Hydro Ottawa
Holding Inc.

2021
Annual Report

Our Mission

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

Our Vision

Hydro Ottawa – a leading partner in a smart energy future

Our Organizational Values

Teamwork, Integrity, Excellence, Service

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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 2021 Annual Report to our shareholder, the City of Ottawa. This marks our first progress report under our refreshed corporate strategy for the 2021-2025 period.

Hydro Ottawa's updated Strategic Direction charts a course for continued innovation and diversification in our business in the face of major shifts in our external environment. Over the past decade, we have addressed disruption in our sector, transitioned to a more customer-driven model of electricity, and adopted the vision of becoming "a leading partner in a smart energy future." In this next phase of our evolution, we are deepening our commitment to sustainability and embracing the ambitious goal of becoming the first municipally-owned utility in Canada to achieve net zero operations. Our new strategy attests to the high standards that we set for ourselves as we pursue heightened levels of excellence. Moreover, it fortifies Hydro Ottawa's position at the forefront of our industry when it comes to sustainable business practices and Environmental, Social, and Governance (ESG) performance.

The beginning of our new Strategic Direction term unfolded against the backdrop of year two of the COVID-19 pandemic. Once again, we did whatever we could to keep our employees and community safe, and to assist customers experiencing financial hardship. As COVID-19 progressed through different waves in 2021, we continuously adapted our pandemic plan and operating procedures, basing our actions on guidance from public health authorities, governments, and industry regulators. For the second consecutive year, we are pleased to be able to report that, as a result of our safety protocols and measures, there was no known workplace transmission of COVID-19.

With 2021 bringing more challenges to our community, we strove to lend a helping hand in numerous ways. For small businesses and vulnerable residents needing assistance with their electricity bills, we distributed over $1 million in provincial funding. Our employees developed innovative solutions to meet unique customer needs, such as an online tool to help compare costs under Ontario's different electricity rate plans and a new program to loan portable battery packs to customers affected by planned outages.

In addition, we sponsored local initiatives in support of mental health and emergency food relief, while making good on our five-year, $1 million pledge to The Ottawa Hospital's Rose Ages Breast Health Centre – proving that Hydro Ottawa remains a company which gives where it lives.

With the pandemic underscoring the critical nature of the services Hydro Ottawa provides, from powering hospitals to enabling at-home working and learning, we were grateful for the vote of confidence from customers in the form of a 94 percent satisfaction rating.

In spite of the many obstacles and constraints in our operating environment in 2021, our financial performance was strong and key targets were met. Through spending controls, productivity gains, and prudent oversight by the Board and management, we mitigated the impacts of COVID-19 and positioned Hydro Ottawa to generate favourable earnings. Net income on a consolidated basis totalled $47.3 million, in line with Strategic Direction commitments. Consolidated return on equity was 9.6 percent, while we paid $20.8 million in dividends (based on 2020 results) to our shareholder, the City of Ottawa.

On the heels of the largest five-year capital program in our history, we invested an additional $160 million in the renewal and expansion of electric grid infrastructure. We successfully executed the first year of our 2021-2025 distribution system plan approved by the Ontario Energy Board, encompassing $67 million to replace aging assets and boost resiliency, and $48 million to meet new demand. With these enhancements, Hydro Ottawa once again achieved the strongest overall reliability performance amongst our industry peers in Ontario.

In our renewable generation and energy and utility services businesses, 2021 was another year of milestones. The completed refurbishment of the Hull 2 hydroelectric plant at Chaudière Falls capped off a series of acquisitions, expansions, and upgrades in our generation portfolio which has increased our capacity by over five-fold since 2012 and solidified our status as the largest municipally-owned producer of green energy in the province. For our energy and utility services arm, Envari, partnerships fueled a rebound in earnings. Key collaborations with the City of Ottawa included the installation of charging infrastructure for the municipality's Zero Emissions Bus pilot project as well as advancement in the design work for the four-year, $57 million cogeneration system upgrade at Ottawa's wastewater collection and treatment plant.

Partnership likewise animated progress for our joint venture at Zibi, the National Capital Region's first carbon neutral community. In 2021, we commissioned the district energy system for Zibi and teamed-up with the Federation of Canadian Municipalities to secure $23 million in project financing through their flagship green fund supporting environmental improvement projects that reduce emissions.

We also hit the ground running in delivering on our Strategic Direction's commitment to augment our ESG profile. The most noteworthy highlight was achieving the designation of Sustainable Electricity Company™ from Electricity Canada. This best-in-class certification is a testament to the robust foundation in sustainability that we have cultivated in recent years and will serve as a springboard for our journey to net zero operations by 2030. In addition to receiving this designation, we launched Hydro Ottawa's third diversity, equity, and inclusion plan, which will play a pivotal role in building the workforce and workplace that will foster the company's long-term success.

In closing, we want to thank our employees – especially those on the frontlines – who demonstrated the strength of their dedication to our customers and community throughout 2021. As the public health and economic horizons brighten, we look forward to building on their legacy of service and to providing the safe, reliable, and carbon-free solutions that will power our shift to a more prosperous and sustainable future.

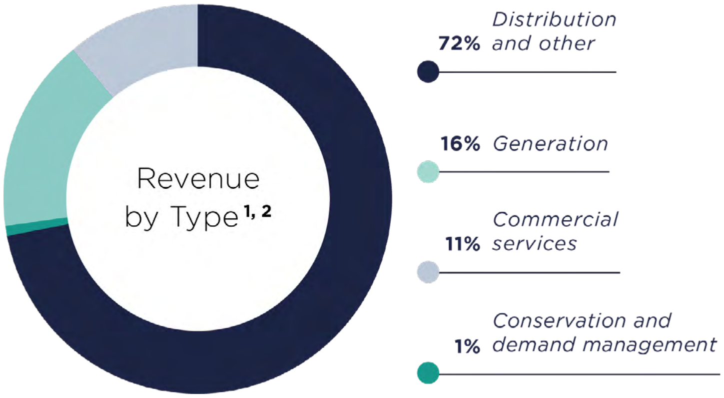
Jim Durrell, C.M., ICD.D
Chair, Board of Directors

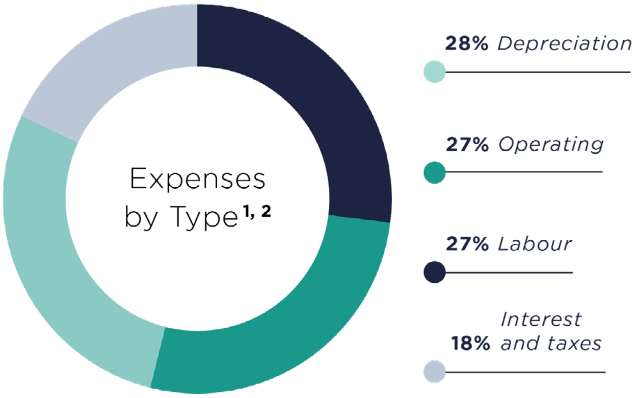
Bryce Conrad
President and Chief Executive Officer

Financial Highlights

[in thousands of Canadian dollars]	2021	2020
Operations		
Total revenue [1]	**$1,144,389**	$1,258,727
Distribution revenue [1]	**$194,230**	$187,410
Generation revenue	**$45,854**	$47,471
Commercial services revenue	**$31,524**	$23,244
Conservation and demand management income	**$2,786**	$7,415
EBITDA [1, 2]	**$164,142**	$145,214
Net income [1]	**$47,356**	$34,120
Dividends	**$(20,800)**	$(22,600)
Balance Sheet		
Total assets and regulatory balances	**$2,362,410**	$2,290,807
Capital assets	**$2,013,433**	$1,903,389
Debentures	**$1,076,962**	$1,060,896
Shareholder's equity	**$507,295**	$480,224
Cash Flows		
Operating	**$185,362**	$143,066
Investing	**$(186,486)**	$(234,346)
Financing	**$184,840**	$(22,857)

1 Pre-IFRS 14 amounts and EBITDA are non-GAAP financial measures
2 Net income before depreciation and amortization, financing costs, interest income, and taxes





1 Pre-IFRS 14
2 Excludes Power Recovery and Purchased Power

Progress Against Plan

Hydro Ottawa's 2021 Annual Report is the first to report against the Company's 2021-2025 Strategic Direction, which outlines our business strategy and financial projections for the next five years.

This strategy retains the core elements of the integrated planning and performance management framework that the Company has developed over the course of successive strategic planning cycles. In addition, it responds to significant shifts in our business environment, while placing a new emphasis on how sustainability and Environmental, Social, and Governance (ESG) factors are integrated into all of our business practices.

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 will guide our activities throughout the 2021-2025 planning period. They likewise form the basis of our reporting in the pages that follow.

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. Customer Value continues to serve 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.

Much of our customer-facing activity in the first year of our new Strategic Direction mirrored the efforts of the previous year – namely, doing whatever we could to assist customers in managing the impacts of successive waves of the COVID-19 pandemic.

To support customers experiencing financial hardship, we maintained flexible options for bill payment and once again collaborated with provincial policymakers to implement electricity relief programs, distributing more than $1 million in funding. In addition, we launched an online tool to assist residential and small business customers in comparing their electricity costs under Ontario's two different rate plans (Time-of-Use rates or fixed rates based on consumption thresholds).

With many workers, students, and families required to remain at home for extended periods during 2021, we sustained our practice of limiting planned power interruptions to critical needs only. Moreover, we introduced a popular program involving complimentary loans of portable battery packs to customers affected by planned outages, allowing them to continue using small electronic devices for the duration of the outage.

Notwithstanding the continued challenges of operating in the midst of a global pandemic, we successfully delivered on the first year of the distribution capital investment program under our OEB-approved 2021-2025 rate plan. This included $67.4 million to replace aging infrastructure, address reliability risks, and enhance system resiliency. Against the backdrop of the unique needs associated with many customers working and learning from home, we achieved a best-in-class level of reliability

$67.4M

invested to keep distribution system safe and reliable

94%

customer satisfaction rating

59%

e-billing participation – highest in Ontario; second highest in Canada

Best-in-class rankings for reliability and operational cost efficiency

Continued to support customers in the midst of COVID-19

performance, which included the lowest outage frequency in Hydro Ottawa's history. Key milestones were also reached in the construction of the Cambrian Municipal Transformer Station, which will provide much-needed capacity in southern Ottawa when it is placed into service in 2022.

An additional $47.5 million was invested to meet growing demand. Noteworthy highlights involved ongoing support for development of Ottawa's Light Rail Transit system and the relocation of infrastructure underground on Montreal Road. In addition, we facilitated the connection of over 6,800 new residential customers to the grid – the highest annual number on record for Hydro Ottawa.

As public health conditions started to improve, we resumed our normal rhythm of rolling out value-added products and services to customers. In collaboration with the City of Ottawa and EnviroCentre, a local environmental non-profit, we introduced a program through which eligible customers could receive federal funding for electric vehicle (EV) charging infrastructure. The program proved to be highly popular, quickly achieving full subscription for the $1.7 million in available incentives. Similarly, we launched a "Win Hydro For A Year" campaign, aimed at increasing customer registrations for Hydro Ottawa's online services. With the boost from this initiative, 59 percent of customers are now signed-up for e-billing, representing the highest rate among Ontario utilities and the second highest in Canada.

Our recent trend of high customer satisfaction continued in 2021, with Hydro Ottawa achieving an overall score of 94 percent. Satisfaction with our contact centre services held steady at 88 percent, affirming the effectiveness with which we maintained service quality despite the impacts of COVID-19. And in terms of operating efficiency, measured by total cost per customer, Hydro Ottawa ranked first among large distribution utilities in Ontario.

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.

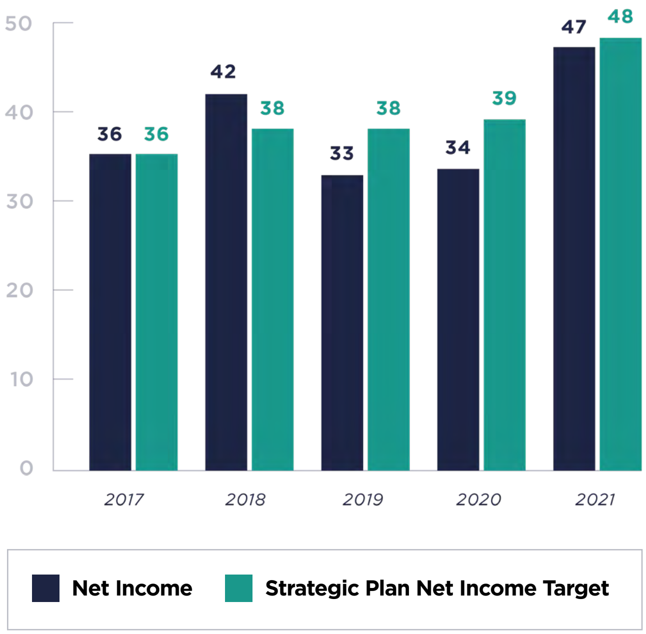
In the second year of the COVID-19 pandemic, our business and revenues continued to be affected by public health-related restrictions and impacts. However, the financial impacts were smaller in scale relative to 2020, on account of sustained cost controls, productivity gains, higher revenues from generation, and stronger earnings in energy and utility services.

In 2021, core financial metrics improved considerably over the previous year. Consolidated net income was $47.3 million, representing a successful beginning to the achievement of annual targets under our 2021-2025 Strategic Direction. In addition, our consolidated return on equity rose to 9.6 percent, representing a one-third increase from the previous year. The dividend paid to our shareholder, the City of Ottawa, totalled $20.8 million (based on 2020 results) and pushed cumulative dividends paid since 2004 above $300 million.

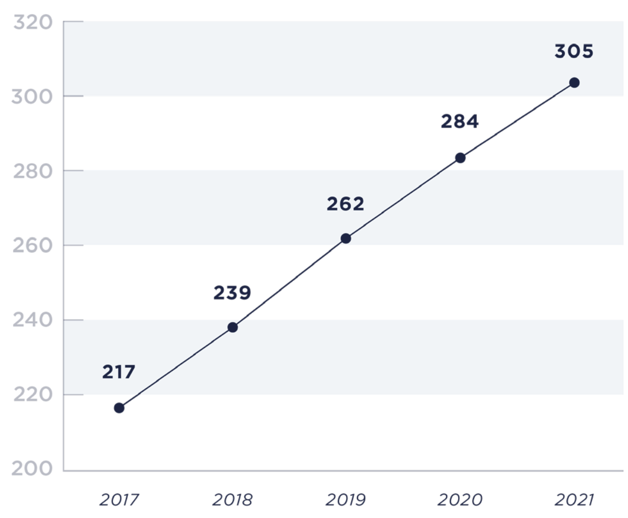
Reduced electricity demand from our commercial customers adversely impacted revenue in our regulated distribution business. Nevertheless, the continued implementation of spending constraints and productivity initiatives ensured the overall health of our distribution operations, which once again contributed the largest share to net income.

Our renewable energy subsidiary, Portage Power, experienced another landmark year. The second of two refurbishments of its hydroelectric stations in Québec was completed in May 2021 and helped

Net Income [$ millions]



Cumulative Dividends [$ millions]



$47.3M
in net income

$20.8M
dividend to shareholder

9.6%
Return on Equity

Successfully mitigated financial impacts of COVID-19

Completed refurbishment of second generating station in Québec

to increase generation revenues by a substantial margin. With the unit's return to service, all of the generating stations in Hydro Ottawa's 128 MW fleet were simultaneously operational for the first time in our history, enabling a record year for green energy production. Generation returns were also supported by the strongest performance of our hydroelectric assets in New York State since their acquisition in 2015, with higher spot market prices and expanded sales of renewable energy credits playing key roles in this regard. Portage Power delivered all of these outcomes in the midst of low water levels and drought conditions for much of the year, and minimized potential revenue impacts through the optimization of water use across its hydroelectric portfolio.

Following a series of pandemic-related challenges in 2020, our energy and utility services business rebounded well in 2021. Envari's revenue increased by almost 70 percent, with activity supported in particular by progress on two critical projects: the four-year, $57.2 million cogeneration system upgrade at Ottawa's wastewater collection and treatment plant, and the installation of EV charging infrastructure for the City's Zero Emission Bus pilot initiative. In addition, Envari rolled out new services for building automation systems and energy monitoring, both of which will assist commercial property owners in better managing their energy use.

Finally, we achieved critical milestones in our joint venture to design, build, and operate the district energy system for Zibi, the National Capital Region's first carbon neutral mixed-use community.

We completed construction and commissioning of the district energy plant, which will provide heating and cooling to the homes and businesses at the Zibi site.

Organizational Effectiveness

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

Our refreshed strategy for the 2021-2025 period recognizes that achieving business objectives and successfully maneuvering through the uncertainty ahead will require a constantly learning organization, with the right skill sets, organizational capacity, and culture.

To that end, our Strategic Direction focuses on three outcomes: a safe and healthy work environment; an engaged, aligned, prepared, and diverse workforce; and efficient operations that are augmented by productivity measures and advanced technology.

In 2021, employee and public health and safety once again took centre stage, as the COVID-19 pandemic stretched into its second year. Amidst a fluid public health landscape, we continuously adapted our operating procedures. Our response was anchored in enhancing safety measures and protocols for all employees, modifying work environments and schedules, strengthening mental health support for employees and their families, and developing return to workplace plans based on guidance from public health authorities, governments, and industry regulators. As COVID-19 vaccines became available, we launched a campaign to encourage employees to get vaccinated and instituted vaccination attestations for visitors and contractors accessing our buildings and premises.

Similar to 2020, the effectiveness of our pandemic plan was borne out in the fact that there were no known cases of workplace transmission of COVID-19 at Hydro Ottawa in 2021.

Highlights from our safety program also included the transition of our Occupational Health, Safety, and Environment Management System to dual certification under ISO 45001 and ISO 14001 standards. Hydro Ottawa is one of only a handful of Canadian utilities to secure both internationally-recognized certifications. In addition, safe work practices training averaged 15 hours per employee (44 hours for trades employees). Our overall safety performance was strong and on par with our peers in the industry, with key indicators trending well.

