	**28.92 %**	29.15 %

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

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

	2018 **$**	2017 $
Property, plant and equipment and intangible assets	**2,009**	(812)
Employee future benefits	**95**	-
Non-capital loss carryforwards	**6,350**	6,620
Other temporary differences	**(182)**	(310)
	8,272	5,498

[in thousands of Canadian dollars]

24. INCOME TAXES [CONTINUED]

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

	2018 **$**	2017 $
Property, plant and equipment and intangible assets	**(47,306)**	(34,988)
Tax recognized in OCI related to foreign subsidiary translation	**(2,073)**	(479)
Exchange differences and other	**(586)**	63
Non-capital loss carryforwards	**183**	-
Employee future benefits	**4,561**	4,934
Other	**8**	337
	(45,213)	(30,133)

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

	2018 **$**	2017 $
Deferred tax asset, beginning of year	**5,498**	5,645
Impact of foreign exchange rate change on opening deferred tax asset balance	**1,859**	(321)
Recognized in net income	**466**	260
Recognized in OCI	**(9)**	11
Other	**458**	(97)
Deferred tax asset, end of year	**8,272**	5,498

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

	2018 **$**	2017 $
Deferred tax liability, beginning of year	**(30,133)**	(20,936)
Recognized in net income	**(13,106)**	(10,819)
Recognized in OCI	**(1,974)**	1,525
Other	**-**	97
Deferred tax liability, end of year	**(45,213)**	(30,133)

The Corporation's regulatory deferral account credit balance for the amounts of deferred income taxes expected to be collected/refunded to customers in future electricity rates is $25,806 [2017 – $16,798].

[in thousands of Canadian dollars]

24. INCOME TAXES [CONTINUED]

As at December 31, 2018, the Corporation had capital losses of $708 [December 31, 2017 – $708] and non-capital losses of $1,052 [December 31, 2017 – $1,069] for tax purposes, for which the tax benefit has not been recognized in the consolidated financial statements. The Corporation has U.S. losses carried forward of $21,763, of which $16,514 expires between 2035 and 2037. The remaining losses of $5,249 can be carried forward indefinitely. All are considered more likely than not to be realized, resulting in a recognized deferred tax asset of $5,688.

As at December 31, 2018, the Corporation's joint venture PowerTrail had corporate minimum tax credit carryforwards of $nil [December 31, 2017 – $19].

Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax assets and unused tax losses can be utilized. Net deferred tax assets of $5,686 have been recognized in EONY as there is sufficient positive evidence to demonstrate that it is probable that a deferred tax asset will be realized. Factors considered include: historic and expected future taxable income and the nature, amount and expected timing of reversal of taxable temporary differences.

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

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

	2018 **$**	2017 $
Accounts receivable	**13,658**	128
Prepaid expenses	**(698)**	732
Note receivable from parent	**(3,764)**	(6,125)
Accounts payable and accrued liabilities	**3,175**	(29,227)
Inventory	**727**	(585)
Customer deposits in accounts receivable	**(18,671)**	14,586
Net change in accruals related to property, plant and equipment	**7,030**	8,331
Net change in accruals related to intangible assets	**543**	(9)
Net change in accruals related to business combinations	**-**	10,000
	2,000	(2,169)

26. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

	2018 **$**	2017 $
Long-term debt, beginning of year	**773,168**	772,960
Amortization of debt-issuance costs expensed	**222**	165
Amortization of debt-issuance costs capitalized	**-**	43
Long-term debt, end of year	**773,390**	773,168

27. CONTINGENT LIABILITIES

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

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

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

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

28. COMMITMENTS

As at December 31, 2018, the Corporation has $141,435 in total open commitments spanning between 2019 and 2025. These include commitments relating to a call centre services agreement, distribution-related construction projects, facilities, overhead and underground services and other services relating to the Corporation's operations. In addition, the Corporation has $59,109 in outstanding purchase commitments relating to the refurbishment projects at Chaudière Falls as described in Note 7 of these consolidated financial statements.

