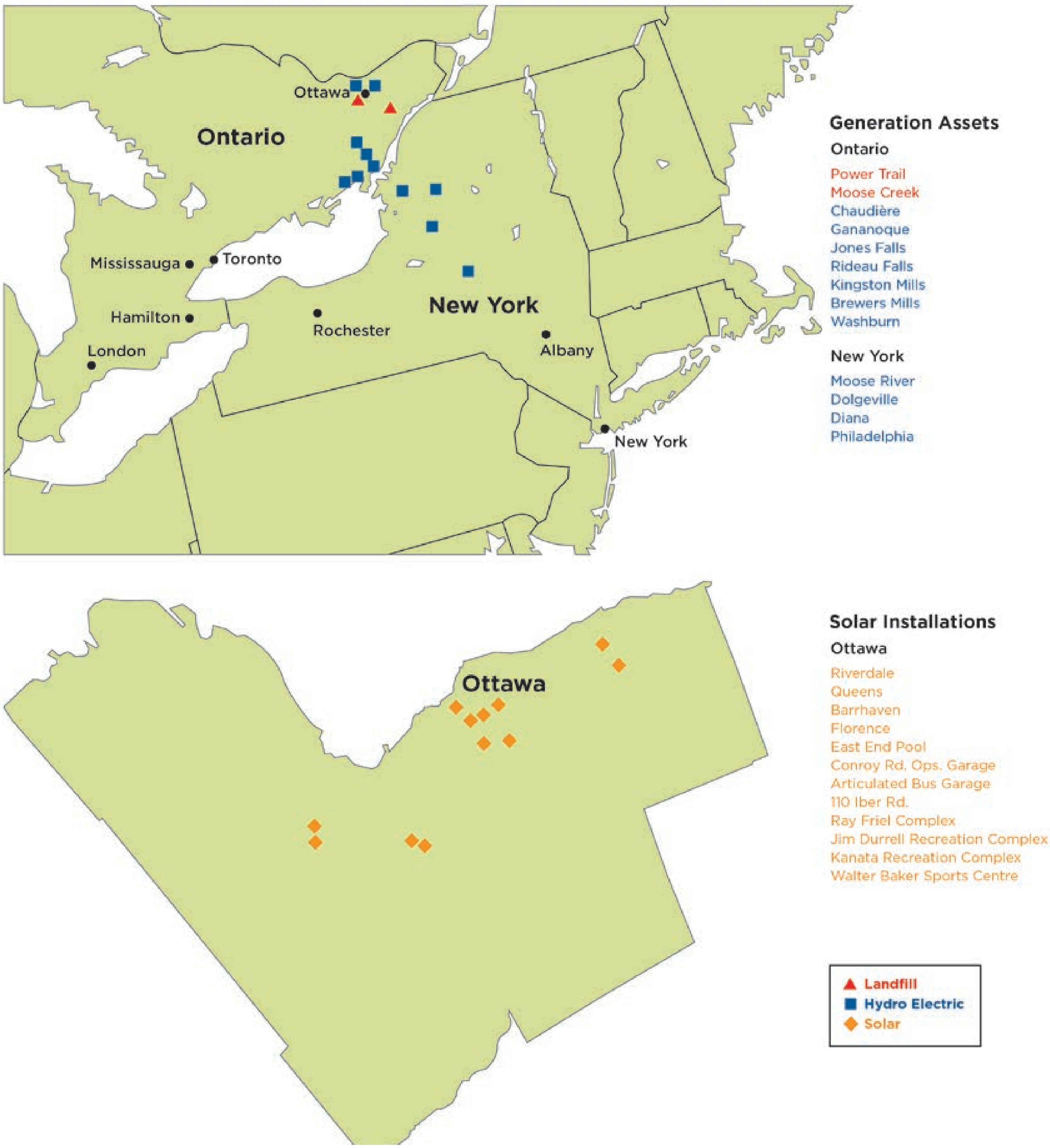
Hydro Ottawa
Holding Inc.

2015 Annual Report







Cover:

The picture featured on the cover of the Annual Report is of Rideau Falls located on the Rideau Canal, within the City of Ottawa. This is the site of one of ten run-of-the-river hydroelectric facilities Hydro Ottawa acquired in 2015. The 1.8 MW Rideau Falls Generating Station (not shown in the photo) was constructed in1908 and produces enough renewable power for approximately 1000 homes annually.

HydroOttawa
Holding Inc.

Our Mission

Hydro Ottawa's mission is to create long-term value for our shareholder, benefiting 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 goal is to provide effective, efficient and reliable service to our customers, and to be a strong strategic partner for our city, helping to deliver on its economic development and environmental agendas. As an investment, our goal is to provide stable, reliable and growing returns to our shareholder.

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Company Profile

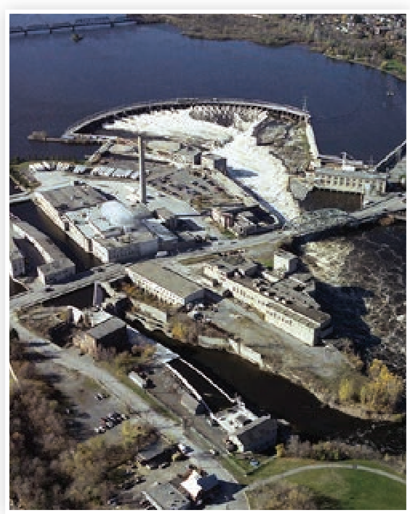
Hydro Ottawa Holding Inc., [Hydro Ottawa] is 100 percent owned by the City of Ottawa. It is a private company, registered under the Ontario *Business Corporations Act*, and overseen by an independent Board of Directors consisting of 11 members appointed by City Council. The core businesses of the Corporation are electricity distribution, renewable energy generation and related services. In 2015, Hydro Ottawa owned and operated two subsidiary companies.