Maintained safety as our top priority

Contained operating costs through productivity

$5M
invested in next-generation technology

Continued to adapt our operations in response to COVID-19

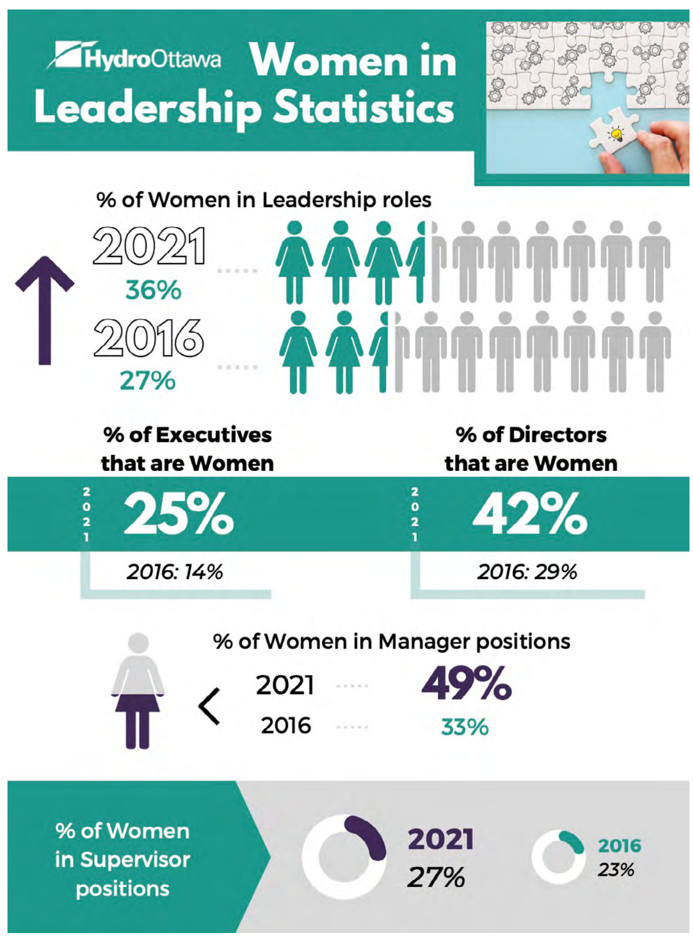
Launched our third multi-year diversity, equity, and inclusion plan

As a result of public health conditions, many of our employees continued to work from home for extended periods in 2021. We kept these employees connected to the company and each other through expansion and maturation of our digital solutions which enable employees to work anytime, anywhere, and on any device. We also continued to modernize employee learning, with instruction available in flexible, self-directed formats.

In total, we invested $5 million in new technologies to improve operational efficiency, customer service, safety reporting, and cybersecurity. Innovative projects included a next-generation solution to optimize the scheduling and management of field crews, and the automation of back-office processes through artificial intelligence. Alongside our technology investments, we contained costs by retaining spending controls that were adopted in 2020 in response to COVID-19, while boosting productivity through such measures as enhanced contractor performance management.

One of the economy-wide effects of the pandemic has been an uptick in early retirement by employees. In 2021, we augmented our workforce renewal activities to manage this trend, while strengthening the many partnerships and programs in place to fill the talent and leadership pipeline. Major milestones were the celebration of the 10-year anniversary of our joint Powerline Technician Diploma Program with Algonquin College, as well as the development of an in-house training and certification program for Power Cable Technicians.

Consistent with our new Strategic Direction, we also kicked-off several important initiatives in 2021 aimed at building a highly skilled, knowledgeable, and diverse workforce for the future. These included the launch of our third multi-year diversity, equity, and inclusion plan; the roll-out of a company-wide learning plan to ensure our workforce is future-ready; and development of a roadmap for the future of work, which involves pilot projects for hybrid work settings.



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.

In the first year of our 2021-2025 Strategic Direction term, with many Ottawa residents continuing to struggle in the face of the impacts of COVID-19, Hydro Ottawa remained true to our heritage as a responsible community company.

While restrictions on in-person events continued to preclude many of our typical Community Investment Program activities, we nevertheless made good on our long-standing commitment to "give where we live." Our 2021 employee-driven charitable fundraising campaign raised more than $135,000, with over half of this total allocated to youth programming at the United Way. In addition, we fulfilled our five-year, $1 million pledge in support of The Ottawa Hospital's Rose Ages Breast Health Centre, a comprehensive facility offering specialized care to breast cancer patients. Other sponsorships and donations were directed to mental health services at the Children's Hospital of Eastern Ontario, the Ottawa Food Bank, the Help Santa Toy Parade, and the Royal Ottawa Hospital Run for Women.

Building on the successful pivoting of our community and stakeholder outreach activities in the early period of the pandemic, another major focus in 2021 was maximizing the effectiveness and the reach of our virtual engagement platforms. A signature initiative involved shifting our open houses for planned work projects in the community to a webinar format. This move allowed for greater ease and convenience in public participation and has been well-received by stakeholders. Similarly, we continued to leverage and refine virtual options for engaging businesses,

>$135K

raised through employee charitable fundraising

Achieved Sustainable Electricity Company™ designation

Committed to net zero operations by 2030

Leveraged online platforms to stay connected with the community

Maintained >90% diversion rate of non-hazardous waste

associations, and community groups, and for running our popular educational programs for students on electricity safety and conservation.

Providing timely and accessible information to customers and stakeholders likewise remained a priority. We expanded our e-newsletter services through a new offering tailored to small businesses and Business Improvement Associations, the total subscriptions for which exceed 7,000. More than 35 blog posts, 23 episodes of our *Think Energy* podcast, and a range of video content were also released. We continued to experience steady year-over-year growth in social media engagement, finishing the year with more than 66,000 followers across all platforms. In addition, we maintained regular communication with our sole shareholder, the City of Ottawa, and with its Mayor and Councillors.

Sustainability has been an enduring hallmark of Hydro Ottawa's corporate citizenship activities and there were two seminal milestones in this area in 2021. The first was the achievement of Electricity Canada's Sustainable Electricity Company™ designation. A national framework which conforms to the ISO 14001 standard on Environmental Management Systems and ISO 26000 Guidance on Social Responsibility, this certification attests to robust sustainability performance and sound environmental, social, and economic practices. Hydro Ottawa is one of only 11 Electricity Canada member utility companies and the third in Ontario to secure this designation.

The second noteworthy development was the announcement of Hydro Ottawa's commitment to become the first municipally-owned utility in Canada to achieve net zero operations. Our timeline for this ambitious goal, which anchors our new Strategic Direction, is 2030. This transition is intended to be a "moonshot" initiative and will require harnessing all of the innovation and ingenuity at the company's disposal. A detailed action plan is being developed to guide our journey to net zero and will involve a broad range of stakeholders including customers, employees, and regulators.

In step with our commitment to maintaining leading governance practices, 45 percent of our Board of Director positions were held by women in 2021. In addition, we were pleased to receive third-party awards and recognition relating to the caliber of the employment experience, leadership, and customer and environmental programs at Hydro Ottawa.

Management's Discussion and Analysis

Introduction

The Management's Discussion and Analysis ['MD&A'] reviews Hydro Ottawa Holding Inc.'s financial position and financial performance, and should be read in conjunction with the audited consolidated financial statements and accompanying notes for the year ended December 31, 2021.

The accompanying consolidated financial statements are prepared in accordance with International Financial Reporting Standards ['IFRS'], as issued by the International Accounting Standards Board, and are expressed in thousands of Canadian dollars.

The MD&A contains forward-looking statements, including, but not limited to, statements as to future operating results and plans. These statements reflect management's expectations as of April 14, 2022, the date of approval of the consolidated financial statements. The impacts of risks and uncertainties may cause actual results, performance, or achievements to differ materially from those projected here.

Core Businesses and Strategy

Company Profile

Hydro Ottawa Holding Inc. ['Hydro Ottawa', 'the Company', or 'the Corporation'] is 100 percent owned by the City of Ottawa. It is a private company, registered under Ontario's *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 354,000 residential and commercial customers across 1,116 square kilometres. The Company's customer base grows by an average of one percent per year.

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

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

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 2021, Hydro Ottawa developed a new strategic plan ['2021-2025 Strategic Direction'], outlining the Company's business strategy and financial projections for the next five years.

This strategy represents both a continuation and an expansion of the robust foundation that Hydro Ottawa has built in our integrated planning and performance management framework. It retains the core elements of this framework, while responding to significant shifts in our business environment and placing a new emphasis on how sustainability and Environmental, Social, and Governance ['ESG'] factors are integrated into all of our business practices.

STRATEGY

The essence of Hydro Ottawa's strategy is to put the customer at the centre of everything 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 well-being of our community.

In addition, our 2021-2025 Strategic Direction strengthens our commitment to improving the sustainability of our business operations. For more than a decade, Hydro Ottawa has been on a journey of balancing growth with environmental protection and social responsibility. Our ESG performance has been inextricably linked to our ability to create long-term value and achieve our strategic objectives. This has served the Company and our stakeholders very well, and forms the basis for anchoring our refreshed strategy in decisive action aimed at pursuing every opportunity – big or small – to enhance our sustainability profile.

With respect to the business, operating, and political environments in which we carry out our activity, they have all shifted significantly since the formulation of our prior strategic plan. Five key change drivers now define our strategic context: decarbonization; digitization; decentralization; diversification; and demographics. Collectively, and in varying measure, these drivers are shaping the landscape within which we will mitigate risk, seek out opportunity, and measure our performance.

Within this dynamic landscape, we have developed an 8-point strategy for the 2021-2025 period.

1. Achieve net zero operations by 2030
2. Become the partner of first choice for signature green energy and carbon reduction projects in our community
3. Accelerate digital transformation to enable sustainable business practices
4. Leverage and promote distributed energy resources
5. Continue to grow and diversify our revenue sources
6. Grow our social license to operate
7. Ensure organizational capacity, culture, and leadership to deliver in a post-pandemic environment
8. Continue to provide best-in-class customer service

Our aim is to be the trusted energy advisor for our customers 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:** Expanding our grid to accommodate new customers and 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 and sustainable solutions to help consumers, businesses, public sector agencies, and communities meet their energy objectives through energy management, conservation, efficient streetlighting, 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, and 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, 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.

These guiding principles have served Hydro Ottawa and our stakeholders well over the course of successive strategic planning cycles. They are increasingly relevant in light of rising public and private sector interest in ESG issues, and thus attest to Hydro Ottawa's leadership as a forward-thinking and purpose-driven corporation.

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. We 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.

As part of our 2021-2025 Strategic Direction, we are highlighting how sustainability underpins all of our business activity across these categories of performance. 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.

ORGANIZATIONAL EFFECTIVENESS

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

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.

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.

Customer Value will remain the most important driver of our business strategy and will be paired with a renewed and enhanced emphasis on sustainability, including the commitment to achieve net zero operations by 2030.

Electricity Industry Overview

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

Electricity Generation

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

Electricity Transmission

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

Electricity Distribution

After transmission, electricity in Ontario is distributed at lower voltages to homes, businesses, hospitals, schools, factories, and farms by LDCs such as Hydro Ottawa Limited. LDCs deal directly with electricity customers, maintain their communities' local electricity grids, and assist customers with electricity conservation programs. LDCs are the primary billing and collecting agents for all electricity sector charges. In addition, LDCs in Ontario are required to enable the connection of generators to their distribution systems, pursuant to specific regulatory criteria and to facilitate the settlement process through which a generator is paid for its electricity production. This settlement process, through which the LDC remains whole, entails payment by the Ontario LDC to the generator for both the spot market rate and any difference between the spot market rate and the contracted power purchase agreement rate with the Independent Electricity System Operator ['IESO'].

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 generation from either their local LDC or an electricity retailer. Most Ontario customers choose to buy from their LDC. Hydro Ottawa Limited is only engaged in electricity distribution in the Ontario market.

System Operators

The 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. Wholesale customers can therefore see prices fluctuate based on current supply and demand, and can respond accordingly. The IESO monitors the system, identifies what is required to maintain reliability in the future, and publishes its findings in regular reports. It also coordinates emergency preparedness for the province's electricity system.

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

Regulatory Framework

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

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

Rates

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

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

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

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

Hydro Ottawa Limited's distribution rates are set by the OEB, based on rate applications.

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

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

Capability to Deliver Results

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

Assets

Hydro Ottawa's gross asset base is $2.4 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 2021, the Corporation invested $67 million to maintain its distribution system and a further $48 million to expand the system to meet customer needs [see 'Investing Activities' below for more details]. Among the investments is the new municipal transformer station project in south Nepean, an area where electricity demand has doubled since 2002 and whose electricity needs are expected to more than double once again due to planned residential and commercial development. These investments are having the desired impact, with electricity service reliability remaining strong system-wide despite the impact of weather-related events. Hydro Ottawa also continues to grow its renewable generation infrastructure. Investments of $22 million were made in these facilities in 2021, including the completion of the refurbishment of the Company's Hull 2 generating station located in Québec.

- **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.

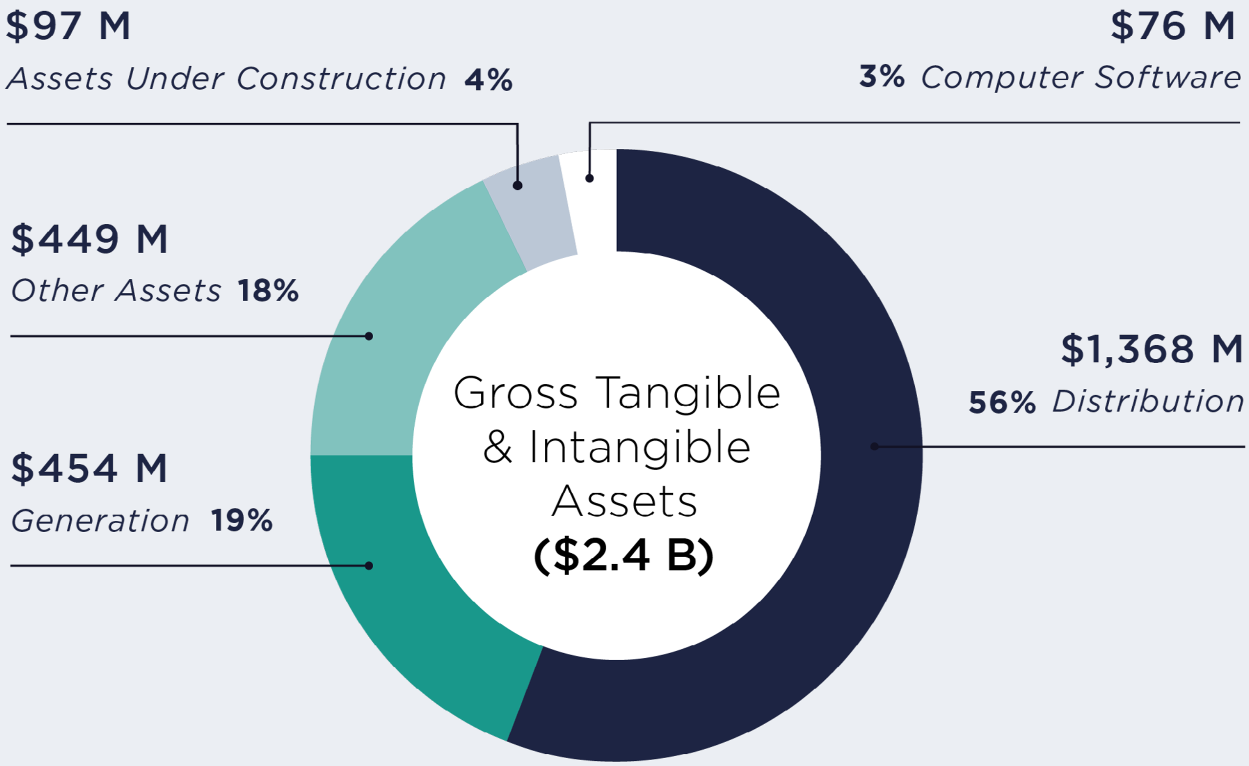
Service Area	Circuitry
1,116 *square kilometres*	6,001 *kilometres*

Substations	Transformers	Poles
91	47,397	49,241

- **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	Landfill Gas-to-Energy Plants
16	2

Solar Installations
16 *[includes 2 behind-the-meter installations]*



Workforce

A highly skilled, properly trained, and knowledgeable workforce – and a safe and healthy work environment – are essential to Hydro Ottawa's continued success.

The Company's strategic objectives will only be achieved through the efforts of an effective and constantly learning organization, with the right skill sets to deliver on existing and new business lines.

Hydro Ottawa employed 689 people at the end of 2021 across the enterprise, with Hydro Ottawa Limited accounting for 85 percent of this workforce.

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

- **Training:** In-house apprenticeship and engineering internship programs continued to grow in 2021, with eight new apprentices hired – bringing the total to 39, or 25 percent of the trades workforce. Twelve apprentices reached journeyperson status in 2021.
- **Succession:** Succession planning and management programs ensure that there are qualified employees in the talent pipeline for key positions.

- **Knowledge Management and Transfer:** A proactive approach for key positions includes an older worker and retiree engagement plan to help seamlessly transition work from the veteran workforce to the next generation.
- **Diversity and Inclusion:** Hydro Ottawa's strategy fosters an inclusive culture that leverages diversity and enhances employee engagement and innovation. In 2021, the Company launched its third Diversity, Equity, and Inclusion Plan to guide its continued journey.
- **Educational Partnerships:** These include, most notably, collaborations with Algonquin College to deliver the College's Powerline Technician programs in the Eastern Ontario region, and with Carleton University's Sustainable and Renewable Energy Engineering Department for the establishment of a smart grid laboratory. The latter fosters innovative research on electrical power systems and promotes the training of engineers in the smart grid environment.

Employee compensation programs continued to support a high-performance culture in 2021, and include market-driven and performance-based components to attract and retain key employees.

As Hydro Ottawa's business changes, so too does the profile of its workforce. It is increasingly diverse in age, skills, cultural and ethnic background, sexual orientation, gender identity, and in many other ways. The Company aims to create a thriving, respectful, and inclusive workplace for all.

A fundamental component of Hydro Ottawa's commitment to operating efficiently and effectively is the very high priority that is placed on protecting the health, wellness, and safety of employees and the community. Hydro Ottawa has established an integrated health, safety, and environment management system certified to international standards. In 2021, the management system was successfully transitioned from Occupational Health and Safety Assessment Series 18001 to International Organization for Standardization 45001 and 14001 (the latter certified 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. Hydro Ottawa takes the security of its critical infrastructure against cyber threats seriously, and collaborates proactively with government, regulators, and private sector partners across North America to manage this risk. Technology decisions continue to be based on three basic criteria: enhancing service to customers; creating efficiencies that will increase 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 its operations by optimizing productivity at every opportunity.

Examples of initiatives undertaken in 2021:

- Enhanced the Company's customer relationship and field services management system to enable the optimization of field crew scheduling and dispatch
- Launched an in-house training and certification program for Power Cable Technician apprentices to support greater self-sufficiency in the development of trades talent
- Piloted the automation of invoice processing through a software solution employing artificial intelligence
- Implemented a refreshed productivity program for the distribution engineering and operations division (the largest in the Company), with a focus on improved crew wrench time, reduced driver time, and contractor management
- Rolled out a new facilities management platform to improve reporting and monitoring related to building maintenance requests and schedules
- Expanded the functionality of enterprise resource planning and health, safety, and environmental reporting systems, and further advanced the roll out of Google Workspace to facilitate remote work and collaboration by employees

Capital Resources

LIQUIDITY AND CAPITAL RESOURCES

The Corporation's primary sources of liquidity and capital resources are operating activities, banking facilities, and proceeds from commercial paper and 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 October 22, 2021, the Corporation renewed and extended its $440 million credit facility to August 2024. The credit facility is used for general operating purposes, annual capital expenditures, and to provide adequate liquidity to withstand sudden adverse changes in economic circumstances. Additionally, the credit facility is used to backstop the Corporation's commercial paper program launched in July 2021 to better optimize short-term borrowings.