Energy Ottawa maintains leases with various entities for the rights to certain lands, waterways, buildings and other generating assets at its generating stations in Ontario, Québec and New York. These leases are in place through various dates, ranging between August 19, 2019 and December 13, 2116. Certain leases have annual payments which have a fixed and contingent portion, the latter of which is based on either annual gross revenues or power generation levels. During the 2018 fiscal year, the Corporation expensed lease payments of $471 [2017 – $400], which included $110 [2017 – $136] of contingent lease payments. The Corporation's future minimum lease payments, including those of a contingent nature, are expected to be: 2019 – $168, 2020 to 2023 – $1,134 and $38,692 thereafter.

29. RELATED PARTY TRANSACTIONS

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

29. RELATED PARTY TRANSACTIONS [CONTINUED]

(a) Transactions and balances outstanding with parent

During the year, the Corporation earned power recovery and distribution revenue from the City of Ottawa and its other subsidiaries, which was billed at prices and terms approved by the OEB. In addition, the Corporation earned commercial services revenue from the City of Ottawa and its other subsidiaries totaling $387 [2017 – $744] via its regulated subsidiary, Hydro Ottawa, and $15,997 [2017 – $16,314] via Energy Ottawa. During the year, the Corporation also received $3,580 [2017 – $2,028] in contributions relating to the upgrade and/or expansion of the Corporation's existing electricity distribution infrastructure and earned $310 [2017 – $152] in interest revenue with respect to the note receivable from the City of Ottawa.

The Corporation incurred $3,067 [2017 – $2,875] of operating costs to the City of Ottawa. The Corporation also incurred $269 [2017 – $2,872] in building permit costs and development charges, which are included in property, plant and equipment.

As at December 31, 2018, the Corporation's accounts receivable and customer deposits include $14,980 [December 31, 2017 – $8,872] and $652 [December 31, 2017 – $2,129], respectively, while the Corporation's accounts payable and accrued liabilities include $54 [December 31, 2017 – $53] due to the City of Ottawa and its subsidiaries in respect of the transactions described above. In addition, the Corporation's note receivable from the City of Ottawa is disclosed in Note 12 of these consolidated financial statements.

(b) Transactions and balances outstanding with joint ventures

(i) Moose Creek LP

During the year, the Corporation earned interest income in the amount of $112 [2017 – $147] on its note receivable from the Moose Creek LP joint venture, as well as $25 [2017 – $34] in other revenue for the provision of administrative services. As at December 31, 2018, the Corporation's accounts receivable include $27 [December 31, 2017 – $142] due in respect of the transactions described for balances paid on behalf of Moose Creek LP.

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

(ii) PowerTrail

During the year, the Corporation earned imputed interest income in the amount of $87 [2017 – $90] on its note receivable from the PowerTrail joint venture, as well as $25 [2017 – $37] in other revenue for the provision of administrative services. As at December 31, 2018, the Corporation's accounts receivable include $2 [December 31, 2017 – $17] due in respect of the transactions described.

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

[in thousands of Canadian dollars]

29. RELATED PARTY TRANSACTIONS [CONTINUED]

(c) Compensation of key management personnel

	2018 **$**	2017 $
Salaries, director fees and other short-term benefits	**1,545**	1,401
Employee future benefits	**181**	160
Other long-term benefits	**15**	12
	1,741	1,573

30. COMPARATIVE INFORMATION

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

Carol Anne Meehan @MeehanCarolAnne
Following

Met a local hero while campaigning today. Brad works for Ottawa Hydro. He worked 32 hours over two days to help restore the power after the tornadoes. No, I didn't wake him. He was up and getting ready to to back to work. What a nice young man. Thanks @hydroottawa crews!!