Hydro Ottawa Limited

Hydro Ottawa Limited is a regulated electricity distribution company 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, and serves over 324,000 residential and commercial customers across a service area of 1,100 square kilometres. As a condition of its distribution licence, the company is required to meet conservation and demand management targets established by the Ontario Energy Board. Hydro Ottawa Limited added 4,314 new customers to its distribution system in 2015, an increase of 1.4 percent, while the volume of electricity delivered through its distribution network decreased by approximately 0.7 percent over the prior year. The company's capital assets grew by $69.7 million, or 8.8 percent.

Energy Ottawa Inc.

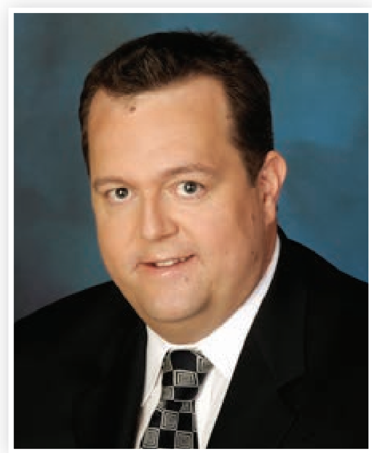
Energy Ottawa is the largest municipally owned producer of green power in Ontario, and a provider of commercial energy management services. It owns and operates six run-of-the-river hydroelectric generation plants at Chaudière Falls in Ottawa's core, and 10 additional run-of-the-river facilities in Ontario and upper New York State. Energy Ottawa also holds interests in two landfill gas-to-energy joint ventures that convert millions of tonnes of previously flared-off methane gas into renewable energy at the Trail Road landfill site in Ottawa and the Laflèche landfill site in Moose Creek, Ontario. In total, this represents a generation capacity of more than 79 megawatts annually, which is enough to power 62,000 homes. A multi-year project to expand Energy Ottawa's Ontario generation facilities at Chaudière Falls is under way, with completion scheduled for 2017. This expansion will increase Energy Ottawa's total capacity from 79 megawatts to 99 megawatts.



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

On behalf of management and the Board of Directors of both Hydro Ottawa Holding Inc. and Hydro Ottawa Limited, and our approximately 700 dedicated employees in Ontario – Ottawa and Gananoque, Quebec – Gatineau, and upper New York State, we are very pleased to provide this 2015 Annual Report to our shareholder, the City of Ottawa.

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



Bryce Conrad
President and Chief Executive Officer

This report marks the final year we will report against our *2012–2016 Strategic Direction,* which was endorsed by our shareholder in June 2012. For the fourth consecutive year, Hydro Ottawa has surpassed the financial targets set out in the strategy. Notably, over the first four years of the plan, normalized net income has exceeded projections by 15 percent, and dividends have been higher than target by $10 million or 15 percent. Shareholder value has grown by more than $127 million, and Hydro Ottawa has paid over $19 million in income and capital taxes to senior levels of government, and over $8 million in property taxes to the City of Ottawa. Additionally, the company has increased its renewable generation capacity several-fold during that period. From 22 megawatts at the beginning of 2012, our renewable generation capacity is now 79 megawatts [including joint ventures], and will reach 99 megawatts when the current expansion project at Chaudière Falls is complete in the spring of 2017 – enough clean, renewable energy to power 75,000 households. Hydro Ottawa has also made important progress on enhancing customer value, operational effectiveness, and our contributions to the community.

Given these strong cumulative results, we believe it is time to set new strategic goals. In 2016, we will put in place a new strategy for 2016–2020, further strengthening our commitment to enhancing customer value while growing our business.

In 2015, Hydro Ottawa continued to provide excellent value to our shareholder. We advanced key elements of our business strategy, while once again achieving strong financial results that exceeded our targets for the year. This is a reflection of our focus on our four critical areas of performance that form the foundation of our strategic plan – financial strength, customer value, organizational effectiveness, and corporate citizenship.

In the area of financial strength, Hydro Ottawa's 2015 net income of $32.4 million surpassed the strategic plan projection by $6 million, resulting in $19.4 million in dividends to the City of Ottawa, the largest dividend payment to date. With strong performance in each of the last four years, Hydro Ottawa has delivered $75.5 million of the $90 million dividend commitment set out in the *2012–2016 Strategic Direction*. As a result, we are now projecting to surpass the cumulative five-year net income target set out in our five-year plan by more than $9 million.

Hydro Ottawa's strong financial performance for 2015 was achieved in large part through our continued focus on cost containment, multi-year strategic growth in our renewable energy generation business, and $2.3 million in Conservation and Demand Management financial incentives earned for achieving our four-year program targets as set by the province. Revenues from renewable generation for 2015 were $25.6 million from our six run-of-the-river hydroelectric plants at Chaudière Falls, our ten run-of-the-river hydroelectric plants in Eastern Ontario and upper New York State, which were acquired in the latter part of the year, and our landfill gas-to-energy facilities at the Trail Road landfill site in Ottawa and at the Lafleche landfill site in Moose Creek, Ontario.

While Hydro Ottawa Limited, our regulated electricity distribution company, continued to be the largest contributor to our net income – at 80% in 2015, electricity consumption continued to drop, while costs increased.

Revenue growth in the electricity distribution business is not expected to keep pace with cost increases arising from customer growth, contractual and inflationary pressures, as well as changing regulatory requirements. Productivity improvement is a must to partially offset rising costs, and enhanced revenue growth from our renewable generation business is critical to increasing shareholder value. That is why Hydro Ottawa continued to pursue business growth opportunities in 2015. We increased our generation capacity by 30.9 megawatts through the acquisition of ten run-of-the-river generating facilities in Eastern Ontario and upper New York State, and began construction on a 29 megawatt generation facility at Chaudière Falls after securing a long-term Power Purchase Agreement with the Province of Ontario to allow the project to proceed.

Working with our shareholder, the City of Ottawa, we obtained City Council approval to retrofit 58,000 street lights to LED technology, and to provide related maintenance services over an initial period of six years. Once the LED conversion is complete in 2020, the City of Ottawa is expected to achieve cost savings of over $4 million annually. Installation of solar panels on eight different City-owned facilities also began last year. When completed in mid–2016, these rooftop installations are estimated to generate 3,226 MWh/year – enough electricity to power 336 homes for a year.