Bond issuances in the utility sector continue to be a very attractive investment in the capital markets with strong demand across all bond tenures. This provides the Corporation access to market capacity to support its ongoing investment requirements. The Corporation's existing corporate bond profile is very strong, with a weighted average maturity of 15 years at an average weighted cost of 3.50 percent. A $204-million, project-level, 40-year non-recourse bond was issued in 2016 for the hydroelectric generation expansion at Chaudière Falls at a rate of 4.08 percent. A $290.5-million, project-level, 40-year non-recourse green bond was issued in 2019 for the refurbishment of the two generating plants in Québec at a rate of 3.53 percent. For additional details regarding the Corporation's sources of liquidity and capital resources, see Notes 11, 15, and 17 to the consolidated financial statements.

CREDIT RATINGS

On October 29, 2021, Dominion Bond Rating Service Inc. ['DBRS'] reaffirmed Hydro Ottawa's A (low) credit rating and its stable trend.

The re-affirmed investment-grade rating confirms the sustained strength of Hydro Ottawa's operations. DBRS noted that Hydro Ottawa continues to have the following: an excellent business risk profile due to its operation under a reasonable regulatory regime for electricity distribution; a large and diverse customer base; and high credit-quality power purchase agreements for the majority of its generation assets, which provide steady, predictable, and stable cash flows.

Progress Against Plan

To ensure Hydro Ottawa makes steady progress towards achieving the corporate strategy set out in its 2021-2025 Strategic Direction, the Company has set 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 goals for 2021.

KEY AREAS OF FOCUS	ENTERPRISE STRATEGIC OBJECTIVES	2021 PERFORMANCE GOALS	2021 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	• Supported customers during COVID-19: » Offered flexible payment plans » Distributed $1.1M in provincial relief funding to residential and small business customers » Responded to needs for working and learning at home by limiting planned power outages to critical situations only and loaning portable batteries to affected customers • Maintained best-in-class reliability performance by leveraging technology and automation • Invested $67.4M to keep our distribution system safe and reliable • Achieved 94% customer satisfaction rating • Ranked first for operating efficiency [lowest costs per customer] among large distributors in Ontario • Expanded our digital services, including an online calculator to help customers compare different provincial rate plans • Maintained highest e-billing participation rate among Ontario electricity distributors and second highest in Canada [59% of customers], saving $2.4M per year
Financial Strength	We will create sustainable growth in our business and our earnings *by improving productivity and pursuing business growth opportunities that leverage our strengths – our core capabilities, our assets, and our people*	Grow revenues from new sources Enhance / protect revenues from existing business lines	• Achieved consolidated net income of $47.3M, in line with 2021-2025 Strategic Direction commitment • Continued to successfully mitigate the financial impacts of the COVID-19 pandemic through spending constraints • Completed the refurbishment of our second Chaudière Falls hydroelectric plant in Québec, contributing to a record year for green energy production despite drought conditions through much of 2021 • Continued to diversify revenue streams through our Envari brand and emerging business lines: » Installed charging infrastructure for the City of Ottawa's Zero Emission Bus initiative » Introduced new services for building automation and energy dashboard monitoring » Completed construction and commissioning of the district energy plant for the Zibi community

KEY AREAS OF FOCUS	ENTERPRISE STRATEGIC OBJECTIVES	2021 PERFORMANCE GOALS	2021 PERFORMANCE HIGHLIGHTS
Organizational Effectiveness	We will achieve performance excellence *by cultivating a culture of innovation and continuous improvement*	Continue to enhance operational performance and productivity Maintain leading health and safety record Enhance organizational and employee capability	• Maintained safety as our top priority as we adapted to COVID-19 challenges: » Enhanced safety measures and protocols » Modified work schedules and environments » Encouraged employee vaccination » Expanded digital solutions to support work from home, online learning, and employee engagement • Continued our focus on productivity and continuous improvement, investing $5.0M in next-generation technology to support customer service, operational efficiency, safety reporting, and cybersecurity • Achieved best-in-class certifications for our Occupational Health, Safety, and Environment Management System to international standards • Continued to renew our workforce through apprentice and journeyperson hiring [without increasing total positions], and through implementation of comprehensive talent management programs • Launched our third multi-year diversity, equity, and inclusion plan focused on fostering a diverse and engaged workforce, an inclusive workplace, and meaningful community partnerships
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	• Stayed connected with our customers and stakeholders through proactive outreach: » Shifted to a virtual platform for open houses on planned work projects in the community » Leveraged online channels to interact with businesses and community groups, and educate students on electricity safety and conservation » Launched new e-newsletter for small businesses • Responded to the needs of our community through targeted support: » Raised over $135K for the United Way through our Employee Charitable Fundraising campaign » Fulfilled our five-year, $1.0M pledge in support of The Ottawa Hospital's Rose Ages Breast Health Centre » Sponsored mental health, youth, and emergency food relief initiatives through our Community Investment Program • Refreshed our five-year corporate strategy, with a commitment to transition our business operations to net zero by 2030 • Achieved the Sustainable Electricity Company™ designation from Electricity Canada for leadership in responsible business practices • Received eight awards for performance excellence, including: » Canada's Top Employers for Young People [8th year] » National Capital Region's Top Employers [13th year] » Canada's Greenest Employers [10th year] » Electricity Canada's Centre of Excellence

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, 2021.

Consolidated Statement of Income [Summary]

[in thousands of Canadian dollars]	2021	IFRS 14 Impact	2021 (Pre-IFRS 14)[1]	2020	IFRS 14 Impact	2020 (Pre-IFRS 14)[1]	Change (Pre-IFRS 14)[1]
Revenue and Other Income							
Power Recovery	**878,684**	**(20,308)**	**858,376**	994,193	(10,301)	983,892	(125,516)
Distribution	**194,110**	**120**	**194,230**	190,975	(3,565)	187,410	6,820
Generation	**45,854**	**-**	**45,854**	47,471	-	47,471	(1,617)
Commercial Services	**31,524**	**-**	**31,524**	23,244	-	23,244	8,280
Conservation and Demand Management	**2,786**	**-**	**2,786**	7,415	-	7,415	(4,629)
Business Interruption Proceeds	**2**	**-**	**2**	99	-	99	(97)
Other	**11,617**	**-**	**11,617**	9,196	-	9,196	2,421
	1,164,577	**(20,188)**	**1,144,389**	1,272,593	(13,866)	1,258,727	(114,338)
Expenses							
Purchased Power	**867,358**	**(22,310)**	**845,048**	987,991	(9,693)	978,298	(133,250)
Operating Costs	**135,907**	**90**	**135,997**	138,308	(2,564)	135,744	253
Depreciation and Amortization	**70,787**	**-**	**70,787**	73,801	-	73,801	(3,014)
	1,074,052	**(22,220)**	**1,051,832**	1,200,100	(12,257)	1,187,843	(136,011)
Income Before Undernoted Items	**90,525**	**2,032**	**92,557**	72,493	(1,609)	70,884	21,673
Financing Costs, Interest Income and Taxes	**58,586**	**(12,587)**	**45,999**	48,465	(11,172)	37,293	8,706
Share of Profit from Joint Ventures	**(798)**	**-**	**(798)**	(529)	-	(529)	(269)
	57,788	**(12,587)**	**45,201**	47,936	(11,172)	36,764	8,437
Net Income	**32,737**	**14,619**	**47,356**	24,557	9,563	34,120	13,236
Net Movements in Regulatory Balances, Net of Tax	**14,619**	**(14,619)**	**-**	9,563	(9,563)	-	-
Net Income After Net Movements in Regulatory Balances	**47,356**	**-**	**47,356**	34,120	-	34,120	13,236

1 Non-GAAP Financial Measure

NON-GAAP FINANCIAL MEASURE

IFRS 14 - Regulatory Deferral Accounts requires a one-line separate presentation of the net movement within the Corporation's regulatory deferral accounts related to income [i.e. the debit and credit balances, net of taxes] within its consolidated statement of income. This net movement of regulatory balances primarily arises when there is a timing difference between the cost of power purchased and the recovery thereof. This difference is recorded as a settlement variance, representing amounts to be recovered from or refunded to customers through future billing rates approved by the OEB. Consequently, the Corporation's purchased power and power recovery line items can be significantly impacted by these timing differences. For the purposes of the analysis and interpretation of financial variances presented, 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. Readers should be cautioned that the pre-IFRS 14 non-GAAP financial measure is not a standardized measure and might not be comparable to disclosures by other entities.

NET INCOME

Net income surpassed the previous year's results despite the ongoing disruption caused by the COVID-19 pandemic. The increase in net income was largely attributable to the increase in revenue and other income [excluding power recovery].

In 2021, the Corporation saw an increase in commercial services revenue of $8.3 million in comparison to the previous year, as economic activity picked up and projects began to resume. Moreover, the Corporation's electricity distribution company also saw an increase in revenue of $6.8 million from the previous year due to regulated increases in its electricity rates and growth of its customer base. Portage Power's generation production in 2021 was higher than 2020, mostly due to the commencement of operations at its newly refurbished Hull 2 generating station, offset by abnormally low water levels on the Ottawa River. However, notwithstanding this increase in output, generation revenue fell by $1.6 million, largely on account of the change in the amount settled with Hydro Ottawa Limited. This is attributable to the unique circumstances of the facilities within Portage Power's fleet which operate under the terms of supply contracts with the IESO, but which are also directly connected to distribution systems. In these instances, the applicable facilities receive settlement from the Ontario LDC at the spot market rate and the difference between the contracted power purchase agreement rates and the spot market rate from the IESO. In 2021, the average spot market rate was higher than the prior year, resulting in a higher settlement between Hydro Ottawa Limited and Portage Power. As a result, the decrease in generation revenue is offset by an increase in power recovery revenue with no impact on consolidated total revenue.

The Corporation also noted a $4.6 million decrease in conservation and demand management ['CDM'] revenue due to transfer of program delivery responsibilities to the IESO.

The increase in revenue for Envari did, however, coincide with an increase in operating expenses with the largest change being in contracted services and material costs. Notwithstanding the increase in operating expenses in Envari, overall operating expenses by and large remained consistent with the prior year. The Corporation saw decreases in CDM expenses and in bad debts expense due to better than anticipated credit collections results. Furthermore, some of the cost controls put in place in 2020 to mitigate the financial impact of the COVID-19 emergency remained in place, as the pandemic persisted into its second year. Apart from operating expenses, Hydro Ottawa recorded an increase in financing costs [net of interest income], as a result of a decrease in interest capitalized and an increase in income tax expense due to higher current and deferred income taxes. This was partially offset by a decrease in depreciation and amortization costs.

REVENUE AND OTHER INCOME

Revenue and other income are earned from electricity distribution, renewable energy generation, energy management and utility services, as well as from CDM programs and sundry activities. In 2021, Hydro Ottawa's total revenue, including flow-through cost of power, amounted to approximately $1.1 billion, representing a decrease of nine percent from the prior year.

The largest component of Hydro Ottawa's total revenue is the cost of power recovered from customers through provincially established rates. The cost of power is a flow-through amount, which poses limited risk to Hydro Ottawa's financial performance. However, variances arise between the cost of power purchased and the recovery thereof, due to timing differences in invoicing from the IESO for the former, and receipt of payment from customers for the latter. This difference is recorded as a settlement variance. Hydro Ottawa Limited's power recovery revenue decreased $125.5 million in 2021, mainly due to lower global adjustment portions of commodity charges.

Distribution revenue is 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. The rates include revenue related to the collection of OEB-approved rate riders. 2021 marked the first year of rates approved under Hydro Ottawa Limited's 2021-2025 Custom Incentive rate application. Distribution revenue rose four percent relative to 2020, due in large part to the regulated increases in Hydro Ottawa Limited's electricity rates and growth of its customer base. However, the disruption caused by the COVID-19 pandemic continued to curb consumption in the commercial customer base.

As noted above, Portage Power's generation production in 2021 was higher than 2020. This was mostly attributable to its newly refurbished Hull 2 generating station achieving commercial operation on May 9, 2021, offset by abnormally low water levels on the Ottawa River. The Hull 2 facility was acquired from Hydro-Québec in December 2016 and has an installed capacity of 27 megawatts. After securing a long-term contract with the IESO to sell the electricity into the Ontario grid, an extensive refurbishment project was initiated in 2018. The refurbishment was originally scheduled to be completed in Q2 2020; however, with the impact of the spring flooding in 2019 and the COVID-19 pandemic, construction was delayed.

Whereas the COVID-19 pandemic disrupted much of its operations in 2020, causing a significant decline in revenue, Envari produced an $8.5 million increase in commercial services revenue in 2021 as economic activity started to rebound. Commercial services revenue rose in all three practices: lighting, buildings, and electrical. Business activity was supported, in particular, by forward movement on two key projects: major upgrades to electrical and heating equipment at the Robert O. Pickard Environmental Centre ['ROPEC'], Ottawa's wastewater treatment facility; and installation of electric vehicle charging infrastructure for the City's Zero Emission Bus initiative.

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

EXPENSES

› Purchased Power and Operating Costs

Purchased power represents the cost of electricity delivered to customers within Hydro Ottawa Limited's distribution service territory. These costs consist of the commodity charges, wholesale market service charges, transmission charges, and the global adjustment. The cost of purchased power decreased $133.3 million in 2021, mainly due to the global adjustment portion of the commodity cost. The global adjustment comprises the difference between the market rate and the contracted price for generation, and a portion of conservation and demand management programs. Effective January 1, 2021, the provincial government moved a portion of renewable energy contract costs to be paid by the tax base instead of electricity consumers.

Operating costs in 2021 of $136.0 million were materially in-line with the prior year. This was due, in part, to a $8.8 million increase in Envari's operating expenses which coincided with its increase in revenues, offset by a drop of $4.3 million in CDM costs due to the change in delivery responsibilities for the program, and a $3.0 million decrease in bad debts expense due to better than anticipated credit collections results. Furthermore, some of the cost controls put in place in 2020 to mitigate the financial impact of the COVID-19 emergency remained in place as the pandemic persisted into its second year. Finally, in 2021, the Corporation's telecommunications network needs began to be fulfilled by its own newly constructed fibre network completed in 2020, which further helped to contain costs.

› Depreciation and Amortization

Depreciation and amortization on Hydro Ottawa's property, plant, and equipment, and on its intangible assets decreased in 2021 by $3.0 million, largely due to certain assets being fully depreciated.

› 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], both landfill gas-to-energy joint ventures. In addition, the Corporation has a 50 percent interest, with partner Dream / Theia, in Zibi Community Utility LP ['ZCU'] for the construction and operation of a district cooling and heating system for the Zibi development in downtown Ottawa-Gatineau. For more information regarding the Corporation's joint ventures, see Note 9 to the consolidated financial statements.

› Financing Costs [Net of Interest Income] and Taxes

Financing costs [net of interest income] increased by $1.3 million due to a decrease in interest capitalized as a result of project completions. This increase was partially offset by savings from the new commercial paper program put in place during the year.

The Corporation's effective tax rate increased from 26.81 percent in 2020 to 31.01 percent in 2021, 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 $8.8 million increase in income tax expense after the adoption of IFRS 14 is largely the result of an increase in pre-tax income and temporary differences. [There was a $7.4 million increase in income tax expense pre-IFRS 14]. For more information regarding income taxes, see Note 23 to the consolidated financial statements.

NET MOVEMENT IN REGULATORY BALANCES [NET OF TAX]

In accordance with IFRS 14, the Corporation has separately presented the net movement in regulatory balances in the consolidated statements of income and comprehensive income. The changes in the regulatory debit and credit balances for the year, on the consolidated balance sheet, were an increase of $5.4 million [debit] and a decrease of $8.5 million [credit], respectively. This is equal to the net movement in regulatory balances, net of tax, on the consolidated statements of income and comprehensive income [an increase of $14.6 million and a decrease of $0.7 million, respectively]. The impact of the IFRS 14 adjustments of $14.6 million is shown on the consolidated statement of income [summary]. As Hydro Ottawa Limited passes on the benefit of deferred income taxes through annual distribution rate adjustments approved by the OEB, it records a regulatory deferral account credit [or debit] balance for the amounts of deferred income taxes expected to be refunded to [or recovered from] customers in future rates.

Consolidated Balance Sheet [Summary]

[in thousands of Canadian dollars]	2021	2020	Change
Current Assets	**207,465**	260,310	(52,845)
Non-Current Assets	**2,068,571**	1,949,515	119,056
Total Assets	**2,276,036**	2,209,825	66,211
Regulatory Account Balances	**86,374**	80,982	5,392
Total Assets and Regulatory Account Balances	**2,362,410**	2,290,807	71,603
Current Liabilities	**413,365**	428,635	(15,270)
Non-Current Liabilities	**1,416,435**	1,348,126	68,309
Total Liabilities	**1,829,800**	1,776,761	53,039
Shareholder's Equity	**507,295**	480,224	27,071
Total Liabilities and Shareholder's Equity	**2,337,095**	2,256,985	80,110
Regulatory Account Balances	**25,315**	33,822	(8,507)
Total Liabilities, Shareholder's Equity and Regulatory Account Balances	**2,362,410**	2,290,807	71,603

ASSETS

Total assets increased by approximately $66.2 million in 2021. This increase is largely attributable to property, plant, and equipment, and to intangible assets, which in combination have increased by $110.0 million. This increase is a result of the completion of the Hull Energy L.P. generating station refurbishment project in Québec and of continuing investments in electrical distribution and generation infrastructure. On January 22, 2021, Hydro Ottawa entered into a Combined Loan and Grant Agreement with the Federation of Canadian Municipalities ['FCM'] to fund the green district energy construction project undertaken by its 50 percent owned-and-controlled joint venture, ZCU [see 'Financing Activities' below for more details]. Accordingly, on January 22, 2021, Hydro Ottawa entered into a mirror arrangement with ZCU to flow-through the $15.7 million received from the FCM to ZCU. Conversely, the Corporation saw a $52.8 million decrease in current assets due in large part to a decrease of $34.3 million in accounts receivable and a $12.8 million decrease in cash. The decrease in accounts receivable is due to the decrease in revenue, in particular power recovery revenue, while the decrease in cash is attributable to the refurbishment of its generating station and continuing investments in electrical distribution and generation infrastructure.

LIABILITIES

Total liabilities increased by $53.0 million in 2021. This included the following: a $43.2 million increase in the non-current portion of deferred revenue due to capital contributions received in 2021, net of amortization; a $14.9 million increase in the non-current portion of long-term debt due to the aforementioned FCM loan; and an increase of $10.4 million in deferred income taxes. The Corporation's current liabilities decreased by $15.3 million largely because of a decrease in accounts payable and accrued liabilities of $10.9 million and a $6.6 million decrease in bank indebtedness and commercial paper.

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, 2021, Hydro Ottawa Limited had recognized $86.4 million in regulatory account debit balances [assets] and $25.3 million in regulatory account credit balances [liabilities].

The $5.4 million increase in regulatory account debit balances is due to a $13.0 million increase in the regulatory asset for deferred income taxes, offset by a $7.6 million decrease in other variances and deferred costs.