Ms. Casey @MsKCasey
Follow

This morning we talked about all the people who showed us what it truly means to be a Good Samaritan over the weekend. We want to say THANK YOU from the bottom of our ❤️'s @StAnneOCSB @hydroottawa @OttFire @OttawaPolice @OttawaParamedic

art in jest @artinjest
Follow

I first made this during the #icestorm2018 and it feels more appropriate than ever now. Thank you @hydroottawa for working like crazy at one heck of a tough job. I so appreciate it. #ONStorm #MyOttawa

Hydro Ottawa Retweeted
Mme Longchamps @MmeLongchamps · 4h
Giving up their recess time to make thank you cards for all of the first responders and Hydro workers who helped our community this past week! THANK YOU #thankyouottawa @ctvottawa @OttawaPolice @OttFire @OttawaParamedic @hydroottawa @PATocsb

10 43

Mark Taylor @Go_Taylor
Follow

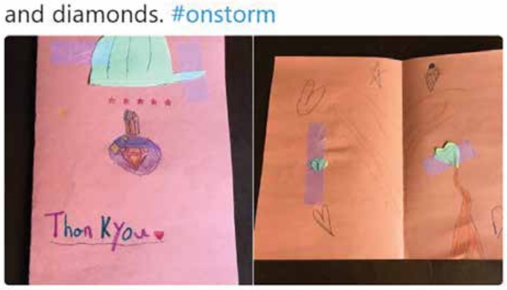
Not sure who created this image.Saw it on the @CarlingwoodSCTR Instagram,but if it was ever appropriate it's today.Thank You @hydroottawa @ottawahealth @ottawacity @OttawaPolice @OttFire @OttawaParamedic & ALL the amazing residents of this city pulling together #WeAreOne #Ottawa

Lola Design @LolaDesignOtt
Follow

I think the folks at @hydroottawa deserve a big "THANK YOU" for working tirelessly to restore power. #OttawaOutage

Rob Thomas @languagEngineer
Follow

@hydroottawa Thank you card from a 6YO for the crews who spent the night away from their families. Wishing you ice cream, love and diamonds. #onstorm



Stu Schwartz @StuntmanStu
Follow

How do you say thanks to the many @hydroottawa workers? You do it with candy baskets from @MAJIC100Ottawa cc: @AngiePoirier #thankyouOttawa

1:14 PM - 25 Sep 2018

Hydro Ottawa Retweeted
Beverly Wong @MsBWong · 23h
We really wanted to show how thankful we are for @hydroottawa @OttawaParamedic @OttawaPolice @OttFire. Without you keeping us safe, we wouldn't be able to come to school and learn! Thank you for all your hard work 💙💚 @StAnneOCSB

Statement of Executive Compensation

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

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

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

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

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

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

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

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

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

COMPENSATION OF OFFICERS AND BOARD MEMBERS

Officers

NAME AND PRINCIPAL POSITION[1]	YEAR	BASE SALARY ($)	AT RISK PERFORMANCE INCENTIVE ($)[2]	OTHER COMPENSATION ($)[3]
Bryce Conrad	2018	387,037	N/A	44,843
President and Chief Executive Officer	2017	380,957	N/A	43,797
	2016	375,711	N/A	22,398
Geoff Simpson	2018	186,783	61,790	8,548
Chief Financial Officer	2017	183,839	61,842	8,491
	2016	180,783	67,711	8,479
Lance Jefferies	2018	165,273	53,698	9,387
Chief Electricity Distribution Officer	2017	162,668	54,720	8,412
	2016	159,830	34,798[4]	8,401
Gregory Clarke	2018	189,616	62,727	9,267
Chief Electricity Generation Officer	2017	186,627	62,780	8,501
	2016	183,525	66,484	8,798
Adnan Khokhar	2018	121,211[5]	N/A	15,550
Chief Energy and Infrastructure Services Officer				

1 Officers whose earnings are reported are those who occupied the position at December 31, 2018.

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

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

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

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

Board Members

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

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

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

Corporate Governance

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

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

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

GOVERNANCE STRUCTURE

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

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

KEY GOVERNANCE PROCESSES AND CONTROLS

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

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

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

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

APPOINTMENTS TO THE BOARDS OF DIRECTORS

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

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

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

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

COMMITTEES

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

Hydro Ottawa Holding Inc.