Our *2012–2016 Strategic Direction* calls for a continued focus on enhancing customer value and that is why working to keep distribution rates stable for the more than 324,000 homes and businesses we serve remains a priority. While the overall customer bill increased in 2015, the approved distribution rate increase for the Hydro Ottawa portion was 1.3 percent effective January 1, 2015.

We also continued to make significant investments in service reliability. Like all utilities in Ontario, Hydro Ottawa must replace aging distribution system equipment at an accelerated pace. We have committed to invest more than half a billion dollars over the course of our 2012–2016 plan to improve system reliability and reduce the occurrence of interruptions caused by defective equipment.

Hydro Ottawa's reliability performance continued to show improvement in 2015 after several years of challenges due to episodes of bad weather as well as increasing failure rates for aging distribution assets. Our overall investment in electricity distribution assets was $107.9 million.

To ensure sufficient funding to continue to provide the required investments in our electricity distribution system over the next five years, Hydro Ottawa filed an application to the Ontario Energy Board [OEB] for 2016–2020 distribution rates last year. As part of our application we included the results of our customer focus groups and online and telephone surveys that asked for feedback on the reliability of Hydro Ottawa's electricity distribution system and spending plans over the next five years. The OEB rendered its decisions on December 22, 2015 and on February 25, 2016 following an open and transparent hearing process, with opportunities for public participation. The resulting approved distribution rates for the Hydro Ottawa portion of the bill provide stable and predictable funding to continue the required investments in our system. We project that over the course of that five-year period, $535 million will be invested to replace aging infrastructure and enhance service reliability for our customers.

Achieving our goals for customer and shareholder value requires a high performance workforce, and efficient and effective operations. At Hydro Ottawa, we strive for performance excellence in every area of our operations.

Similar to many companies in our sector, more than 40 percent of our workforce is expected to retire in the next ten years. Almost half are trades and technical employees. Our response has been proactive and multifaceted, with planning and preparation underway both for continuity of skilled trades and technical capacity, and management succession to ensure a prepared and sustainable workforce over the next five to ten years. Key initiatives in this regard in 2015 included the continuation of our skilled trades apprenticeship programs, our engineering internship program, our development and performance management programs, our Algonquin College Powerline Technician Diploma Program partnership, and the rollout of our 2014–2016 Diversity Plan including implementation of a number of initiatives focusing on the designated diversity groups.

Hydro Ottawa also continued to be a responsible and engaged corporate citizen. In 2015, we renewed our partnership with Christie Lake Kids [CLK] and sponsored both the Hydro Ottawa Sustainable Youth Leadership Centre and the CLK 'Skills through Activity and Recreation' [STAR] Hockey and Skating Program, including the Hydro Ottawa STAR Cup. And our United Way fundraising efforts raised a record $295,360 in 2015, bringing our 15-year total to more than $2 million. Whether by helping our customers conserve energy, greening our operations, educating over 20,000 local elementary students about electricity safety and conservation, or providing nearly $145,000 in financial assistance to front-line agencies that serve people who are homeless or at risk of being homeless through our Brighter Tomorrow's Fund, Hydro Ottawa was there.

As a result of the company's achievements, Hydro Ottawa was recognized once again in 2015 by a number of awards including, among others, for the seventh year in a row as one of the National Capital Region's Top Employers, for the fifth year in a row as one of Canada's Greenest Employers, and by the Best Ottawa Business Awards [the BOBS] for our Prime Time Program in recognition of our program to engage experienced workers and retirees. We were also honoured once again as one of Canada's Top Employers for Young People.

We are proud of the company's performance in 2015, and to have exceeded the major financial targets over the first four years of the *2012–2016 Strategic Direction*. This is a testament to our employees and their ongoing hard work and dedication. We look forward to turning our focus towards the new challenges and opportunities ahead.

Sincerely,

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

Bryce Conrad
President and Chief Executive Officer

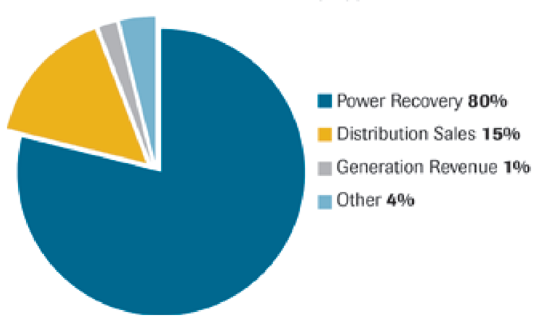
Hydro Ottawa Holding Inc.

Financial Highlights

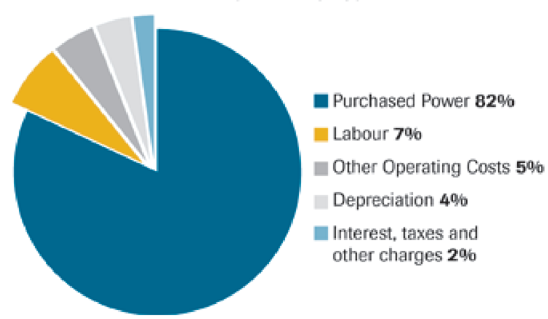
[in thousands of Canadian dollars]	2015	2014
Operations		
Total revenue[1]	1,087,181	1,006,720
Distribution revenue[1]	159,509	156,616
Generation revenue	16,238	13,550
EBITDA[1]	96,394	90,223
Net income	32,370	30,137
Dividends	[19,400]	[18,200]
Balance Sheet		
Total assets and regulatory deferral account debit balances	1,284,363	1,094,648
Capital assets	1,075,091	877,929
Debentures	571,519	398,638
Shareholder's equity	413,397	392,589
Cash Flows		
Operating	74,584	107,871
Investing	[199,926]	[107,199]
Financing	160,212	[20,390]

[1] Pre-IFRS 14

Revenue by Type



Expenses by Type



HydroOttawa Holding Inc.