The $8.5 million decrease in regulatory account credit balances is largely due to a $5.1 million decrease in settlement variances and in other variances and deferred costs, and a $3.4 million decrease in the Earnings Sharing Mechanism ['ESM'] variance account due to the clearing of the account. The ESM variance account captures 50 percent of any regulated earnings above Hydro Ottawa Limited's approved return on equity which is returned to customers.

On March 25, 2020, the OEB established the COVID-19 Emergency Deferral Account, recognizing that distributors would incur incremental costs and lost revenues resulting from the COVID-19 pandemic. On June 17, 2021, the OEB issued the final report on the COVID-19 Emergency Deferral Account outlining the criteria for the recoverability of costs and lost revenues associated with the pandemic. After reviewing the final report, management determined that the Company did not meet the means test established by the OEB. As a result, the Company did not record any balance in the COVID-19 Emergency Deferral Account as at December 31, 2021.

Consolidated Statement of Cash Flows [Summary]

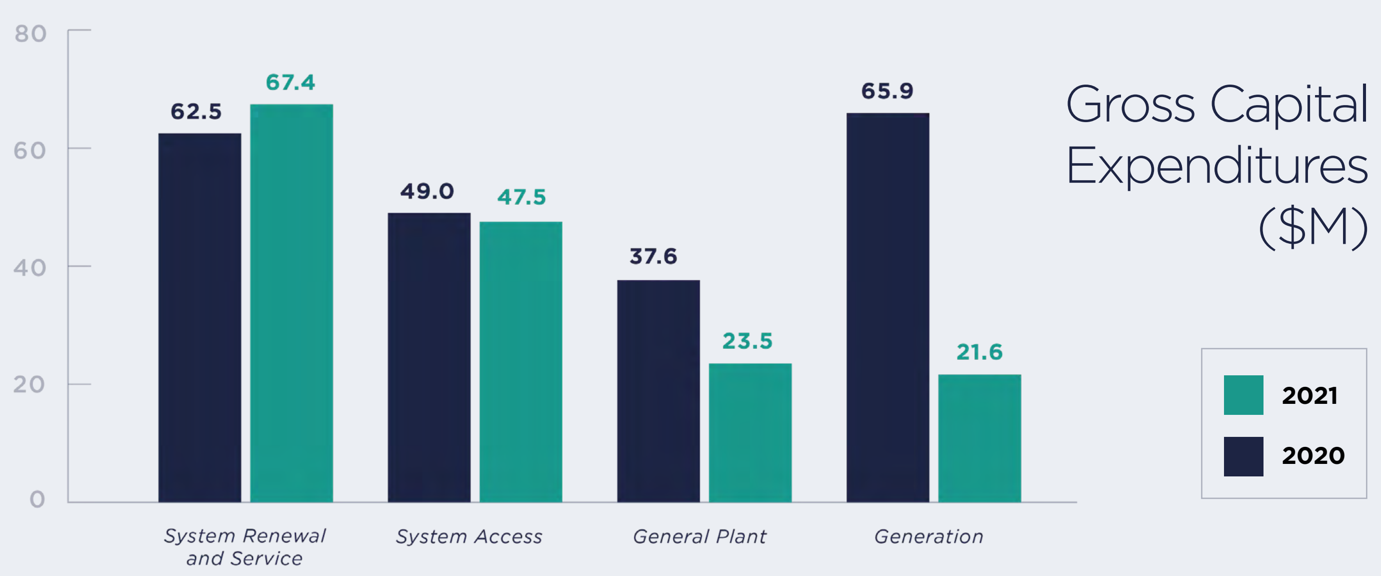
[in thousands of Canadian dollars]	2021	2020	Change
Bank Indebtedness, Beginning of Year	**(188,901)**	(74,764)	(114,137)
Cash Provided by Operating Activities	**185,362**	143,066	42,296
Cash Used in Investing Activities	**(186,486)**	(234,346)	47,860
Cash Provided by Financing Activities	**184,840**	(22,857)	207,697
Bank Indebtedness, End of Year	**(5,185)**	(188,901)	183,716
Cash (Bank Indebtedness) Consists of:	**23,819**	36,663	(12,844)
Cash	**(29,004)**	(225,564)	196,560
Bank Indebtedness	**(5,185)**	(188,901)	183,716

OPERATING ACTIVITIES

Cash generated by operating activities increased by $42.3 million in 2021. The majority of this increase relates to a $36.5 million net change in non-cash working capital and a $17.0 million increase in income before income taxes and net movements in regulatory balances. The increases in operating activities are offset by a $1.4 million increase in financing costs paid, net of interest income received, and a $3.4 million decrease in capital contributions received.

INVESTING ACTIVITIES

Cash used in investing activities decreased by $47.9 million in 2021. This decrease was largely due to the completion of the refurbishment projects at Chaudiere Hydro North L.P [February 2020] and Hull Energy L.P. [May 2021]. The Corporation also saw a decrease in general plant expenditures, offset by investments in its electrical distribution and generation infrastructure. Total investment in property, plant, and equipment and in intangible assets was $160.0 million in 2021. The chart below shows Hydro Ottawa's capital investments by category for both 2021 and 2020.



Capital investments in 2021 included the following: $67 million on system renewal and service to replace aging infrastructure and to modify the existing distribution system; $48 million on system access projects, including third-party-driven growth projects such as new residential or commercial installations, and municipal improvement projects such as the City of Ottawa's Light Rail Transit project; $23 million on general plant, including information technology infrastructure and fleet; and $22 million on generating plants, of which 45 percent relates to the refurbishment of the Hull Energy L.P. generating station.

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 and commercial paper.

On January 22, 2021, Hydro Ottawa entered into a Combined Loan and Grant Agreement with the FCM, to fund the green district energy construction project undertaken by its 50 percent owned-and-controlled joint venture, ZCU. The FCM loan and grant agreement allows the Corporation to borrow the lesser of $20 million and 69.6 percent of eligible project expenditures, repayable over a term of 20 years, in addition to a non-repayable grant based on the total eligible project expenditures incurred. On December 31, 2021, there was an outstanding balance of $15.7 million bearing interest of 3.91 percent.

On July 7, 2021, Hydro Ottawa completed its inaugural commercial paper short-term note issuance of $180 million at an effective rate of 0.565 percent, representing a significant short-term funding cost reduction compared to the expiring bankers acceptance loans at 1.25 percent. The commercial paper program permits the issuance of up to $400 million of unsecured short-term promissory notes to be issued in various maturities of no more than one year, and bears interest based on the prevailing market conditions at the time of issuance. As at December 31, 2021, the Corporation had $190 million in commercial paper outstanding.

In 2021, dividends were paid to the shareholder, the City of Ottawa, in accordance with the approved dividend policy. The 2021 payment totaled $20.8 million based on 2020 results, and the 2020 payment totaled $22.6 million based on 2019 results. Subsequent to year-end, the Board of Directors declared a $23.7 million dividend based on 2021 results.

Accounting Matters

SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS

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

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

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

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

Risks and Uncertainties

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

The Corporation's Enterprise Risk Management ['ERM'] framework, established by the Board of Directors in 2006 and renewed annually, consolidates quarterly risk reporting to the President and Chief Executive Officer, and to the Board. Reporting highlights potential risk factors that may have an impact upon Hydro Ottawa's near-term and long-term business objectives and strategic direction. The ERM framework supports and complements the Corporation's strategic planning and annual business planning cycles, through updated environmental 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 following: the weather; the policy and regulatory environment; the state of the economy and macro-economic trends; the state of financial markets and of investment in the utilities space; government policies relating to the production and procurement of renewable and clean energy, as well as carbon emissions and conservation; the convergence of information technology and operational technology; cybersecurity; labour force demographics, with a particular emphasis on the renewal of human resources in the trades; the course and consequences of events such as pandemics and natural disasters, which could significantly affect the socio-economic and physical environment in which the Corporation functions; and the impact of fiscal policies on customers. In combination, these sources of risk will shape the evolution of the industry, which could in turn present new and emerging risks that the Corporation needs to manage effectively. The description of risks below is not intended to be comprehensive and does not include all possible risks. The actual impact of any risk event may vary substantially from what is anticipated or described below.

COVID-19 Pandemic

As the COVID-19 pandemic approaches the end of its second year, the benefits of mass vaccination are evident in a considerably lower level of fatalities. Yet, there could be multiple waves of less lethal but highly contagious strains of the disease before it subsides.

If that should be the course that COVID-19 takes before subsiding, it is possible that socio-economic activity over the next year may be punctuated by occasional stop-start phases that include restrictions on capacity and/or social interaction. In duration and in scale, these stop-start phases may have less impact than in 2020 or 2021, but they may still affect the strength and sustainability of the post-pandemic recovery.

In the short to medium term, the economic recovery might be uneven across industries. Certain sectors (e.g. agriculture, hospitality and food services,

small-scale retail) may experience far more difficulty, not only because of the withdrawal of government support programs, but also because of inflation. Accelerating at its fastest rate since 2003, inflation is also likely to take a toll on families and small businesses. Supply chain disruptions may exacerbate the adverse effects of inflation.

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

Although employment in general has rebounded to near pre-pandemic levels, there continues to be a mismatch in labour supply and demand, with regard to professional, scientific, and technical services, in particular. The impact of this mismatch might linger for a considerable period as the federal government clears backlogs in the immigration and naturalization process.

The pandemic has had a devastating effect on population growth. In 2020, the growth in Canada's population fell to its lowest level in 75 years; in percentage terms, the 2020 growth of 0.4 percent was the lowest registered since 1916. The natural increase in Canada's population (births minus deaths) fell to its lowest level since 1922. The long-term impact of such an abrupt slowdown in population growth is difficult to assess at this point – for example, how it may affect some regions disproportionately.

The socio-economic and demographic effects of the COVID-19 pandemic are likely to have an impact on the Corporation's businesses, at least in the short to medium term.

The electricity distribution business, for example, could see a fall in its revenue, and face difficulties in recovering its costs from customers who are in distress. There can be no certitude that regulatory mechanisms will allow for a level of recovery of the resultant financial losses.

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

Some of the long-term effects of the pandemic, such as the shortage of affordable talent, might also affect the Corporation's capacity to achieve its strategic and growth-related initiatives.

Policy and Regulatory Environment

UNCERTAINTY REGARDING LONG-TERM POLICY DIRECTION FOR THE ELECTRICITY SECTOR IN ONTARIO

Since 2018, the Government of Ontario has been committed to making electricity more affordable. Significant policy initiatives during the last few years include the cancellation of numerous contracts for the procurement of renewable energy; the repeal of the *Green Energy Act, 2009*; and the repeal of the province's Climate Change Action Plan, including the cap-and-trade program. The government has also previously signalled that regulatory support for investment in the renewal of aging distribution infrastructure could be materially lower.

For rate-regulated LDCs such as Hydro Ottawa Limited, the current state of policy and regulatory guidance and support introduces considerable uncertainty, particularly with regard to anticipating and meeting the requirements of a distributed energy resources ['DERs'] environment led by customers. It is also not known whether and how future policy initiatives and regulatory frameworks would be compatible with the IESO's Market Renewal program, which is expected to take effect in the mid-2020s.

The outcome of the 2022 Ontario provincial election may introduce additional uncertainty, including the possibility of a major shift in emphasis and policy.

The climate of uncertainty may affect 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.

CUSTOM INCENTIVE RATE APPLICATION FOR 2021-2025

Hydro Ottawa's electricity distribution business has obtained approval from the OEB for its distribution rates for 2021-2025. As a result, the Corporation expects to be able to carry out its planned programs, provide safe and reliable electricity to its customers, while earning the allowed rate of return. However, results may be affected if actual loads and energy consumption vary substantially from forecast, or if actual costs of operations, maintenance, administration, capital, and financing materially exceed projections included in the approved revenue requirements.

Market Prices for Electricity

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

Major Project Execution and Supply Chain Disruption

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

There are inherent risk factors in such projects: 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.

The disruption of the global supply chain in the wake of the COVID-19 pandemic poses considerable risk to the successful completion of the Corporation's planned capital projects. It is highly likely that there will be prolonged shortages of raw material, equipment, labour, and expertise in a variety of areas. Even where these inputs may be available, there is a risk that inflation may make them considerably more costly than planned. As a result, there is a risk of material delays and/or cost overruns in any of the projects planned or currently in construction, affecting the Company's overall performance.

Distribution and Generation Infrastructure

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

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

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

Exchange Rate Fluctuations

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

Economy

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

Credit Ratings and Interest Rates

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

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

Technology Infrastructure

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

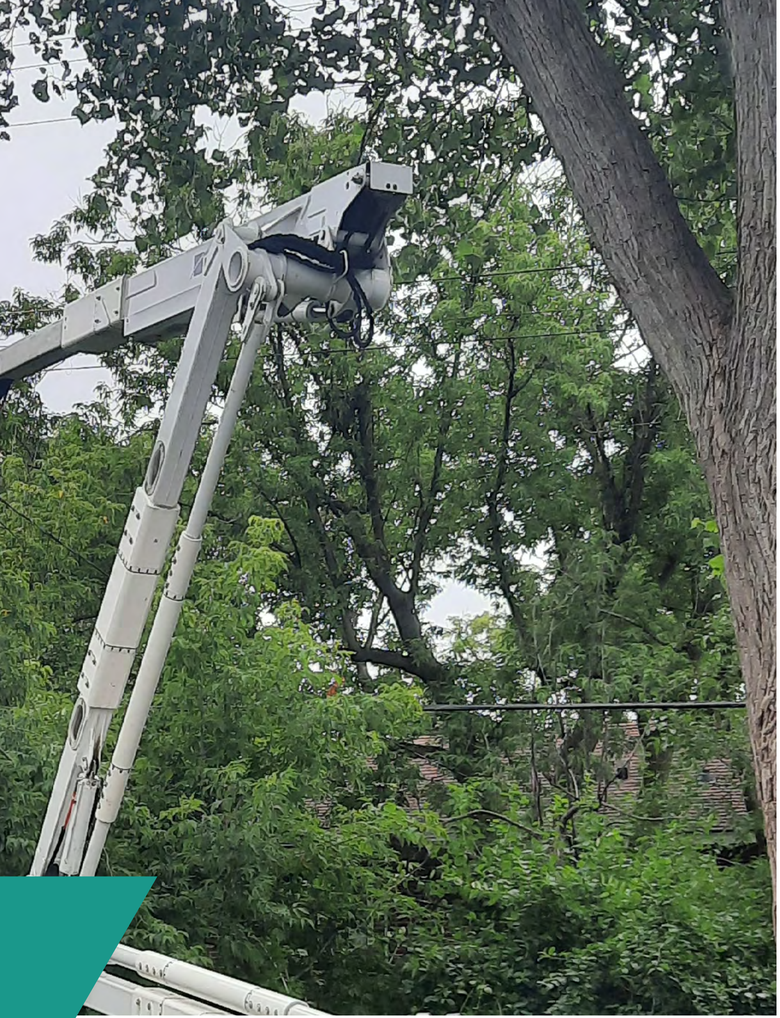
Many of these key systems also draw upon data and signals from several hundred thousand smart devices [chiefly smart meters], as well as the related systems and web interfaces. The processing of data in many cases entails a number of automated interfaces, as well as multiple internal and external dependencies,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

There is growing convergence of core operational systems with enterprise information systems, along with increasing automation, and extensive use of common technology in facilitating such integration and connectivity. The complexity of this technology

infrastructure, together with its interconnected nature, has the potential to heighten existing risks as well as to create new ones.

Cybersecurity

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



Customer and Media Perceptions

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

Pension Plans

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

Hydro Ottawa also has a separate defined benefit pension plan and a separate defined contribution pension plan for a small number of employees in the generation portfolio, with appropriate financial and investment procedures and oversight, as required by law. Pension benefit obligations and related net pension costs 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.

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.

Labour-Related Disruption and Consolidation of Labour Bargaining Power

A substantial section of the Company's workforce is represented by various unions. Unsuccessful future negotiations with unions present the risk of a labour disruption or dispute, which might affect the Company's ability to sustain the continued supply of electricity to customers, and present potential risks to public safety. The Company may also face financial risks if the negotiated collective agreements are not consistent with its approved rates.

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

Impact of Severe Weather Events

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

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

Outlook

Subject to the risks and uncertainties discussed above, Hydro Ottawa foresees continued stability in returns from its core distribution business, within the parameters of the rates and investment plan set out in its approved application covering the 2021-2025 period.

We further anticipate strong performance on the part of Portage Power, buttressed by significant recent capital investments and upgrades, while the momentum behind decarbonization is likely to create growth opportunities for Envari's energy service offerings.

While 2022 began under renewed COVID-19 restrictions, by the end of the first quarter Ontario and other jurisdictions were tracking towards wide-scale reopening and a return to pre-pandemic working and operating conditions. At the same time, viral resurgences and their attendant economic impacts are certainly possible. In addition, the economic effects of the pandemic – in particular, supply chain constraints and rising inflation – could impact the timely completion of ongoing and future capital projects. Accordingly, the expected pace and comprehensiveness of broader post-pandemic recovery during 2022 remain uncertain.

At Hydro Ottawa, we were largely successful in mitigating pandemic impacts during 2021, as evidenced by strong financial performance for the year, and by our achievement of key business objectives such as completion of a major multi-year program of generation asset refurbishment.

As noted above, 2021 marked the beginning of a new five-year Strategic Direction term for the Company. The mission, vision, and other framework elements in our 2021-2025 Strategic Direction – including the centrality of customer interests and needs – are consistent with those in our 2016-2020 Strategic Direction. We have carefully assessed the main change drivers that will impact our business in the planning period and have developed a new 8-point strategy to help ensure an effective set of responses. Sustainability has also been re-cast as a more comprehensive underlay for all of our activities. Against this backdrop, we have established five-year targets of $255 million and $110 million for net income and shareholder dividends, respectively.

The centrepiece of our 2021-2025 Strategic Direction is the objective to transition our business operations to net zero by 2030. We are one of many companies – in and beyond the energy space – to have recently made net zero commitments. But relatively few have committed to as tight a timeline as ours. Quantifying current emissions, determining specific means for reducing them, and assessing offset and avoidance opportunities as may be needed will be major focal points for us in 2022 and beyond.

We are also committed to securing a position as partner of first choice for the growing number of our stakeholders who are pursuing their own green energy and carbon reduction projects, whether transformative or modest in scale. Through our diverse business lines, we have the infrastructure, expertise, and product and service-delivery channels to be one of the most important enablers of sustainable energy solutions across our service territory and Eastern Ontario. Leveraging those advantages will further advance our long-standing efforts to diversify and grow both our regulated and unregulated business.

Advancing DERs is another of the eight core points of our new Strategic Direction. In part, this is responsive to the expanding interest on the part of customers and stakeholders in such opportunities as electricity storage, self-supply through renewable energy, and electric vehicles. It likewise acknowledges a growing consensus across all levels of government around electrification being essential to the achievement of economy-wide net zero targets. In this regard, we look forward to supporting the increased deployment of DERs in our community, as contemplated under the City of Ottawa's clean energy strategy [known as 'Energy Evolution'], and to receiving greater regulatory clarity around the role for LDCs in relation to DER ownership and operation. These and other aspects of electricity policy may become part of the public dialogue over the course of both provincial and municipal election campaigns in 2022.