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

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

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

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

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

BOARD AND COMMITTEE MEETING ATTENDANCE

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

HYDRO OTTAWA HOLDING INC.

DIRECTOR	BOARD MEETINGS	COMMITTEE MEETINGS
Jim Durrell, C.M., ICD.D [Chair]	5/5	15/15
Bryce Conrad [President and CEO]	5/5	N/A
Yaprak Baltacioglu[2]	3/3	4/4
Kim Butler[2]	3/3	2/2
Dale Craig	3/5	7/7
Matt Davies[2]	3/3	2/2
Jan Harder	5/5	4/5
Andrea Johnson	5/5	6/6
Kalai Kalaichelvan[1]	2/2	5/5
Cyril Leeder	5/5	8/8
J. Douglas McLarty[1]	2/2	4/4
Philip Murray[1]	2/2	3/3
Lori O'Neill	5/5	7/7
Marianne Wilkinson	5/5	6/6

1 Depicts outgoing Board member whose term ended on June 30, 2018

2 Depicts incoming Board member whose term took effect July 1, 2018

HYDRO OTTAWA LIMITED

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

Note: Kalai Kalaichelvan was first appointed to the Hydro Ottawa Holding Inc. Board of Directors effective December 1, 2014 and was previously a Director of the Hydro Ottawa Limited Board from July 1, 2013 to November 30, 2014. He was appointed to the Audit Committee on August 22, 2013 and the Investment Review Committee on September 18, 2015 and served on these Committees until the end of his term on June 30, 2018.

J. Douglas McLarty was first appointed to the Hydro Ottawa Holding Inc. Board of Directors effective July 1, 2012. He was appointed to the Audit Committee on July 17, 2012 and Strategic Initiatives Oversight Committee on November 14, 2013 and served on these Committees until the end of his term on June 30, 2018.

Philip Murray was first appointed to the Hydro Ottawa Holding Inc. Board of Directors effective December 1, 2014 and was previously a Director of the Hydro Ottawa Limited Board from July 1, 2012 to November 30, 2014. He was appointed to the Governance and Management Resources Committee on July 17, 2012 and Strategic Initiatives Oversight Committee on September 18, 2015 and served on these Committees until the end of his term on June 30, 2018.

We wish to convey our sincere appreciation to Kalai Kalaichelvan, J. Douglas McLarty and Philip Murray for their dedicated service.

Yaprak Baltacioglu, Kim Butler and Matt Davies were appointed to the Hydro Ottawa Holding Inc. Board of Directors effective July 1, 2018.

Members of the Boards of Directors

HYDRO OTTAWA HOLDING INC.


Jim Durrell, C.M., ICD.D [Chair]


Bryce Conrad


Yaprak Baltacioglu


Kim Butler


Dale Craig


Matt Davies

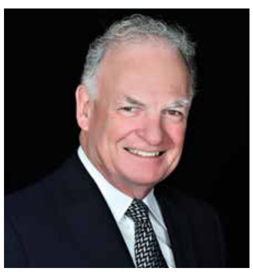

Jan Harder


Andrea Johnson


Kalai Kalaichelvan


Cyril Leeder


J. Douglas McLarty


Philip Murray


Lori O'Neill


Marianne Wilkinson

HYDRO OTTAWA LIMITED


Jim Durrell, C.M., ICD.D [Chair]


Bryce Conrad


Lance Jefferies

Corporate Citizen Award

Outage Communications Award

Stewardship Award

Employer of the Year Award

Performance Achievement Milestone Award

Innovation and Excellence Award

Innovation in HR Practices Award

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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