Progress Against Plan

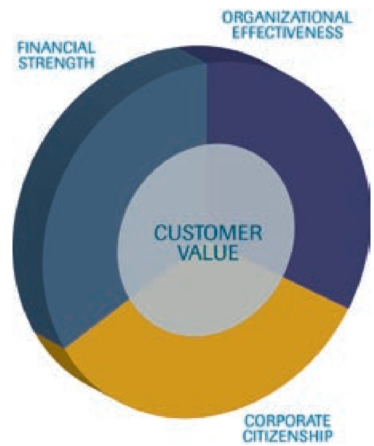
Hydro Ottawa's 2015 Annual Report is the fourth and last to report against the company's *2012–2016 Strategic Direction: Creating Long-Term Value*. Given our accomplishments over the past four years, together with the changes that have occurred in our business environment, we believe it is time to set new strategic goals. In 2016, we will put in place a new strategy for 2016–2020, further strengthening our commitment to enhancing customer value while growing our business.

The aim of the 2012–2016 Strategic Direction has been to move the company from 'good to great', leveraging our position as a leading and trusted service provider to become one of Canada's most successful integrated utilities.

This strategy was built on the company's strengths and achievements, and has responded to a changing environment that has presented significant opportunities for Hydro Ottawa and the community we serve.

To ensure we took full advantage of those opportunities, Hydro Ottawa has continued to focus on the fundamentals of leading performance: Financial Strength, Customer Value, Organizational Effectiveness, and Corporate Citizenship. These four Key Areas of Focus have guided our business strategy and form the basis of our annual reporting in the pages that follow.

One of our Key Areas of Focus – Customer Value – has taken on central importance under the company's five-year plan. The essence of Hydro Ottawa's business strategy has been to put the customer at the centre of everything we do.



FOUR KEY AREAS OF FOCUS

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

Customer Value

STRATEGIC OBJECTIVE

We will deliver value across the entire customer experience

By providing reliable, responsive and innovative services at competitive rates

Organizational Effectiveness

STRATEGIC OBJECTIVE

We will achieve performance excellence

By cultivating a culture of innovation and continuous improvement

Corporate Citizenship

STRATEGIC OBJECTIVE

We will contribute to the well-being of the community

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

Financial Strength

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

Our commitment is to provide sustained shareholder value now and in the future.

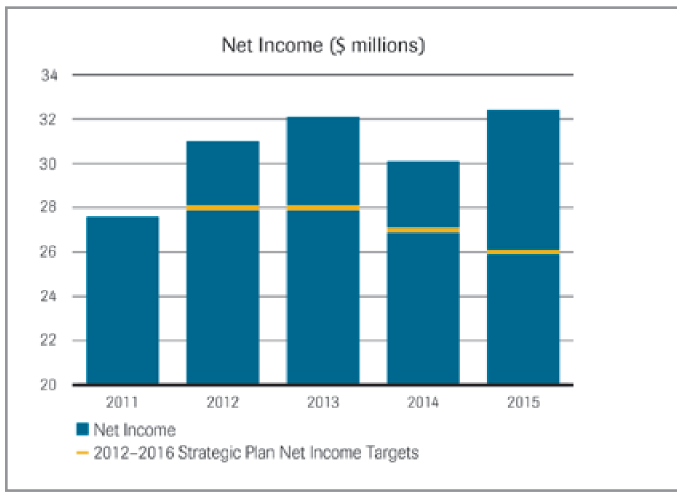
In 2015, Hydro Ottawa exceeded its financial targets as set out in our *2012 – 2016 Strategic Direction* for a fourth consecutive year. This was due in large part to our focus on cost containment and strong performance in our renewable energy generation business line, which has enhanced the company's ability to fulfil our core mandate to provide a safe, reliable, affordable and sustainable supply of electricity to the more than 324,000 homes and businesses that rely on our services every day.

We exceeded our financial targets for a fourth consecutive year

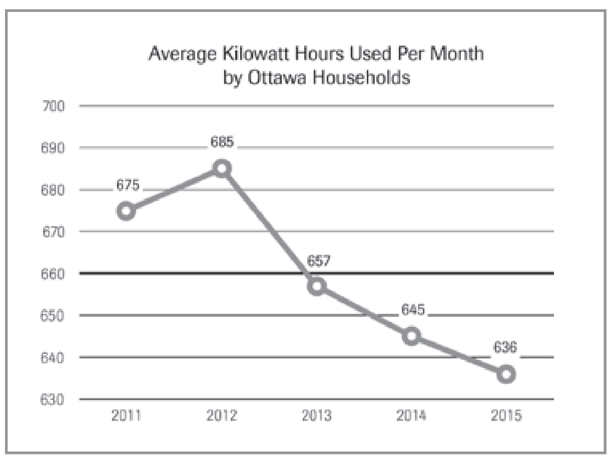
Hydro Ottawa's net income in 2015 was $32.4 million, the largest net income arising from annual operations in the company's history. Significant contributing factors to this strong financial performance include favourable results from operations, multi-year strategic growth in renewable energy generation, and $2.3 million in Conservation and Demand Management financial incentives earned for achieving our four-year program targets as set by the province. As a result, Hydro Ottawa is now projecting to surpass the cumulative five-year net income target set out in our *2012–2016 Strategic Direction* by more than $9 million.

While our regulated local distribution company, Hydro Ottawa Limited, continued to be the largest contributor to our net income, electricity consumption continued to decline, while costs increased.

In order to manage these pressures, Hydro Ottawa maintained its focus on cost control and productivity. One important indicator of productivity is operating cost per customer. The Ontario Energy Board [OEB] compares Ontario electricity distributors annually on this basis. In the OEB's most recent Yearbook of Electricity Distributors, Hydro Ottawa ranked 22nd out of 72 utilities in terms of lowest costs per customer.



$32.4 million net income



Hydro Ottawa's renewable energy generation business also continued to perform well in 2015. It produced a record 337 GWh of renewable energy [enough to power 38,000 homes for a year] and earned $25.6 million in revenue from our six run-of-the-river hydroelectric plants at Chaudière Falls, our ten run-of-the river hydroelectric plants in Eastern Ontario and upper New York State, which were acquired in the latter part of the year, and our landfill gas-to-energy facilities at the Trail Road landfill site in Ottawa and the Lafleche landfill site in Moose Creek, Ontario.