Concurrent with our pursuit of net zero and the other objectives in our 2021-2025 Strategic Direction, we will sustain our focus on grid stewardship and on our other core distribution responsibilities. This will entail implementing the capital investments and performance commitments in our five-year distribution rate plan, so as to sustain and strengthen the existing electricity grid, ensure access for new users and uses of electricity, and maintain the strong reliability performance of recent years.

Consolidated Financial Statements

Hydro Ottawa Holding Inc.

Consolidated Financial Statements

DECEMBER 31, 2021

Report of Management

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

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

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

On behalf of Management,

Bryce Conrad
President and Chief Executive Officer

Geoff Simpson
Chief Financial Officer

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INDEPENDENT AUDITORS' REPORT

To the Shareholder of Hydro Ottawa Holding Inc.

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, 2021
- 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, 2021, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

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

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

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

Other Information

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

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

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

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

We have nothing to report in this regard.

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

We also:

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

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

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

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

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

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

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

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

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Ottawa, Canada

April 14, 2022

Hydro Ottawa Holding Inc.

Consolidated Statement of Income
Year ended December 31, 2021
[in thousands of Canadian dollars]

	2021 **$**	2020 $
Revenue and other income		
Power recovery revenue [Note 20]	**878,684**	994,193
Distribution revenue [Note 20]	**194,110**	190,975
Generation revenue [Note 20]	**45,854**	47,471
Commercial services revenue [Note 20]	**31,524**	23,244
Other revenue [Note 20]	**11,617**	9,196
Conservation and demand management income	**2,786**	7,415
Business interruption proceeds [Notes 4 and 21]	**2**	99
	1,164,577	1,272,593
Expenses		
Purchased power	**867,358**	987,991
Operating costs [Note 21]	**135,907**	138,308
Depreciation [Notes 6 and 8]	**61,769**	62,828
Amortization [Note 7]	**9,018**	10,973
	1,074,052	1,200,100
Income before the undernoted items	**90,525**	72,493
Financing costs [Note 22]	**38,102**	36,926
Interest income	**(801)**	(958)
Share of profit from joint ventures [Note 9(a)]	**(798)**	(529)
Income before income taxes	**54,022**	37,054
Income tax expense [Note 23]	**21,285**	12,497
Net income	**32,737**	24,557
Net movements in regulatory balances, net of tax [Note 5]	**14,619**	9,563
Net income after net movements in regulatory balances	**47,356**	34,120

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, 2021
[in thousands of Canadian dollars]

	2021 **$**	2020 $
Net income after net movements in regulatory balances	**47,356**	34,120
Other comprehensive income		
Items that may be subsequently reclassified to net income		
Exchange differences on translation of foreign operations, net of tax	**(22)**	(756)
Items that will not be subsequently reclassified to net income		
Actuarial gain (loss) on post-employment benefits, net of tax	**1,257**	(1,479)
Net movement in regulatory balances related to other comprehensive income, net of tax	**(720)**	642
Total comprehensive income	**47,871**	32,527

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

Hydro Ottawa Holding Inc.

Consolidated Balance Sheet
As at December 31, 2021
[in thousands of Canadian dollars]

	2021	2020
	$	$
Assets		
Current assets		
Cash	**23,819**	36,663
Accounts receivable [Note 4]	**172,500**	206,779
Income taxes receivable	**2,677**	2,443
Prepaid expenses	**3,977**	4,126
Inventory [Note 10(b)]	**1,208**	1,292
Current portion of notes receivable from related parties [Note 10]	**234**	8,457
Restricted cash [Note 15(b)]	**3,050**	550
	207,465	260,310
Non-current assets		
Property, plant and equipment [Note 6]	**1,850,482**	1,753,557
Intangible assets [Note 7]	**162,951**	149,832
Investment properties [Note 8]	**4,616**	4,659
Investments in joint ventures [Note 9(a)]	**20,128**	19,137
Notes receivable from related parties [Note 10]	**15,741**	2,992
Restricted cash [Note 15(b)]	**7,730**	3,787
Deferred income tax asset [Note 23]	**6,923**	15,551
Total assets	**2,276,036**	2,209,825
Regulatory debit balances [Note 5]	**86,374**	80,982
Total assets and regulatory balances	**2,362,410**	2,290,807
Liabilities and equity		
Current liabilities		
Bank indebtedness [Note 11]	**29,004**	225,564
Commercial paper [Note 11]	**190,000**	-
Accounts payable and accrued liabilities [Note 12]	**192,139**	203,027
Income taxes payable	**930**	44
Deferred revenue [Note 13]	**120**	-
Current portion of long-term debt [Note 15]	**1,172**	-
	413,365	428,635
Non-current liabilities		
Deferred revenue [Note 13]	**217,892**	174,680
Employee future benefits [Note 14]	**16,231**	18,070
Customer deposits	**19,133**	17,225
Long-term debt [Notes 15 and 25]	**1,075,790**	1,060,896
Deferred income tax liability [Note 23]	**85,633**	75,221
Other liabilities [Note 16]	**1,756**	2,034
Total liabilities	**1,829,800**	1,776,761
Equity		
Share capital [Note 18]	**228,453**	228,453
Accumulated other comprehensive income	**1,319**	804
Retained earnings	**277,523**	250,967
Total liabilities and equity	**2,337,095**	2,256,985
Regulatory credit balances [Note 5]	**25,315**	33,822
Total liabilities, equity and regulatory balances	**2,362,410**	2,290,807

Contingent liabilities and commitments [Notes 26 and 27]

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, 2021
[in thousands of Canadian dollars]

	Share capital $	Accumulated other comprehensive income $	Non-controlling interest $	Retained earnings $	Total $
Balance at December 31, 2019	228,453	2,397	-	239,447	470,297
Net income after net movements in regulatory balances	-	-	-	34,120	34,120
Other comprehensive income	-	(1,593)	-	-	(1,593)
Dividends [Note 18(b)]	-	-	-	(22,600)	(22,600)
Balance at December 31, 2020	228,453	804	-	250,967	480,224
Net income after net movements in regulatory balances	-	-	-	47,356	47,356
Other comprehensive income	-	515	-	-	515
Dividends [Note 18(b)]	-	-	-	(20,800)	(20,800)
Balance at December 31, 2021	**228,453**	**1,319**	**-**	**277,523**	**507,295**

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, 2021
[in thousands of Canadian dollars]

	2021	2020
	$	**$**
Net inflow (outflow) of cash related to the following activities:		
Operating		
Net income after net movements in regulatory balances	**47,356**	34,120
Adjustments for:		
Depreciation and amortization	**70,787**	73,801
(Gain) loss on disposal of non-financial assets	**(169)**	1,083
Amortization of debt-issuance costs	**325**	325
Share of profit from joint ventures	**(798)**	(529)
Amortization of deferred revenue [Note 20]	**(6,023)**	(4,588)
Employee future benefits	**(16)**	173
Financing costs, net of interest income	**37,301**	35,968
Income tax expense	**21,285**	12,497
Other	**(239)**	271
Changes in non-cash working capital and other operating balances [Note 24]	**37,083**	570
Income taxes paid, net of refunds received	**(1,537)**	(2,215)
Financing costs paid, net of interest income received	**(36,850)**	(35,407)
Capital contributions from customers	**15,914**	21,930
Capital contributions from developers [Note 6]	**10,478**	7,815
Change in customer deposits	**5,084**	6,815
Net movements in regulatory balances	**(14,619)**	(9,563)
	185,362	143,066
Investing		
Acquisition of property, plant and equipment	**(143,458)**	(189,580)
Acquisition of intangible assets	**(22,215)**	(36,139)
Proceeds from disposal of property, plant and equipment	**4,274**	1,735
Capital contributions to joint venture [Note 15(c)]	**(2,111)**	-
Investment in joint venture, net of dividends received	**(320)**	(3,335)
Note receivable from joint venture	**(15,741)**	-
Financing costs paid	**(3,659)**	(5,642)
Restricted cash held in-trust	**(6,443)**	(1,787)
Repayment of notes receivable from joint ventures	**176**	402
Government grant received [Note 15(c)]	**2,111**	-
Deferred revenue	**900**	-
	(186,486)	(234,346)
Financing		
Increase in commercial paper, net of repayments [Note 11]	**190,000**	-
Proceeds from issuance of long-term debt, net of debt-issuance costs	**15,741**	(162)
Dividends paid [Note 18(c)]	**(20,800)**	(22,600)
Repayments of lease liabilities	**(101)**	(95)
	184,840	(22,857)
Net change in bank indebtedness, net of cash	**183,716**	(114,137)
Bank indebtedness, net of cash, beginning of year	**(188,901)**	(74,764)
Bank indebtedness, net of cash, end of year	**(5,185)**	(188,901)

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

[in thousands of Canadian dollars]

1. DESCRIPTION OF BUSINESS AND CORPORATE INFORMATION

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

Significant operating subsidiaries, each of which is wholly-owned by the Corporation as at December 31, 2021, are as follows:

Subsidiary	Principal activity
Hydro Ottawa Limited ['Hydro Ottawa']	An electricity distribution company regulated by the Ontario Energy Board ['OEB'] that owns and operates electrical infrastructure in the City of Ottawa and the Village of Casselman. In additional to distribution services, Hydro Ottawa Limited invoices customers for amounts it is required to pay to other organizations in Ontario's electricity system for providing wholesale generation and transmission services.
Energy Ottawa Inc. ['Energy Ottawa']	Operating under the Portage Power brand, Energy Ottawa owns and operates 16 hydroelectric generating stations totalling 115 MW located in Ontario and Québec [at Chaudière Falls] and New York state. Significant subsidiaries of Energy Ottawa include Chaudiere Hydro L.P. ['CHLP'], Hull Energy L.P. ['Hull Energy LP'], EONY Generation Limited ['EONY'], Chaudiere Hydro North L.P. ['CHLP North'], EO Generation LP ['EO Gen'] and Chaudiere Financial L.P. ['CFLP'].
Envari Holding Inc. ['Envari']	Envari provides turnkey management, analysis and infrastructure services to large energy consuming organizations and non-destructive cable testing services to utility companies. 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, 2021, are as follows:

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

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

2. BASIS OF PRESENTATION

(a) Statement of compliance

These consolidated financial statements have been prepared by management on a going-concern basis in accordance with International Financial Reporting Standards ['IFRS'] and have been approved and authorized by the Corporation's Board of Directors for issue on April 14, 2022.

(b) Basis of measurement

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

(c) Functional and presentation currency

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

(d) Use of estimates and judgments

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

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

(i) Accounts receivable

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

(ii) Regulatory balances

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

2. BASIS OF PRESENTATION [continued]

(d) Use of estimates and judgments [continued]

(iii) Revenue recognition

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

(iv) Useful lives of depreciable assets

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

(v) Impairment of non-financial assets

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

(vi) Employee future benefits

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

(vii) Capital contributions

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

(viii) Deferred income taxes

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

2. BASIS OF PRESENTATION [continued]

(d) Use of estimates and judgments [continued]

(ix) Indicator of asset impairment

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

Based on management's judgment, an indicator of impairment [under International Accounting Standards 36 – *Impairment of Assets* ['IAS 36']] existed within EONY at December 31, 2021 pertaining to the energy market prices in New York State. Assumptions with respect to these cash flows are sensitive to the various inputs into the value-in-use calculation, and thus are subject to measurement uncertainty [Note 2(d)(v)] and details regarding management's 2021 value-in-use analysis are presented in Note 7 of these consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of consolidation

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

(b) Joint ventures

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

(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.

3. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

(c) Foreign currency translation [continued]

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

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

(d) Regulation – Hydro Ottawa

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

For fiscal year ended December 31, 2021, 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.

On February 10, 2020, Hydro Ottawa filed its Custom IR application for distribution rates and other charges for a period of five years, to be effective January 1, 2021 to December 31, 2025. In November 2020, the OEB issued its final decision and reasons with respect to Hydro Ottawa's 2021-2025 rate application. Furthermore, on January 7, 2021, Hydro Ottawa's 2021 final rate orders were approved, which included base distribution rates, low voltage, transmission, retailer services and specific services charges. As well it includes the approval for the disposition of certain deferral and variance accounts as at December 31, 2019, with prescribed adjustments and including interest projected to December 31, 2020. Hydro Ottawa's fixed/variable rate design for all customer classes were approved by the OEB. Annual IR applications are required to set rates and charges for the 2022-2025 rate years.

On August 18, 2021, Hydro Ottawa filed its Custom IR year 2 update application seeking approval to change its base distribution rates effective January 1, 2022. Rates are adjusted using a formulaic approach following the first year base rates. The 2022 rates are based on an update to Hydro Ottawa's custom price escalation factor, working capital allowance, and the Company's annual incremental capital stretch factor for capital-related revenue requirement. Hydro Ottawa's 2022 rates were approved by the OEB on December 16, 2021.

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

(d) Regulation – Hydro Ottawa [continued]

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.
- Other Post-employment Benefits deferral account ['OPEB deferral account'] was authorized by the OEB in 2011 to record the adjustment to employee future benefits other than pension relating to the cumulative actuarial gains or losses. This account is adjusted annually to record any changes in the cumulative actuarial gains or losses. No interest charges are recorded on this account as instructed by the OEB.
- Other Post-employment Benefits cash versus accrual account ['OPEB cash vs accrual'] tracks the interest on the differential of Hydro Ottawa's contributions to OPEB versus the accrued OPEB expense recorded in Hydro Ottawa's statement of income.
- Gain/Loss on Asset Disposal variance account is the difference between actual amount of gain/loss from disposal of fixed assets and the forecasted gain/loss.

Other variances and deferred costs include the following:

- The Connection Cost Recovery Agreement ['CCRA'] account allows Hydro Ottawa to record annual revenue requirements related to payments made to Hydro One Networks Inc. ['HONI'] under connection and cost recovery agreements.
- The OEB established a variance account for electricity distributors to record any material differences between OEB cost assessments currently built into rates, and cost assessments that will result from the application of the new cost assessment models.
- The difference between the 2014 starting point and the previous custom incentive rate-setting ending point [2020] stretch factor as multiplied by the rate year plan revenue requirement for the relevant rate year, referred to as the Efficiency Adjustment Mechanism.
- A performance outcomes accountability mechanism account to record up to $200 annually for each under-achieved target during the 2021-2025 custom incentive rate-setting period. The five targets impacted by this mechanism account are identified in Hydro Ottawa's distribution system plan.
- The difference between low voltage charges paid to HONI and those charged to customers.

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.

3. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

(e) Revenue recognition

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

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

(i) Power recovery

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

(ii) Distribution

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

(iii) Generation

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

(iv) Commercial services

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

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

(v) Other

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

3. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

(e) Revenue recognition [continued]

(v) Other [continued]

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

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

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

(f) Interest income and financing costs

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

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

(g) Government grant income

Government grants are recognized at their fair value when there is reasonable assurance that the grant will be received and the Corporation will comply with all the conditions.

Government grants are recognized as income over the periods necessary to match them with the related costs which they are intended to compensate, on a systematic basis. Government grants related to expenses are shown as other income. Government grants related to assets are presented as deferred income and are amortized into income over the useful life of the associated asset. 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 each considered to be a Municipal Electric Utility ['MEU'] and are required to make payments in lieu of corporate income taxes ['PILS'] as contained in the *Electricity Act, 1998*, as all of their share capital is indirectly owned by the City of Ottawa and not more than 10% of its income is derived from activities carried on outside the municipal boundaries of the City of Ottawa. The *Electricity Act, 1998* provides that a MEU that is exempt from tax under the *Income Tax Act* (Canada) ['ITA'] and the *Taxation Act,* Ontario ['TAO'] is required to make, for each taxation year, a PILs payment to the Ontario Electricity Financial Corporation in an amount equal to the tax that it would be liable to pay under the ITA and the TAO if it were not exempt from tax.

3. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

(h) Income taxes [continued]

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

The Corporation evaluates the realizability of its deferred income tax assets at the end of each reporting period. To the extent that it is not probable that taxable profit will be available against which the unused tax losses can be utilized, the deferred income tax asset is not recognized.

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

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

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

(i) Restricted cash

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

(j) Bank indebtedness

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

(k) Financial instruments

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

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

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

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

- Cash, restricted cash, accounts receivable and notes receivable from related parties are financial assets classified and measured at amortized cost using the effective interest method, less any impairment if applicable.
- Bank indebtedness, commercial paper, 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.

3. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

(k) Financial instruments [continued]

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

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

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

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

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

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

(l) Property, plant and equipment

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

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

[in thousands of Canadian dollars]

3. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

(l) Property, plant and equipment [continued]

Compensation from third parties for property, plant and equipment lost, impaired or given up is measured at fair value and recognized when the compensation becomes receivable.

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

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

Land, buildings and structures	
Land	Indefinite
Buildings and fixtures	10 to 100 years
Civil structures	100 years
Electricity distribution infrastructure	10 to 60 years
Generation and other	
Generating equipment	10 to 50 years
Dark fibre	20 to 25 years
Reservoirs, dams and waterways	100 to 125 years
Furniture and equipment	5 to 40 years
Rolling stock	7 to 15 years

Assets under construction and land are not subject to depreciation.

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

(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.

3. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

(m) Intangible assets [continued]

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

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

(n) Investment properties

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

(o) Impairment of non-financial assets

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

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

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

At the end of a reporting period, the Corporation assesses whether there is any indication that an impairment loss recognized in a prior period no longer exists or has decreased. If any such indication exists, the loss is reversed up to its recoverable amount where there has been a change in estimated service potential. 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.

3. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

(p) Employee future benefits

(i) Pension plans

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

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

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

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

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

- 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.

3. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

(p) Employee future benefits [continued]

(i) Pension plans [continued]

– 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.

(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.

3. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

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

(t) Debt-issuance costs

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

(u) Leases

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

(i) As a lessee

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

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

3. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

(u) Leases [continued]

(i) As a lessee [continued]

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

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

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

(ii) As a lessor

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

(v) Inventory

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

[in thousands of Canadian dollars]

4. ACCOUNTS RECEIVABLE

	2021	2020
	$	$
Receivables from contracts with customers		
Electricity receivable	**61,058**	64,846
Unbilled receivables related to electricity	**76,300**	79,710
IESO receivable	**14,694**	27,615
Trade and other receivables	**10,679**	10,730
Amounts due from related parties [Note 28]	**12,381**	21,138
Less: loss allowance [Note 19(c)]	**(3,139)**	(3,992)
	171,973	200,047
Receivables from other sources		
Conservation and demand management	**117**	1,958
Sales tax receivable	**392**	1,796
Investment tax credit receivable	**18**	-
Insurance proceeds recoverable - Flood [Note 21]	**-**	2,978
	172,500	206,779

In 2021, the Corporation received the final settlement payments of $2,708 and $432 with respect to its property insurance claim and business interruption insurance claim respectively.

[in thousands of Canadian dollars]

5. REGULATORY BALANCES

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

	Remaining recovery/ reversal [years]	2020 $	Balances arising in the year $	Recovery/ reversal $	Other movements(1) $	**2021 $**
Regulatory debit balances						
RARA	1 - 5	752	2,654	(1,588)	(127)	**1,691**
Settlement variances	1 - 5	10,309	16,776	-	(13,632)	**13,453**
Facilities Y Factor	-	321	(321)	-	-	**-**
OPEB cash vs accrual	1 - 5	2,255	3,306	-	-	**5,561**
LRAM	1 - 5	3,576	(2,609)	-	-	**967**
Loss on asset disposal	1 - 5	3,934	-	-	(3,934)	**-**
Regulatory asset for deferred income taxes	(2)	48,868	12,992	-	-	**61,860**
Other variances and deferred costs	1 - 5	10,967	(1,767)	-	(6,358)	**2,842**
		80,982	31,031	(1,588)	(24,051)	**86,374**
Regulatory credit balances						
RLRA	1 - 5	1,920	10,396	(2,601)	(127)	**9,588**
Settlement variances	1 - 5	16,642	9,840	-	(13,632)	**12,850**
ESM	1 - 5	5,510	(3,384)	-	-	**2,126**
Gain on asset disposal	1 - 5	-	4,270	-	(3,934)	**336**
Gain on sale of former facilities	-	2,152	(2,152)	-	-	**-**
OPEB deferral account	1-5	11	1	-	-	**12**
Other variances and deferred costs	1-5	7,587	(826)	-	(6,358)	**403**
		33,822	18,145	(2,601)	(24,051)	**25,315**

[in thousands of Canadian dollars]

5. REGULATORY BALANCES [CONTINUED]

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

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

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

On March 25, 2020, the OEB established the COVID-19 Emergency Deferral Account in recognition that distributors will incur incremental costs and lost revenues resulting from the COVID-19 pandemic. On June 17, 2021, the OEB issued the final report on the COVID-19 Emergency Deferral Account outlining the criteria for the recoverability of costs and lost revenues associated with the pandemic. After reviewing the final report, management determined that the Corporation did not meet the means test established by the OEB, and as a result the Corporation did not record any balance in the COVID-19 Emergency Deferral Account as at December 31, 2021.

[in thousands of Canadian dollars]

6. PROPERTY, PLANT AND EQUIPMENT

	Land, buildings and structures $	Distribution $	Generation and other $	Assets under construction $	Total $
Cost					
Balance as at December 31, 2019	263,965	1,134,252	267,047	199,115	1,864,379
Additions, net of transfers	9,624	108,308	12,287	16,569	146,788
Additions re: refurbishment projects, net of transfers	17,678	-	57,525	(22,006)	53,197
Disposals	(912)	(1,760)	(3,938)	-	(6,610)
Exchange differences	(625)	-	(881)	188	(1,318)
Balance as at December 31, 2020	289,730	1,240,800	332,040	193,866	2,056,436
Additions, net of transfers	8,583	129,545	11,784	(669)	149,243
Additions re: refurbishment projects, net of transfers	14,369	-	112,403	(115,664)	11,108
Disposals	(154)	(2,289)	(1,617)	-	(4,060)
Exchange differences	(81)	-	(176)	-	(257)
Balance as at December 31, 2021	**312,447**	**1,368,056**	**454,434**	**77,533**	**2,212,470**
Accumulated depreciation					
Balance as at December 31, 2019	(18,338)	(171,287)	(52,865)	-	(242,490)
Depreciation	(7,272)	(39,331)	(16,103)	-	(62,706)
Disposals	461	623	958	-	2,042
Exchange differences	161	-	114	-	275
Balance as at December 31, 2020	(24,988)	(209,995)	(67,896)	-	(302,879)
Depreciation	(6,045)	(41,558)	(14,070)	-	(61,673)
Disposals	127	804	1,573	-	2,504
Exchange differences	14	-	46	-	60
Balance as at December 31, 2021	**(30,892)**	**(250,749)**	**(80,347)**	**-**	**(361,988)**
Net book value					
As at December 31, 2020	264,742	1,030,805	264,144	193,866	1,753,557
As at December 31, 2021	**281,555**	**1,117,307**	**374,087**	**77,533**	**1,850,482**

At December 31, 2021, land, buildings and structures and generation and other includes $4,754 [2020 – $2,191] of right-of-use assets with remaining lease terms ranging between 12 and 20 years, comprising of a cost of $5,246 [2020 – $2,626] and accumulated depreciation of $492 [2020 – $435] .

[in thousands of Canadian dollars]

6. PROPERTY, PLANT AND EQUIPMENT [CONTINUED]

On February 13, 2020, the Corporation substantially completed a significant refurbishment project at its CHLP North generation facility which resulted in the componentization of many assets previously under construction; the commencement of depreciation thereon; and the ceasing of borrowing cost capitalization.

On May 9, 2021, the Corporation substantially completed a significant refurbishment project at its Hull Energy LP generation facility which resulted in the componentization of many assets previously under construction; the commencement of depreciation thereon; and the ceasing of borrowing cost capitalization.

During the year, the Corporation capitalized borrowing costs of $2,404 [2020 – $4,954] to property, plant and equipment. The average annual interest rate for 2021 was 3.2% [2020 – 3.4%].

In the prior year, the Corporation wrote-off property, plant and equipment of $3,100 relating to changes in scope to Hull Energy LP's refurbishment project which has been included in general and administrative expenses as part of operating costs.

The Corporation has entered into non-cash transactions that have been excluded from the statement of cash flows as detailed in Note 24. In addition, $22,072 [2020 – $18,350] of property, plant and equipment was contributed by developers, the directly related liability of which is included in deferred revenue.

7. INTANGIBLE ASSETS

	Land rights and water rights $	Computer software $	Other contractual rights $	Assets under development $	Total $
Cost					
Balance as at December 31, 2019	61,635	67,324	38,007	11,996	178,962
Additions, net of transfers	6	9,542	2,986	23,465	35,999
Exchange differences	(495)	(7)	-	(12)	(514)
Disposals	-	(4,192)	-	-	(4,192)
Balance as at December 31, 2020	61,146	72,667	40,993	35,449	210,255
Additions, net of transfers	2	3,039	34,711	(15,547)	22,205
Exchange differences	(105)	(2)	-	(1)	(108)
Disposals	(3)	-	-	-	(3)
Balance as at December 31, 2021	**61,040**	**75,704**	**75,704**	**19,901**	**232,349**

[in thousands of Canadian dollars]

7. INTANGIBLE ASSETS [CONTINUED]

	Land rights and water rights $	Computer software $	Contractual rights $	Assets under development $	Total $
Accumulated amortization					
Balance as at December 31, 2019	(11,341)	(39,796)	(2,847)	-	(53,984)
Amortization	(3,636)	(5,999)	(1,338)	-	(10,973)
Exchange differences	314	28	-	-	342
Disposals	-	4,192	-	-	4,192
Balance as at December 31, 2020	(14,663)	(41,575)	(4,185)	-	(60,423)
Amortization	(1,741)	(6,198)	(1,079)	-	(9,018)
Exchange differences	39	2	1	-	42
Disposals	1	-	-	-	1
Balance as at December 31, 2021	**(16,364)**	**(47,771)**	**(5,263)**	**-**	**(69,398)**
Net book value					
As at December 31, 2020	46,483	31,092	36,808	35,449	149,832
As at December 31, 2021	**44,676**	**27,933**	**70,441**	**19,901**	**162,951**

Other contractual rights includes connection and cost recovery agreements ['capital contribution agreements'] that govern the construction by Hydro One Networks Inc. ['HONI'] of new or modified transformer stations for the purpose of serving Hydro Ottawa's customers, including anticipated electricity load growth. Each of Hydro Ottawa's capital contribution agreements has a term of 25 years. All terms and conditions of CCRAs follow the *Transmission System Code* [the 'Code'] issued by the OEB. At December 31, 2021, assets under development primarily relates to line connection contribution costs associated with a new electricity distribution station.

During the year, the Corporation capitalized borrowing costs of $1,255 [2020 – $668] to intangible assets. The average annual interest rate for 2021 was 3.2% [2020 – 3.4%].

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

A significant portion of the Corporation's water rights with indefinite lives [73% 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 [27% or $6,202 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 ['VIU'] calculations. Management's VIU calculations – subject to certain estimates as described in Note 2(d)(v) – are based on discounted future cash inflows to be earned under each CGUs' 40-year HESOP contract, while the cash outflows are based on management's industry experience and third party input; taking into account the estimated cost to complete the refurbishment projects. The key assumption in each VIU calculation was a weighted average cost of capital ['WACC'] of 3.8% [2020 – 3.6%].

[in thousands of Canadian dollars]

7. INTANGIBLE ASSETS [CONTINUED]

The Corporation's impairment test at December 31, 2021, performed in light of the circumstances disclosed in Note 2(d)(ix) was based on a value-in-use calculation. Management's VIU calculation involved third-party consultation in the forecasting of New York energy prices and supplementary revenue. Other key assumptions in the VIU calculation were a discount rate via a weighted average cost of capital ['WACC'] of 6.1% [2020 – 6.1%], a US inflation rate of 2.3% [2020 – 2.3%], and a terminal capitalization rate of 6.2% [2020 – 4.6%]. Historical production and future capital and maintenance plans were also important assumptions in the VIU analysis. After conducting its impairment test, management concluded that the value-in-use recoverable amount exceeded the carrying value of the aforementioned generating assets. The Corporation's prior year VIU calculation, performed under the same circumstances, was below its carrying value at December 31, 2020, by an immaterial amount, which is included in the comparative amounts of depreciation and amortization in these consolidated financial statements.

8. INVESTMENT PROPERTIES

	2021	2020
	$	$
Net book value, beginning of year	**4,659**	4,262
Additions	**53**	523
Disposals	**-**	(4)
Depreciation	**(96)**	(122)
Net book value, end of year	**4,616**	4,659

The fair value of investment properties is $7,689. The fair value is based on a combination of the latest Municipal Property Assessment Corporation valuation dated May 5, 2021.

9. INVESTMENTS IN JOINT VENTURES

(a) Investment in joint ventures summary

	2021	2020
	$	$
Moose Creek LP [50.05%]		
Investment in joint venture, beginning of year	**5,675**	5,240
Share of profit	**517**	435
Investment in joint venture, end of year	**6,192**	5,675

[in thousands of Canadian dollars]

9. INVESTMENTS IN JOINT VENTURES [CONTINUED]

(a) Investment in joint ventures summary [continued]

	2021 $	2020 $
PowerTrail [60%]		
Investment in joint venture, beginning of year	**4,585**	4,953
Share of profit, net of tax	**263**	337
Dividends received	**(180)**	(720)
Other adjusting items related to profit	**-**	15
Investment in joint venture, end of year	**4,668**	4,585
Zibi Community Utility LP [50%]		
Investment in joint venture, beginning of year	**8,877**	5,080
Capital investments	**500**	4,055
Share of loss	**(12)**	(258)
Other adjusting items related to loss	**30**	-
Elimination of gain on downstream sale	**(127)**	-
Investment in joint venture, end of year	**9,268**	8,877
Total investments in joint ventures	**20,128**	19,137

(b) Balance sheet and statement of income summary

	2021 $	2020 $
Moose Creek LP		
Current assets	**1,021**	1,002
Non-current assets	**12,378**	12,110
Total assets	**13,399**	13,112
Current liabilities	**785**	1,103
Non-current liabilities	**-**	428
Total liabilities	**785**	1,531
Revenue	**3,717**	3,648
Net income	**1,033**	869

[in thousands of Canadian dollars]

9. INVESTMENTS IN JOINT VENTURES [CONTINUED]

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

	2021 **$**	2020 $
PowerTrail		
Current assets	**999**	1,325
Non-current assets	**9,896**	10,026
Total assets	**10,895**	11,351
Current liabilities	**440**	1,114
Non-current liabilities	**2,364**	2,283
Total liabilities	**2,804**	3,397
Revenue	**3,554**	3,647
Net income	**437**	561
Zibi Community Utility LP		
Current assets	**3,912**	5,830
Non-current assets	**35,519**	16,376
Total assets	**39,431**	22,206
Current liabilities	**3,059**	2,240
Non-current liabilities	**17,586**	2,225
Total liabilities	**20,645**	4,465
Revenue	**615**	430
Net loss	**(24)**	(515)

(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 [2020 – $200] to provide standby letters of credit to the IESO. As at December 31, 2021, PowerTrail had drawn an amount of $133 [2020 – $133] in standby letters of credit and had no outstanding balances drawn against its operating revolving line of credit [2020 – $nil]. Both facilities contain customary covenants and events of default, including a covenant to maintain a tangible net worth of $1,000. As at December 31, 2021, PowerTrail is in compliance with these customary covenants.

Moose Creek LP maintains an operating revolving line of credit of $1,000 for general business purposes that bears annual interest at the prime rate. As at December 31, 2021, Moose Creek LP had no outstanding balances drawn against its operating revolving line of credit [2020 – $nil]. The facility contains customary covenants and events of default. As at December 31, 2021, Moose Creek LP is in compliance with these customary covenants.

[in thousands of Canadian dollars]

10. NOTES RECEIVABLE FROM RELATED PARTIES

	2021 **$**	2020 $
Moose Creek LP promissory note, 6.0%, due January 1, 2025	**215**	391
City of Ottawa note, 3.0%	**19**	11,058
Zibi Community Utility LP loan, 4.31%, due February 18, 2041	**15,741**	-
	15,975	11,449
Less: current portion	**(234)**	(8,457)
	15,741	2,992

(a) Moose Creek LP

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

(b) City of Ottawa

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

While quarterly payments due under the S/L maintenance contract are under standard 30-day terms, amounts with respect to the S/L conversion contract are facilitated through an interest-bearing long-term open note at a fixed rate of 3%. Amounts billed to the City under the S/L conversion contract are added to the note receivable as progress towards ultimate completion occurs. As stipulated in the S/L conversion contract, the City is to make quarterly payments to the Corporation based on a combination of electricity savings, maintenance savings and capital expenditure savings the City has realized as result of the more efficient LED streetlights installed to date, until the note is repaid in full. Of the total note receivable outstanding at December 31, 2021, $nil represents work-in-progress billed in early 2022 [2020 – $152 billed in early 2021]. The Corporation estimates that $19 will be repaid in 2022.

The Corporation carries inventory of $1,208 relating to City of Ottawa streetlight conversion and maintenance endeavours at December 31, 2021 [2020 – $1,292]. During the year, the Corporation expensed $2,026 of inventory as cost of goods sold which is included in operating costs [2020 – $1,061].

(c) Zibi Community Utility LP

On January 22, 2021, the Corporation entered into a mirror loan agreement with ZCU to flow through funds received from Federation of Canadian Municipalities ['FCM'] to its joint venture to fund an ongoing green district energy construction project undertaken by ZCU. The agreement mirrors the terms of the FCM loan and grant agreement discussed in Note 15, which allows ZCU to borrow the lesser of $20,000 and 69.6% of eligible project expenditures, repayable over a term of 20 years and receive a non-repayable grant based on the total eligible project expenditures incurred.

The loan, bearing interest of 4.31%, was issued to ZCU on February 18, 2021 and has an outstanding balance of $15,741 as at December 31, 2021 [December 31, 2020 – $nil]. Interest payments are due semi-annually on the principal amount outstanding, with principal payments beginning 36 months after the final tranche of the loan is disbursed and ending on February 18, 2041.

10. NOTES RECEIVABLE FROM RELATED PARTIES [CONTINUED]

(c) Zibi Community Utility LP [continued]

In addition, the mirror agreement also includes a loan arrangement fee payable by ZCU to the Corporation at a rate of 1.1% per annum on the initial principal amount of the loan. As a December 31, 2021, the Corporation has received $900 [December 31, 2020 – $nil] in loan arrangement fees and is included in deferred revenue as presented in Note 13 and amortized over the term of the loan.

11. SHORT-TERM BORROWINGS

During the year, the Corporation renewed its credit facility in an amount of $441,000 and US$200 at December 31, 2021 [2020 – $340,750 and US$200]. The facility is structured into three types of credit availability and consists of a $440,000 [2020 – $340,000] revolving operating line maturing on August 1, 2024 and commercial card facilities of $1,000 and US$200 [2020 – $750 and US$200]. The revolving operating lines are committed and unsecured and can be drawn for prime rate loans, bankers' acceptances, letter of credit or bank guarantee issuances and to backstop the Corporation's Commercial Paper Program. The credit facility contains customary covenants and events of default including a covenant that requires the debt to capitalization ratio to be at or below 75% and a negative pledge not to encumber the assets of the Corporation, Hydro Ottawa or Energy Ottawa, other than those permitted in the credit facility.

During 2021, the Corporation launched a Commercial Paper Program permitting the issuance of up to $400,000 of unsecured short-term promissory notes to be issued in various maturities of no more than one year. Proceeds from the issuance of commercial paper are used to fund general corporate purposes. The Commercial Paper Program is backstopped by the Corporation's credit facility and reduces the credit facility capacity, at any given time, by the total amount of commercial paper issued and outstanding. Borrowings under the Commercial Paper Program bear interest based on the prevailing market conditions at the time of issuance and had a weighted average interest rate of 0.52% during the 2021 year. As at December 31, 2021, the Corporation had $190,000 in commercial paper outstanding [2020 – $nil], with a maturity date of January 7, 2022.

At December 31, 2021, the Corporation had drawn $28,850 in direct advances against the revolving operating line of credit [2020 – $15,300] and $nil in bankers' acceptances against the $440,000 revolving operating line [2020 – $210,000 and $340,000].

At December 31, 2021, the Corporation has drawn $10,672 [2020 – $14,738] against its facilities in standby letters of credit. Drawings include a $10,000 [2020 – $10,000] letter of credit to cover its prudential support obligation as described in Note 26; a letter of credit to the Receiver General of Canada on behalf of Fisheries and Oceans Canada of $538 [2020 – $538] in connection with a generating facility at Chaudière Falls; and a letter of credit to Her Majesty the Queen on behalf of ZCU of $134 [2020 – $nil].

CHLP's standby letter of credit issued to BNY Trust Company of Canada in the amount of $4,200 as at December 31, 2020 in connection with the Debt Service Reserve Amount ['DSRA'] under the Trust Indenture dated September 7, 2016 was cancelled by the beneficiary during the year as the DSRA is now cash funded, as described in Note 15. No amounts were withdrawn in the previous year on this letter of credit.

On October 14, 2021, CFLP signed a new 3 year $14,526 working capital facility to fund working capital needs and/or letter of credit bond indenture requirements of CFLP, CHLP North and Hull Energy LP. The borrowers may draw from the facility by way of prime rate loans, banker acceptances or letter of credit issuances. During 2021, pursuant to the terms of the CFLP Trust Indenture, standby letters of credit were issued for the Debt Service Reserve as described in Note 15 in the amount of $5,120 [December 31, 2020 – none], the Major Maintenance Reserves for CHLP North and Hull Energy LP in the amount of $520 and $1,040 respectively and in connection with CHLP North's Over Production Sharing Reserve of $3,050 that was cash funded in the year, as described Note 15, and was pending cancellation. As at December 31, 2021, no direct borrowings were outstanding and the facility had $7,846 available for general business purposes.