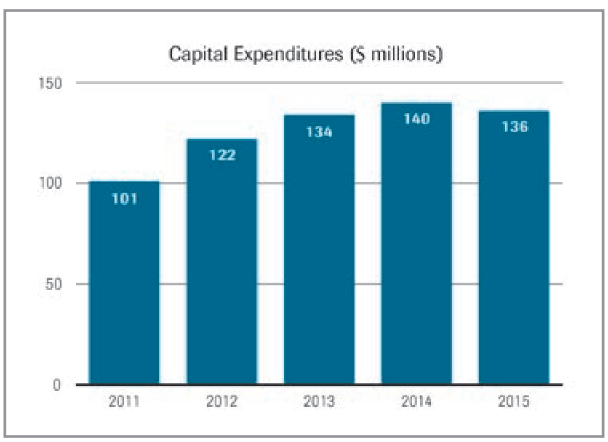
$4.7M invested in generation asset sustainment including expansion of the landfill gas collection system at the Lafleche landfill site in Moose Creek, Ontario

> We continued to invest heavily in our infrastructure

Hydro Ottawa invested $136 million in our electricity distribution system and generation assets in 2015 – part of our plan to make significant investments to maintain and enhance reliability, and to address aging infrastructure and system growth.

The approval of Hydro Ottawa's application for 2016–2020 distribution rates provides stable and predictable funding to continue the required investments in our electricity distribution system over the next five years. We project that over the course of that five-year period, $535 million will be invested to replace aging infrastructure and enhance service reliability for our customers.

337 GWh of renewable energy produced in 2015



$136 million capital program

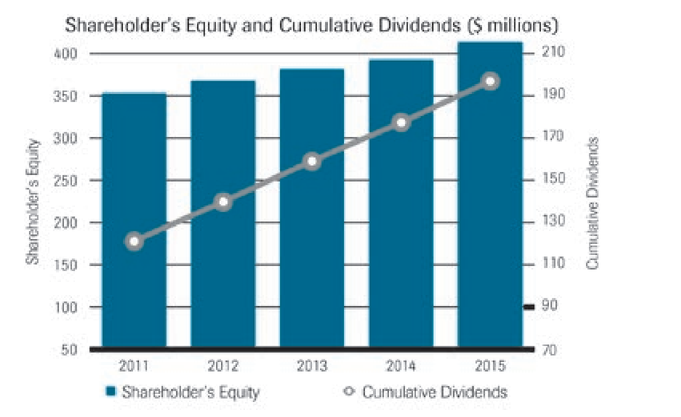
Hydro Ottawa's three-year $19M Woodroffe Voltage Conversion Project was completed in 2015. This project was the largest of its kind for Hydro Ottawa, replacing 815 poles and 200 transformers.

Shareholder value increased by 10%

Hydro Ottawa continued to provide excellent value to its shareholder in 2015, with a return on equity of 8.1 percent. Total shareholder value – including dividends paid and earnings retained with the company – increased 10 percent during the year.

Since 2005, Hydro Ottawa has delivered $196.8 million in dividends to the City of Ottawa, including $19.4 million arising from 2015 results. This represents the largest dividend to the City of Ottawa arising from Hydro Ottawa's annual operations.

With strong performance over the past four years [2012–2015], Hydro Ottawa has already provided $75.5 million of the $90 million dividend commitment set out in our current five-year Strategic Direction [2012–2016].



$19.4 million in dividends to the City of Ottawa – largest to date

We achieved significant business growth

To enhance the corporation's ability to respond to changing needs and expectations, and to ensure long-term financial sustainability, Hydro Ottawa continued to pursue business growth opportunities. In 2015, Hydro Ottawa increased its generation capacity by 30.9 megawatts through the acquisition of ten run-of-the-river generating facilities in Eastern Ontario and upper New York state, and began construction on a 29 megawatt generation facility at Chaudière Falls after securing a long-term Power Purchase Agreement with the Province of Ontario to allow the project to proceed. Completion of the Chaudière Falls expansion is scheduled for the summer of 2017.

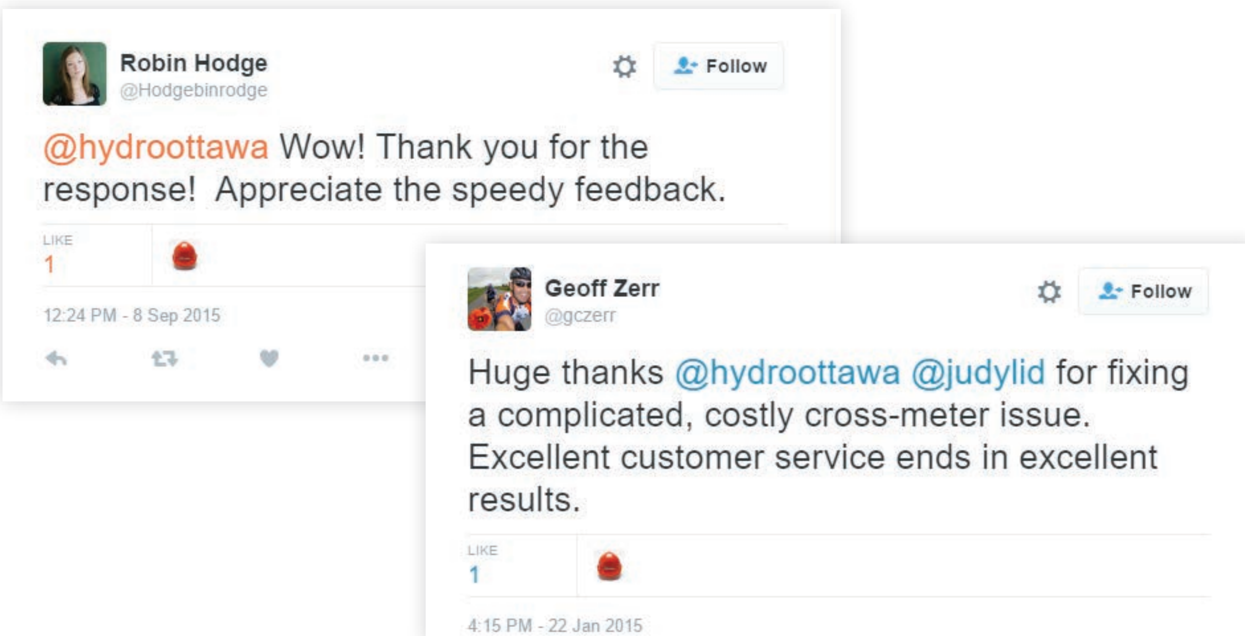
Solar panel rooftop installation at Jim Durrell Recreation Centre