[in thousands of Canadian dollars]

12. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2021	2020
	$	$
Purchased power payable	**80,154**	91,412
Trade accounts payable and accrued liabilities	**51,798**	49,811
Customer deposits	**38,617**	35,492
Customer credit balances	**13,046**	13,000
Construction holdbacks: refurbishment projects	**-**	5,101
Accrued interest on long-term debt	**8,068**	7,839
Due to related parties [Note 28]	**456**	372
	192,139	203,027

In 2019, the Corporation conducted a true-up calculation in connection with one of its cost recovery agreements with HONI as described in Note 26. The Corporation determined that it was obligated to make up a shortfall and accordingly set-up a provision of $2,200. Since that time the Corporation has had further discussions with HONI, and accordingly refined its true-up calculation and increased the provision by $1,200, to $3,400, which is included in accounts payable and accrued liabilities.

13. DEFERRED REVENUE

	2021	2020
	$	$
Capital contributions from customers	**97,557**	84,773
Capital contributions from developers	**119,474**	89,907
Loan arrangement fee received [Note 10(c)]	**900**	-
Loan arrangement fee recognized to income [Note 10(c)]	**(39)**	-
	217,892	174,680
Other deferred revenue	**120**	-
	218,012	174,680

14. EMPLOYEE FUTURE BENEFITS

(a) Pension plans

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

The Corporation's participating employer contributions under OMERS for the year ended December 31, 2021 amounted to $6,538 [2020 – $6,650]. The Corporation also provides retirement benefits to certain employees through the Chaudiere Hydro Pension Plan.

[in thousands of Canadian dollars]

14. EMPLOYEE FUTURE BENEFITS [CONTINUED]

(a) Pension plans [continued]

Information about the Chaudiere Hydro Pension Plan is as follows:

(i) Defined benefit obligation

	2021 **$**	2020 $
Balance, beginning of year	**8,725**	7,288
Current service cost	**136**	136
Interest cost	**215**	224
Benefits paid	**(299)**	(358)
Employee contributions	**76**	67
Actuarial (gain) loss	**(685)**	1,368
Balance, end of year	**8,168**	8,725

(ii) Plan assets

	2021 **$**	2020 $
Fair value, beginning of year	**7,522**	7,021
Interest credit	**187**	219
Employer contributions	**262**	283
Benefits paid	**(299)**	(358)
Non-investment expenses	**(91)**	(80)
Employee contributions	**76**	67
Actuarial (loss) gain	**(95)**	370
Fair value, end of year	**7,562**	7,522

(iii) Funded status

	2021 **$**	2020 $
Net defined benefit liability, beginning of year	**(1,203)**	(267)
Change in net defined benefit liability	**597**	(936)
Net defined benefit liability, end of year	**(606)**	(1,203)

[in thousands of Canadian dollars]

14. EMPLOYEE FUTURE BENEFITS [CONTINUED]

(a) Pension plans [continued]

The assets of the Chaudiere Hydro Pension Plan are held and managed by an independent custodian and accounted for separately in the Corporation's pension plan. The asset allocation structure is subject to diversification requirements and constraints which reduce risk by limiting exposure to individual equity investments, credit rating categories and foreign currency exposures. Based on the fair value of assets held as at December 31, 2021, the Chaudiere Hydro Pension Plan's assets were comprised of 76.1% [2020 – 72.8%] fixed income Canadian bonds, 23.9% [2020 – 23.6%] Canadian and international equities and 0% [2020 – 3.6%] in alternative investments. The Chaudiere Hydro Pension Plan's investments are primarily held and managed in pooled funds, and thus do not have a quoted market price in an active market.

Employee future benefits under the Chaudiere Hydro Pension Plan are calculated using an annual compensation rate of 2.0% [2020 – 2.0%], an inflation rate of 2.0% [2020 – 2.0%] and a discount rate of 3.0% [2020 – 2.5%]. 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, 2021 and December 31, 2020. 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 $598 or 12.9% [2020 – $1,287 or 29.7%], while a 1.0% increase in salary scale would increase the defined benefit obligation by $76 or 1.6% [2020 – $248 or 6.1%].

(b) Other post-employment benefits

The Corporation provides life, health and dental benefits to certain employees. Employee future benefits are calculated using an annual compensation rate increase of 2.0% [2020 – 2.0%] and a discount rate of 3.0% [2020 – 2.5%]. Cost trends for health are estimated to increase [at a declining rate from 6.8% to 5.0%] and dental benefits are estimated to increase by 5.0% per annum. The valuations also include several other economic and demographic assumptions including mortality rates, which are based on the Canadian Pensioners' Mortality report published by the Canadian Institute of Actuaries in February 2014.

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

	2021	2020
	$	$
Defined benefit obligation, beginning of year	**16,867**	15,473
Current service costs	**526**	445
Interest on defined benefit obligation	**338**	578
Benefits paid	**(839)**	(776)
Actuarial (gain) loss	**(1,267)**	1,147
Defined benefit obligation, end of year	**15,625**	16,867

An actuarial extrapolation was performed as at December 31, 2021 and December 31, 2020. As a result of this exercise, the Corporation decreased the accumulated liability by $1,242 [2020 – increased by $1,394].

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

[in thousands of Canadian dollars]

15. LONG-TERM DEBT

	2021 $	2020 $
Senior unsecured debentures		
Series 2006-1, 4.97%, due December 19, 2036	**50,000**	50,000
Series 2013-1, 3.99%, due May 14, 2043	**150,000**	150,000
Series 2015-1, 2.61%, due February 3, 2025	**200,000**	200,000
Series 2015-2, 3.64%, due February 2, 2045	**175,000**	175,000
Senior secured amortizing bonds		
Series 2016-1, 4.08%, due March 31, 2057	**203,802**	203,802
Series 2019-1, 3.53%, due December 31, 2059	**290,514**	290,514
Notes payable		
3.91% loan, due February 18, 2041	**15,741**	-
	1,085,057	1,069,316
Less: current portion	**(1,172)**	-
Less: unamortized debt-issuance costs	**(8,095)**	(8,420)
	1,075,790	1,060,896

(a) Senior unsecured debentures

Interest payments on each of the above debentures are payable semi-annually in arrears in equal installments. Each debenture contains customary covenants and events of default, including a covenant to ensure that the aggregate principal amount of the consolidated funded obligations does not exceed 75% of the total consolidated capitalization. Interest payments on these debentures will be $20,067 per year between 2022 and 2024, $17,453 in 2025 and $14,839 in 2026.

(b) Senior secured amortizing bonds

The Series 2019-1 senior secured amortizing green bonds [the '2019-1 bonds'] totalling $290,514 were issued on behalf of Hull Energy LP and CHLP North [refurbishment 'project owners'] in 2019. The Series 2019-1 bonds carry an interest rate of 3.53% and mature on December 31, 2059. Equal semi-annual interest-only payments are due and payable on June 30 and December 31 each year until and including June 30, 2024. Thereafter, semi-annual blended repayments of principal and interest will be due and payable on June 30 and December 31 each year commencing on December 31, 2024 until and including the maturity date. In addition, a balloon payment of $43,577 [15% of the principal] will be due and payable on the maturity date. Debt issuance costs of $nil were netted against the bond proceeds in the current year [2020 - $162].

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

The 2019-1 bonds are secured by the total refurbishment project assets, where the project assets of Hull Energy LP and CHLP North represent 76.8% and 23.2% of the security, respectively. On December 31, 2021, the project owners achieved Full Recourse Release Date in accordance with the Trust Indenture [i.e. achievement of commercial operation, engineering signoffs, etc.], and guarantee of the payment of pro-rata principal and outstanding interest on behalf of each project owner was released by the Trustee and Collateral Agent [BNY Trust Company of Canada]. The 2016-1 bonds are secured by a first-charge interest on the assets of CHLP.

[in thousands of Canadian dollars]

15. LONG-TERM DEBT [CONTINUED]

(b) Senior secured amortizing bonds [continued]

In the prior year, CFLP was required to maintain in a DSRA [classified as restricted cash on the consolidated balance sheet], an amount equal to the next six months of interest and principal, funded in accordance with Chaudiere North LP’s Pro Rata Portion of the DSRA. During 2021, the DSRA has been fully funded with a standby letter of credit as described in Note 11.

As required by the applicable Trust Indenture, CHLP is to maintain in a DSRA an amount equal to the next six months of interest and principal and payments due under the bonds; during the year CHLP deposited $5,330 [December 31, 2020 – $nil] in the DSRA [classified as restricted cash on the consolidated balance sheet] to replace a standby letter of credit as described in Note 11. CHLP also maintained, in a Major Maintenance Reserve Account ['MMRA'], an amount that covers a portion of the projected major maintenance expenditures in the coming three years [2021 – $2,400 and 2020 – $2,600] which is also classified as restricted cash on the consolidated balance sheet.

During the year, CHLP North deposited $3,050 in the Over Production Sharing Reserve Account ['OPSRA'; classified as restricted cash on the consolidated balance sheet] pursuant to the terms of the Trust Indenture and the applicable Power Purchase Agreement.

The Corporation is required to maintain a minimum debt-coverage service ratio ['DCSR'] for both CFLP and CHLP. Both CFLP and CHLP's DCSR's divides the sum of the respective entities net operating and investing cash flows [as defined by their respective Trust Indentures] by the applicable interest and principal repayments due within the next calendar year. The Corporation was in compliance with all financial covenants associated with the 2019-1 and 2016-1 bonds at December 31, 2021 and 2020, as applicable

(c) Notes payable

On January 22, 2021, the Corporation entered into a loan and grant agreement with the FCM to fund an ongoing green district energy construction project undertaken by its 50% owned-and-controlled joint venture, ZCU. The FCM loan and grant agreement allows the Corporation to borrow the lesser of $20,000 and 69.6% of eligible project expenditures, repayable over a term of 20 years, in addition to a non-repayable grant based on the total eligible project expenditures incurred.

The loan, bearing interest of 3.91%, was issued from FCM to the Corporation on February 18, 2021 and has an outstanding balance of $15,741 as at December 31, 2021 [December 31, 2020 – $nil]. Interest payments are payable semi-annually on the principal amount outstanding, with principal payments beginning 36 months after the final tranche of the loan is received and ending on February 18, 2041. Interest payments on the loan will be $615 per year between 2022 and 2023, $617 in 2024, $618 in 2025 and $594 in 2026. In addition, the Company received grant funds of $2,111 [2020 – $nil] from FCM.

The Corporation has a mirror loan agreement with ZCU to flow through the above loan and grant funds received from FCM to its joint venture as discussed in Note 10(c).

16. OTHER LIABILITIES

	2021	2020
	$	$
Lease liabilities	**1,730**	1,836
Other	**26**	198
	1,756	2,034

[in thousands of Canadian dollars]

16. OTHER LIABILITIES [CONTINUED]

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

17. CAPITAL DISCLOSURES

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

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

The Corporation’s capital consists of the following:

	2021	2020
	$	$
Bank indebtedness, net of cash	**5,185**	188,901
Commercial paper	**190,000**	-
Long-term debt	**1,076,962**	1,060,896
Total debt	**1,272,147**	1,249,797
Equity	**507,295**	480,224
Total capital	**1,779,442**	1,730,021

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, 2021, the Corporation's debt capitalization ratio, the calculation of which takes into account outstanding letters of credit, was 71.5% [2020 – 72.2%]. 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.

[in thousands of Canadian dollars]

18. SHARE CAPITAL

(a) Authorized

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

The above shares are without nominal or par value.

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

(b) Issued

	2021 **$**	2020 $
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 15, 2021, the Board of Directors declared a $20,800 dividend to the City of Ottawa, which was paid in increments of $5,800, $5,000, $5,000, and $5,000 on April 22, 2021, July 2, 2021, October 1, 2021 and December 1, 2021, respectively [June 16, 2020 the Board of Directors declared a $22,600 dividend to the City of Ottawa, which was paid in increments of $10,000, $5,000, and $7,600 on June 23, 2020, October 6, 2020 and December 8, 2020, respectively].

Subsequent to year-end, the Board of Directors declared a $23,700 dividend on April 14, 2022 on the common shares of the Corporation outstanding on December 31, 2021.

19. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

(a) Fair value disclosures

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

The Corporation has estimated the fair value of notes receivable from its joint ventures, Moose Creek LP and ZCU, as at December 31, 2021 as amounting to $218 and $18,163, respectively [2020 – $403 and $nil, respectively]. The fair value has been determined based on discounting all estimated future repayments of principal and interest required to fully repay the loans at the estimated interest rate of 4.8% and 2.8% [2020 – 4.1% for Moose Creek LP] that would be available to Moose Creek LP and ZCU on December 31, 2021, respectively.

19. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT [CONTINUED]

(a) Fair value disclosures [continued]

The Corporation has estimated the fair value of the senior unsecured debentures and notes payable as at December 31, 2021 as amounting to $657,759 [2020 – $699,359]. The fair value has been determined based on discounting all future repayments of principal and interest between February 3, 2025 and February 2, 2045 at the estimated interest rate of 2.8% [2020 – 2.1%] that would be available to the Corporation on December 31, 2021.

The Corporation has estimated the fair value of its senior secured amortizing bonds as at December 31, 2021 as amounting to $515,237 [2020 – $557,571]. The fair value has been determined based on discounting all estimated future repayments of principal and interest required to fully repay the bonds at the estimated interest rate of 3.5% [2020 – 3.0%] that would be available to the Corporation at December 31, 2021.

(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. 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. In addition, the fees payable on bankers' acceptances via the operating and capital lines are based on a margin determined by reference to the Corporation's credit rating. The Corporation is also exposed to fluctuations in short term interest rates in connection with outstanding issuances under its Commercial Paper Program. 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], and the Corporation incorporates a mix of fixed and floating rate instruments, there is limited exposure to interest rate risk.

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

A sensitivity analysis was conducted to examine the impact of a change in the prime rate on the Corporation’s outstanding drawings on its credit facility. A variation of 1% [100 basis points], with all other variables held constant, would increase or decrease the annual interest expense by approximately $2,189.

(ii) Foreign exchange risk

The Corporation’s earnings from, and net investment in, its foreign operating subsidiary, EONY, are exposed to fluctuations in the U.S. dollar to Canadian dollar exchange rate. Also, the Corporation purchases a small proportion of goods and services that are denominated in foreign currencies, predominately the U.S. dollar. The Corporation monitors its exposure to foreign currency fluctuations on a regular basis, and has not used derivative instruments to hedge against these exposures to date. On an annual basis, it is estimated that a 5% increase or decrease in the U.S. dollar relative to the Canadian dollar exchange rate of U.S. $1 equals CDN $0.79 as at December 31, 2021 would increase or decrease the equity of the Corporation by approximately $2,842.

19. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT [CONTINUED]

(c) Credit risk

Credit risk is the risk that a counterparty will default on its obligations, causing a financial loss to the Corporation. As a result of the COVID-19 pandemic, certain segments of the Corporation's customer base experienced business shutdowns, employment layoffs or other displacements, which negatively affected the customers' ability to pay utility bills on a timely basis. Furthermore, the Corporation was ordered to cease all service disconnections for nonpayment during the pandemic by the OEB through an extension of the winter ban on disconnections [runs from November 15th in one year and ending on April 30th in the following year] to June 2, 2021 [2020 – extended to July 31, 2020].

Concentration of credit risk associated with electricity related accounts receivable is limited due to the large number of customers the Corporation services. The Corporation has approximately 354,000 customers served by Hydro Ottawa, the majority of which are residential. As a result, the Corporation does not earn a significant amount of electricity-related revenue and does not have a significant electricity-related receivable from any individual customer. The Corporation is exposed to a concentration of credit risk in generation-related accounts receivable due to the small number of entities the Corporation services. The Corporation relies on its power purchase agreements with the IESO and the Niagara Mohawk Power Corporation to support its Canadian and U.S. generation operations.

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, 2021, the Corporation held security deposits related to power recovery and distribution revenue in the amount of $13,516 [2020 – $14,406] with respect to these customers. The Corporation's other subsidiaries limit credit risk by dealing with customers that are considered to be of high credit quality. These customers include government agencies, utilities, municipalities, universities, school boards, hospitals, and customers with investment grade credit ratings.

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

The Corporation applies the *IFRS 9 – Financial Instruments* simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade and other receivables. The expected loss rates for trade receivables are based on the payment profiles of sales over a period of twelve months before December 31, 2021 or December 31, 2020 respectively and the corresponding historical credit losses experienced within this period and other information. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. Given the high degree of uncertainty caused by the COVID-19 pandemic, the estimates and judgments made by management in the preparation of the loss allowance are subject to a high degree of estimation uncertainty. Based on the Corporation's current estimates and assumptions, including but not limited to recent trend for customer collections and current and forecasted economic conditions, the Corporation adjusted the loss allowance to account for the higher level of expected customer defaults at the balance sheet date.

[in thousands of Canadian dollars]

19. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT [CONTINUED]

(c) Credit risk [continued]

On that basis, the loss allowance as at December 31, 2021 and December 31, 2020 was determined as follows for trade and other receivables.

	Gross carrying amount $	Weighted average loss rate	Loss allowance $	Net carrying amount $
December 31, 2021				
Outstanding for 30 days or less	**87,278**	0.00 %	-	87,278
Outstanding for more than 30 days but no more than 120 days	**8,973**	9.66 %	867	8,106
Outstanding for more than 120 days	**3,088**	57.64 %	1,780	1,308
Unbilled receivables relating to electricity	**76,300**	0.64 %	492	75,808
	175,639		3,139	172,500
December 31, 2020				
Outstanding for 30 days or less	**121,091**	0.00 %	-	121,091
Outstanding for more than 30 days but no more than 120 days	**6,162**	20.06 %	1,236	4,926
Outstanding for more than 120 days	**3,808**	42.57 %	1,621	2,187
Unbilled receivables relating to electricity	**79,710**	1.42 %	1,135	78,575
	210,771		3,992	206,779

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

	2021 $	2020 $
Balance, beginning of year	**3,992**	2,046
Net remeasurement of loss allowance	**478**	2,921
Write-offs	**(1,453)**	(1,197)
Recoveries of amounts previously written-off	**122**	222
Balance, end of year	**3,139**	3,992

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

As at December 31, 2021, 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]

19. 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 11, are maintained to meet obligations as they come due while minimizing standby fees and interest.

Liquidity risks associated with financial commitments are as follows:

	2021		
	Due within one year $	**Due between one and five years $**	**Due after five years $**
Bank indebtedness	**29,004**	**-**	**-**
Commercial paper [1]	**190,000**	**-**	**-**
Accounts payable and accrued liabilities [2]	**184,071**	**-**	**-**
Senior unsecured debentures			
Series 2006-1, 4.97%, due December 19, 2036	**-**	**-**	**50,000**
Series 2013-1, 3.99%, due May 14, 2043	**-**	**-**	**150,000**
Series 2015-1, 2.61% due February 3, 2025	**-**	**200,000**	**-**
Series 2015-2, 3.64%, due on February 2, 2045	**-**	**-**	**175,000**
Senior secured amortizing bonds			
Series 2016-1, 4.08%, due March 31, 2057	**-**	**4,705**	**285,809**
Series 2019-1, 3.53%, due December 31, 2059	**1,172**	**10,141**	**192,489**
Loan			
3.91% loan, due February 18, 2041	**-**	**1,097**	**14,644**
Interest to be paid on long-term debt	**39,238**	**148,002**	**626,171**
	443,485	**363,945**	**1,494,113**

[1] The notes under the Commercial Paper Program were issued at a discount and repaid at their principal amount.

[2] Accounts payable and accrued liabilities in the above table exclude $8,068 of accrued interest which is included in interest to be paid on long-term debt.

[in thousands of Canadian dollars]

20. REVENUE FROM CONTRACTS WITH CUSTOMERS AND OTHER SOURCES

The Corporation's revenue breakdown is as follows:

	2021 $	2020 $
Revenue from contracts with customers		
Power recovery and distribution		
Residential service [1]	**418,105**	464,097
General service [2]	**589,019**	650,633
Large users [3]	**65,670**	70,438
	1,072,794	1,185,168
Generation	**45,854**	47,471
Commercial services		
Lighting	**9,804**	8,345
Buildings	**7,354**	3,679
Electrical	**3,936**	519
Service work related to distribution operations	**6,145**	6,110
Pole attachment and duct rental	**4,285**	4,591
	31,524	23,244
Other		
Account-related charges and admin	**4,517**	4,073
Capital contributions from customers amortized to revenue	**3,040**	2,343
	7,557	6,416
	1,157,729	1,262,299
Revenue from other sources		
Other		
Investment property rentals	**1,077**	535
Capital contributions from developers amortized to revenue	**2,983**	2,245
	4,060	2,780
	1,161,789	1,265,079

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

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

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

[in thousands of Canadian dollars]

21. OPERATING COSTS

	2021 **$**	2020 $
Salaries, wages and benefits	**87,058**	86,548
Contracted services - distribution system maintenance	**11,186**	10,001
Contracted services - customer owned plant	**4,365**	8,555
Contracted services - other	**16,567**	10,515
General and administrative	**37,121**	42,959
Other electricity distribution costs	**8,076**	11,289
Inventory expensed as cost of goods sold and other	**2,026**	1,061
Capital recovery	**(30,202)**	(30,496)
Flood loss - repair, cleanup and mitigation expenses	**-**	409
Gain on property insurance proceeds from third party	**(290)**	(2,533)
	135,907	138,308

On February 28, 2019, EONY's Dolgeville generating station in New York State was seriously damaged by a flood. In November 2019, the Town of Dolgeville sustained a second flood which caused a significant amount of debris to clog the station's intake – requiring significant repair, cleanup and dredging of waterway expenses in 2019 and 2020. The refurbishment of the Dolgeville generating station was completed and operations resumed in November 2020. The Corporation has recognized property insurance recoveries of $290 [2020 – $2,533] based on claims made with its insurer, which has been offset against operating expenses in these consolidated financial statements.

The Corporation has recognized $2 [2020 – $52] in business interruption proceeds from its insurer with respect to the Dolgeville floods which has been recorded as other income in these consolidated financial statements.

22. FINANCING COSTS

	2021 **$**	2020 $
Interest on long-term debt	**39,334**	38,617
Short-term interest and fees relating to credit facility	**2,337**	3,854
Interest on lease liabilities	**90**	97
Less: capitalized borrowing costs	**(3,659)**	(5,642)
	38,102	36,926

[in thousands of Canadian dollars]

23. INCOME TAXES

Income tax expense recognized in net income comprises the following:

	2021 $	2020 $
Current tax expense		
Current income tax expense	**2,974**	1,466
Deferred income tax expense		
Origination and reversal of temporary differences	**18,311**	11,031
Income tax expense recognized in net income	**21,285**	12,497

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

	2021 $	2020 $
Income tax effect on exchange differences on translation of foreign subsidiary	**(9)**	(273)
Other	**598**	(664)
Income tax expense (recovery) recognized in other comprehensive income	**589**	(937)

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:

	2021 $	2020 $
Federal and Ontario statutory income tax rate	**26.50 %**	26.50 %
Income attributable to equity shareholder before income taxes	**68,641**	46,617
Income taxes at statutory rate	**18,190**	12,354
Increase (decrease) in income taxes resulting from:		
Permanent differences	**7,554**	1,330
Tax rate differential on net capital loss carryforwards and other	**(2,855)**	(263)
Impact on foreign exchange translation on subsidiary	**(63)**	(138)
Foreign tax rate differential	**(129)**	41
Provision to return adjustment	**(189)**	-
Change in unrecognized tax benefit	**(1,480)**	14
Tax impact on joint venture	**(207)**	(209)
Changes in tax reserve	**-**	(565)
Other	**464**	(67)
	21,285	12,497
Effective income tax rate	**31.01 %**	26.81 %

[in thousands of Canadian dollars]

23. INCOME TAXES [CONTINUED]

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

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

	2021 **$**	2020 $
Property, plant and equipment and intangible assets	**5,077**	5,462
Employee future benefits	**196**	308
Non-capital loss carryforwards	**2,250**	9,142
Other temporary differences	**(600)**	639
	6,923	15,551

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

	2021 **$**	2020 $
Property, plant and equipment and intangible assets	**(97,537)**	(82,771)
Tax recognized in OCI	**(840)**	(888)
Exchange differences and other	**-**	166
Non-capital loss carryforwards	**-**	125
Net capital loss carryforwards	**6,051**	-
Employee future benefits	**5,224**	5,762
Other	**1,469**	2,385
	(85,633)	(75,221)

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

	2021 **$**	2020 $
Deferred income tax asset, beginning of year	**15,551**	10,135
Impact of foreign exchange rate change on opening deferred income tax asset balance	**(140)**	(208)
Recognized in net income	**(8,368)**	5,443
Recognized in OCI	**(120)**	181
Deferred income tax asset, end of year	**6,923**	15,551

[in thousands of Canadian dollars]

23. INCOME TAXES [CONTINUED]

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

	2021	2020
	$	$
Deferred income tax liability, beginning of year	**(75,221)**	(59,503)
Recognized in net income	**(9,943)**	(16,474)
Recognized in OCI	**(469)**	756
Deferred income tax liability, end of year	**(85,633)**	(75,221)

The Corporation's regulatory deferral account debit balance for the amounts of deferred income taxes expected to be collected from customers in future electricity rates is $61,860 [2020 – $48,868].

As at December 31, 2021, the Corporation had Canadian capital losses of $1,415 [2020 – $1,415] and Canadian non-capital losses of $1,435 [2020 – $1,251] for which the tax benefit has not been recognized in the consolidated financial statements.

At December 31, 2021, the Corporation had Canadian non-capital losses of $7,939 for tax purposes for which the tax benefit has been recognized in these consolidated financial statements [2020 – $11,764]. At December 31, 2021, the Corporation had Canadian capital losses of $24,123 [2020 – $nil], for which the tax benefit has been recognized in the consolidated financial statements.

The Corporation has U.S. losses carried forward of $557 [2020 – $30,182] that can be carried forward indefinitely [2020 – $14,769 available to be carried forward indefinitely]. Losses of $557 [2020 – $24,239] are considered more likely than not to be realized, resulting in a recognized deferred income tax asset of $146 [2020 – $6,335].

Deferred income 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 income tax assets of $1,503 [2020 – $9,333] have been recognized in EONY as there is sufficient positive evidence to demonstrate that it is probable that a net deferred income 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 income tax liability for all taxable temporary differences associated with investments in subsidiaries and investments in joint ventures has not been recognized as the Corporation is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

[in thousands of Canadian dollars]

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

	2021 **$**	2020 $
Accounts receivable	**31,749**	(7,789)
Prepaid expenses	**143**	2,399
Note receivable from parent	**11,039**	3,656
Accounts payable and accrued liabilities	**(11,380)**	(10,713)
Inventory	**84**	(165)
Customer deposits in accounts receivable	**(3,175)**	-
Net change in accruals related to property, plant and equipment	**8,649**	12,918
Net change in accruals related to intangible assets	**(26)**	264
	37,083	570

25. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

	2021 **$**	2020 $
Long-term debt, beginning of year	**1,060,896**	1,060,733
Proceeds from issuance of long-term debt	**15,741**	-
Current portion of long-term debt	**(1,172)**	-
Debt-issuance costs	**-**	(162)
Amortization of debt-issuance costs expensed	**325**	325
Long-term debt, end of year	**1,075,790**	1,060,896

26. CONTINGENT LIABILITIES

Purchasers of electricity from the IESO are required to provide security to mitigate the risk of their default based on their expected activity in the market. The IESO could draw on these guarantees if the Corporation fails to make a payment required by a default notice issued by the IESO. A prudential support obligation is calculated based upon a default protection amount and the distributor's trading limit less a reduction for the distributor's credit rating. As at December 31, 2021, the Corporation had drawn standby letters of credit in the amount of $10,000 [2020 – $10,000] against its credit facility to cover its prudential support obligation.

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

26. CONTINGENT LIABILITIES [CONTINUED]

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

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

27. COMMITMENTS

As at December 31, 2021, the Corporation has $98,524 in total open commitments spanning between 2022 and 2028. These include commitments relating to a call centre services agreement, distribution-related construction projects, overhead and underground services and other services relating to the Corporation's operations.

The Corporation maintains leases with various entities for the rights to certain lands, waterways, buildings and other generating assets at its generating stations in Ontario, Québec and New York. These leases are in place through various dates, ranging between September 30, 2022 and December 13, 2116. Certain leases have annual payments which have a fixed and contingent portion, the latter of which is based on either annual gross revenues or power generation levels and are not factored in the calculation of the Corporation's lease liability or effective lease term. The Corporation's anticipated future minimum lease payments will be: 2022 to 2026 – $745 and $38,739 thereafter.

28. RELATED PARTY TRANSACTIONS

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

(a) Transactions and balances outstanding with parent

During the year, the Corporation earned power recovery and distribution revenue from the City of Ottawa and its other subsidiaries, which was billed at prices and terms approved by the OEB. In addition, the Corporation earned commercial services revenue from the City of Ottawa and its other subsidiaries totaling $321 [2020 – $330] via its regulated subsidiary, Hydro Ottawa, and $16,281 [2020 – $11,024] via Envari. During the year, the Corporation also received $4,676 [2020 – $8,220] in contributions relating to the upgrade and/or expansion of the Corporation's existing electricity distribution infrastructure and $4 [2020 – $nil] in proceeds from the sale of vacant land; earned $164 [2020 – $376] in interest revenue with respect to the note receivable from the City of Ottawa; incurred $35 [2020 – $37] in lease interest expense and made $49 [2020 – $47] in lease liability repayments with respect to a long-term lease outstanding with the City of Ottawa at December 31, 2021.

[in thousands of Canadian dollars]

28. RELATED PARTY TRANSACTIONS [CONTINUED]

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

The Corporation incurred $3,920 [2020 – $5,441] of operating costs to the City of Ottawa. The Corporation also incurred $564 [2020 – $248] in building permit costs and development charges, which are included in property, plant and equipment.

As at December 31, 2021, the Corporation's accounts receivable and customer deposits include $10,550 [2020 – $19,581] and $1,573 [2020 – $1,510], respectively, while the Corporation's accounts payable and accrued liabilities include $456 [2020 – $372] due to the City of Ottawa and its subsidiaries in respect of the transactions described above. In addition, the Corporation's note receivable from the City of Ottawa is disclosed in Note 10 of these consolidated financial statements and the Corporation's long-term lease liability to the City of Ottawa included in Note 16 at December 31, 2021 is $828 [2020 – $880].

(b) Transactions and balances outstanding with joint ventures

(i) Moose Creek LP

During the year, the Corporation earned interest income in the amount of $22 [2020 – $33] on its note receivable from the Moose Creek LP joint venture, as well as $41 [2020 – $24] in other revenue for the provision of administrative services. As at December 31, 2021, the Corporation's accounts receivable include $5 [2020 – $7] due in respect of the transactions described for balances paid on behalf of Moose Creek LP.

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

(ii) PowerTrail

During the year, the Corporation earned other revenue of $41 [2020 – $25] for the provision of administrative services. As at December 31, 2021, the Corporation's accounts receivable include $nil [2020 – $7] due in respect of the transactions described.

(iii) ZCU

During the year, the Corporation earned interest income in the amount of $437 [2020 – $nil] on its note receivable from ZCU disclosed in Note 10 of these consolidated financial statements. At December 31, 2021, accounts receivable includes $253 due from ZCU with respect to the transactions described [2020 – $33 with respect to amounts paid on the joint venture's behalf].

(c) Compensation of key management personnel

	2021	2020
	$	$
Salaries, director fees and other short-term benefits	**1,881**	1,679
Employee future benefits	**224**	210
Other long-term benefits	**30**	21
	2,135	1,910

29. COMPARATIVE INFORMATION

In certain instances, the 2020 information presented for comparative purposes has been reclassified to conform to the current year's presentation. For the comparative consolidated balance sheet, $447 of assets previously classified as property, plant and equipment were moved to intangibles as these assets meet the definition of an intangible and as a result, comparative figures for Notes 6 and 7 of these consolidated financial statements have been adjusted. In addition, the comparative figures for the breakdown of commercial services within Note 20, Revenue from Contracts with Customers, of these consolidated financial statements has been reclassified to conform to the presentation adopted for the current year.

Statement of Executive Compensation

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

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

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

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

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

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

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

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

Compensation of Officers and Board Members

OFFICERS

Name and Principal Position[1]	Year	Base Salary ($)	At-Risk Performance Incentive ($)[2]	Other Compensation ($)[3]
Bryce Conrad *President and Chief Executive Officer*	**2021**	402,796	40,280[4]	60,671
	2020	402,583	n/a	44,826
	2019	394,719	n/a	51,599
Geoff Simpson *Chief Financial Officer*	**2021**	220,043	73,630	10,698
	2020	207,527	57,173	12,411
	2019	190,491	63,899	8,603
Guillaume Paradis *Chief Electricity Distribution Officer*	**2021**	182,008	57,559	21,789
	2020	168,211	42,287	18,893
	2019	157,009[5]	34,175[6]	10,060
Gregory Clarke *Chief Electricity Generation Officer*	**2021**	197,337	66,305	10,432
	2020	197,233	58,040	10,432
	2019	193,380	63,730	8,616
Adnan Khokhar *Chief Energy and Infrastructure Services Officer*	**2021**	198,716	68,259	10,320
	2020	198,612	58,446	12,455
	2019	194,732	41,272	8,731

1 Officers whose earnings are reported are those who occupied the position on December 31, 2021.

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 The Board approved a one-time lump sum payment for Mr. Conrad in 2021 based on performance in 2020.

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

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

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

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

Key Governance Processes and Controls

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

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

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

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

Appointments to the Boards of Directors

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

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

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

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

Committees

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

HYDRO OTTAWA HOLDING INC.

- **Audit:** The Audit Committee reviews financial statements, accounting practices and policies, auditing processes, and the results of internal and external audits and related matters. It also oversees financial risk management and assesses internal controls.
- **Governance and Management Resources:** The Governance and Management Resources Committee reviews the Corporation's governance structures and practices to ensure that the Board of Directors can fulfill its mandate. It reviews management resources and compensation practices to ensure systems are in place to attract, retain, and motivate qualified management employees. It also reviews and assesses the performance of the President and Chief Executive Officer, oversees the Board Assessment process, and monitors compliance with codes of conduct.
- **Investment Review:** The Investment Review Committee is responsible for assisting management and the Board of Directors in the review and pursuit of business development, acquisition, and investment opportunities. In carrying out these functions, the Committee focuses on the consistency of opportunities with strategic plans and investment guidelines, the maximization of shareholder value, and the management of risk.
- **Nominating:** The Nominating Committee, with the assistance of outside consultants, identifies and evaluates potential candidates for appointment as directors. The Nominating Committee makes recommendations to the shareholder (represented by Ottawa City Council) for the appointment of directors.
- **Strategic Initiatives Oversight:** The Strategic Initiatives Oversight Committee is responsible for assisting the Board of Directors in guiding management and providing support and focus for large-scale capital project efforts, as identified by the Board from time to time.

Board and Committee Meeting Attendance

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

HYDRO OTTAWA HOLDING INC.

Director	Board Meetings	Committee Meetings
Jim Durrell, C.M., ICD.D *(Chair)*	**7/7**	15/15
Bryce Conrad *(President and CEO)*	**7/7**	n/a
Yaprak Baltacioglu	**6/7**	6/6
Kim Butler	**7/7**	6/6
Matt Davies	**7/7**	13/13
Jacqueline Gauthier	**7/7**	8/8
Jan Harder	**7/7**	5/6
Andrea Johnson[1]	**3/3**	3/4
Cyril Leeder	**6/7**	6/6
Paul McCarney	**6/7**	5/6
Cyrus Reporter[2]	**4/4**	4/4
Jenna Sudds[3]	**4/4**	3/5

1 Denotes outgoing Board member whose term ended on June 30, 2021

2 Denotes incoming Board member whose term took effect July 1, 2021

3 Denotes outgoing Board member whose term ended on September 20, 2021

HYDRO OTTAWA LIMITED

Director	Board Meetings	Committee Meetings
Jim Durrell, C.M., ICD.D *(Chair)*	**6/6**	n/a
Bryce Conrad *(President and CEO)*	**6/6**	n/a
Guillaume Paradis	**6/6**	n/a

Note: Andrea Johnson was appointed to the Hydro Ottawa Holding Inc. Board of Directors effective June 24, 2015. She served on the Governance and Management Resources Committee and Investment Review Committee until the end of her second term on June 30, 2021.

Jenna Sudds was appointed to the Hydro Ottawa Holding Inc. Board of Directors effective February 12, 2020. She served on the Audit Committee until the end of her term on September 20, 2021.

We wish to convey our sincere appreciation to Andrea Johnson and Jenna Sudds for their dedicated service.

Members of the Boards of Directors

HYDRO OTTAWA HOLDING INC.

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

› **Bryce Conrad**

› **Yaprak Baltacioglu**

› **Kim Butler**

› **Matt Davies**

› **Jacqueline Gauthier**

› **Jan Harder**

› **Andrea Johnson**

› **Cyril Leeder**

› **Paul McCarney**

› **Cyrus Reporter**

› **Jenna Sudds**

HYDRO OTTAWA LIMITED

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

› **Bryce Conrad**

› **Guillaume Paradis**

Awards and Recognition

- **Global 100 People Practitioners – Donna Burnett Vachon**

- **Expanding Excellence Award for Innovation in People and Process**

› **Tim Lamb, Station Electrician, receives the International Brotherhood of Electrical Workers' Life Saving Award.**

Hydro Ottawa Holding Inc.

Hydro Ottawa wishes to thank all of 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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