We also partnered with the City of Ottawa to retrofit 58,000 streetlights to LED technology, and to provide related maintenance services over an initial period of six years. Once the LED conversion is complete in 2020, the City of Ottawa is expected to achieve cost savings of approximately $4 million annually. Installation of solar panels on eight different municipal buildings also began last year. When completed in mid–2016, these rooftop installations are estimated to generate 3,226 MWh/year – enough electricity to power 336 homes for a year.

Customer Value

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

The essence of Hydro Ottawa's business strategy is to put the customer at the centre of everything we do, and that starts with understanding what's important to our customers in an evolving energy landscape. In addition to our traditional goals of providing reliable electricity service while keeping our rates as low as possible, we are also working to create a more effortless and engaging customer experience, and to provide a broad range of services to help our customers manage their energy consumption and costs. We're committed to engaging with our customers where and when they want – on the phone, online, or on the go, with mobile services and leading social media engagement practices. And we're steadily increasing the amount of electricity that comes from clean, local renewable sources. The opportunities for enhancing and expanding customer value have never been greater, and we are determined to make the most of them.



87 percent customer satisfaction rate

The feedback from our customers suggests we are heading in the right direction. Our overall customer satisfaction score increased to 87% from 83% the previous year, and we continued to score above the majority of our peers. Of course, we are not nearly satisfied with being above the average; we want to be industry-leading in the service we provide to our customers, and have crafted a multi-year Whole-of-Company Customer Experience Roadmap to help us get there.

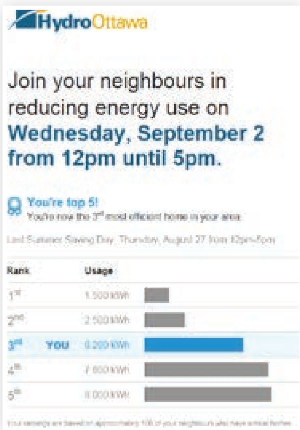
We sharpened our focus on improving the customer's experience

Part of providing a great customer experience is meeting customers where they want to do business, and increasingly that means online and on the go, with self-serve options and mobile tools. In 2015, Hydro Ottawa continued to develop and promote customer self-serve options. By year end, more than 136,000 [42.2%] of our customers were subscribed to MyHydroLink, while nearly 103,000 [31.5%] had signed up for e-billing, and over 48,700 [15%] for auto-pay.

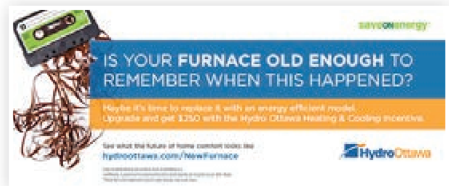
Hydro Ottawa ran its most successful 'Go Paperless' Campaign ever – raising over $90K for the Max Keeping Fund for Kids at CHEO; we continue to be the e-billing adoption leader among industry peers in Ontario

We also enhanced our efforts to engage with our customers and other stakeholders on a variety of social media platforms, including Twitter, Facebook and LinkedIn. Our Twitter followers rose by 42%, Facebook saw a 101% increase, and our LinkedIn followers grew by 63% over the prior year. This growing social media presence presents an ideal platform for informing our customers about energy options, getting instant feedback on our services, and helping to shape the dialogue about our energy future.

We continued to help people manage and conserve energy



One of the most important areas of customer engagement is helping our customers stay informed about ways to manage their energy consumption and costs. Hydro Ottawa continued to be a leader in promoting energy conservation in our community, providing a broad range of tools and programs to help residents and businesses use electricity efficiently and wisely. Due in part to Hydro Ottawa's efforts to promote a culture of conservation, residential electricity use in Ottawa is down from an average of approximately 800 kilowatt hours per month in 2002 to approximately 640 kilowatt hours per month in 2015.

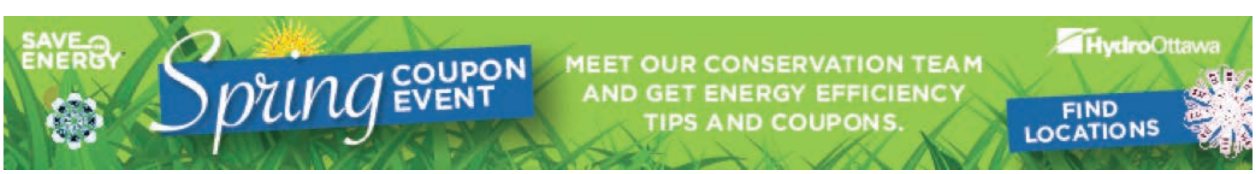


More than 55 GWh saved from our residential, small business and large commercial conservation programs – enough electricity to power more than 7,100 homes for a year

2015 saw the successful conclusion of one set of multi-year Conservation and Demand Management [CDM] programs, and the successful launch of a new six-year CDM plan with a new suite of programs. From 2011 to 2014, Hydro Ottawa's CDM programs helped our customers to conserve 414.9 GWh of electricity, which is equivalent to removing 54,000 homes from the grid. These savings were verified in 2015, and resulted in $2.3 million in financial incentives because they exceeded the four-year targets set for Hydro Ottawa by the province. Under our new six-year CDM plan, our CDM programs are expected to achieve another 395 GWh in savings between 2015 and 2020. In the first year of this plan, Hydro Ottawa exceeded its annual target by 10 percent, with approximately 55 GWh in energy savings.

We continue to be highly visible in the community, providing conservation advice and program information. Our Conservation Van participated in more than 90 community events in 2015, and more than 1,100 community members visited one of our Chaudière Falls generating stations during Doors Open Ottawa, where energy conservation demonstrations were provided.

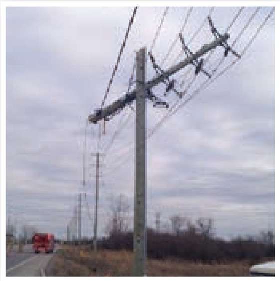
Hydro Ottawa CDM at Westfest



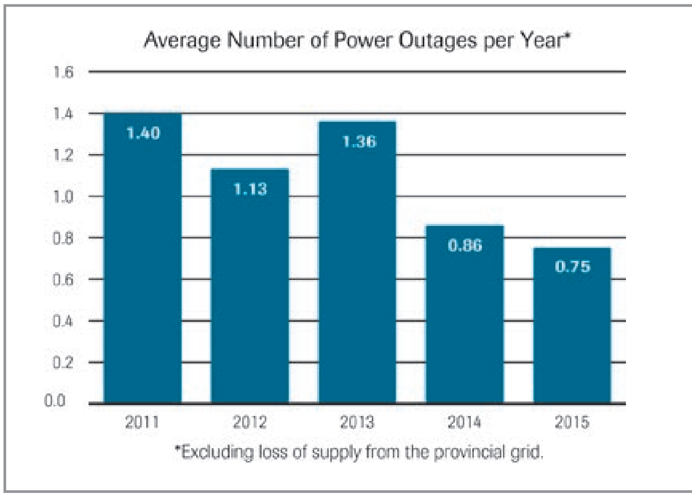
A reliable supply of electricity remained our top priority

Hydro Ottawa's reliability performance continued to show improvement in 2015, after several years of challenges due to episodes of bad weather and increasing failure rates for aging equipment.

$107.9 million distribution system investment to address reliability, aging infrastructure and growth



Customers experienced an average of less than one outage in 2015



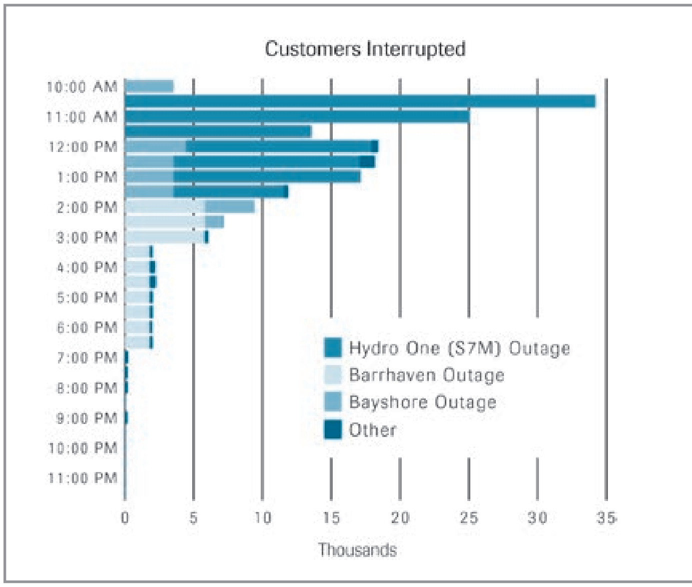
Like most utilities in Ontario, Hydro Ottawa faces a need to replace aging distribution system equipment at an accelerated pace. To ensure we continue to provide a high quality of service, we have committed to make significant investments of more than half a billion dollars over the course of our 2012–2016 Strategic Direction to reduce the occurrence of outages caused by defective equipment.

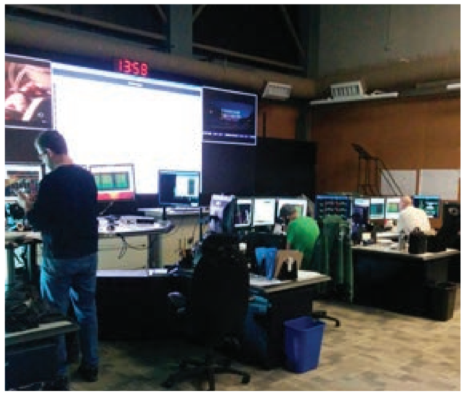
Our overall investment in asset management projects in 2015 was $107.9 million, with a continuing focus on improving service for areas with chronic reliability issues, building new station capacity, plant relocation, system expansion, and commercial infill.

Significant milestones in 2015 included the addition of a second transformer at our Casselman and Leitrim stations, two new transformers and control systems at our Startop and Borden Farms stations, as well as extensive work to replace aging infrastructure throughout our service territory, including poles, underground cables, transformers and switchgear, and line extensions.

Our crews were ready to respond when outages did occur

On Christmas Eve, 2015, a series of power outages impacted more than 42,000 Hydro Ottawa customers in the west end and rural areas of Ottawa, including several major shopping areas. Interruptions to Hydro One's transmission network were responsible for the two biggest outages, but extreme winds gusting over 80 km/h, caused a number of smaller outages throughout our service territory. Trees, branches and other objects were blown onto overhead lines. Hydro Ottawa initiated emergency response procedures and our crews were immediately dispatched. By early evening, electrical service was restored to 99% of the affected customers. The delivery of reliable power to our customers is a job we take very seriously and our crews are always ready to respond regardless of the weather or time of day.

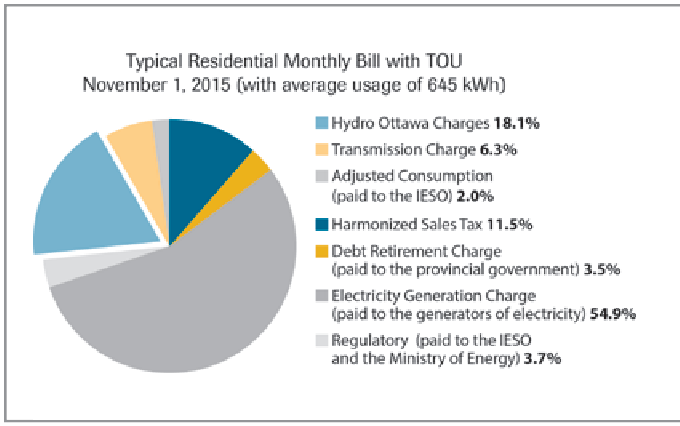




Distribution rates remained stable

Hydro Ottawa's electricity distribution rates are set through open public hearings by the Ontario Energy Board [OEB], Ontario's electricity and natural gas regulator, which regulates the sector and receives policy direction from the Government of Ontario. The OEB approves rates for the distribution of electricity by utilities such as Hydro Ottawa with the goal of protecting the interests of consumers with respect to prices while ensuring that the electrical service provided by utilities is adequate, safe and reliable.

In 2015, Hydro Ottawa's distribution rates made up 18.1 percent of the customer's total electricity bill. The remaining 81.9 percent consists of pass-through charges that Hydro Ottawa collects for others, with no markup. This includes the cost of the electricity commodity.



Hydro Ottawa's distribution rates ensure there is sufficient funding to maintain a reliable electricity distribution system and provide high quality service.

While the overall customer bill increased in 2015, the approved distribution rate increase for the Hydro Ottawa portion was 1.3 percent effective January 1, 2015.

Hydro Ottawa also filed an application for 2016–2020 distribution rates last year. As part of our application we included the results of customer focus groups and online and telephone surveys, which asked for feedback on the reliability of Hydro Ottawa's electricity distribution system and spending plans over the next five years. The OEB rendered its decisions on December 22, 2015 and on February 25, 2016 following an open and transparent hearing process, with opportunities for public participation. The resulting approved distribution rates for the Hydro Ottawa portion of the bill provide stable and predictable funding to continue the required investments in our electricity distribution system over the next five years. We project that over the course of that five-year period, $535 million will be invested to replace aging infrastructure and enhance service reliability for our customers.

Organizational Effectiveness

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

Achieving our goals for customer and shareholder value requires a high performance workforce, and efficient and effective operations. At Hydro Ottawa, we strive for performance excellence in every area of our operations.

Maintaining a healthy and safe work environment remained a top priority

Maintaining a healthy and safe work environment is a critical commitment to our employees. In 2015, Hydro Ottawa continued to implement the cornerstones of our Occupational Health, Safety and Environment [OHSE] management system including extensive safety and work practice education and training, supervisory and safety specialist field site monitoring, program verification through internal and external auditing, contractor management, and policy and program review and enhancement.

We provided an average of more than 22 hours of safe work practices training per employee, focusing on higher risk trade employees, who received an average of more than 39 hours per employee.

Employees worked a total of **1.222 million hours** in 2015 – only 328 hours were lost to workplace injury

Our integrated OHSE management system continued to be certified to the internationally-recognized standards of OHSAS 18001 and ISO 14001. And we were recognized with the Canadian Electricity Association Vice President's Award for Safety Excellence in the Generation category for achieving injury performance that ranked within the top quartile for member utilities of a comparable size.

We kept our focus on ensuring a prepared and sustainable workforce

Similar to many companies in our sector, more than 40% of our workforce is expected to retire in the next ten years. Almost half are trades and technical employees. Our response has been proactive and multifaceted, with planning and preparation underway both for continuity of skilled trades and technical capacity, and management succession to ensure a prepared and sustainable workforce over the next five to ten years.

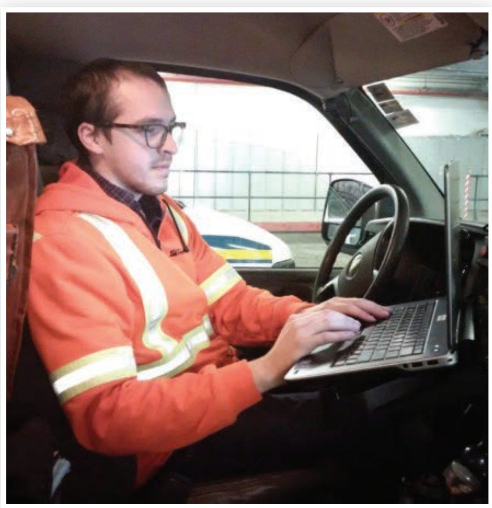
- We began to implement the strategies identified through our extensive workforce modelling undertaken in 2014 to forecast our trades and technical requirements to 2024, including the best combination of internal resources, overtime and contracted services
- We continued to invest heavily in positioning our workforce for success and advancement through our talent development and performance management programs
- We continued the rollout of our 2014–2016 Diversity Plan and implemented a number of initiatives focusing on the designated diversity groups
- Our five Apprenticeship Programs [Cable Jointer, Meter Technician, Powerline Maintainer, Station Electrician and System Operator] continued to grow – six new apprentices were hired in 2015, bringing the total to 42 apprentices, representing 24% of our trades workforce
- We collaborated with Algonquin College to improve the alignment and update the curriculum of our partnership Powerline Technician Diploma Program, as well as adding a fitness regime; graduated 25 students in 2015 and hired six for a total of 16

- Our Summer and Co-op Student Programs continued to be a vital part of our talent supply strategies; we hired 39 summer and 21 co-op students for a total of 60 – growing our workforce by over 9% in order to provide opportunities to young workers
- Our Engineering Intern Program continued to create a talent pool; a total of 16 interns have received their P.Eng designation to date; the rate of retention since the program was introduced in 2008 has remained steady at close to 100%
- Our Retiree and Older Worker Engagement Strategy programs continued to be key to engaging workers and managing knowledge transfer; in 2015, we launched comprehensive pre-retirement planning sessions and established a retiree association - 37% of temporary / part-time positions were filled by 13 returning retirees with the skill sets necessary to immediately perform in operational and support roles

And we continued to look for improvements in the way we do business

We implemented a number of productivity improvements and cost controls in 2015 that were direct contributors to the success of our capital and maintenance programs last year. We began the launch of a mobile workforce management tool designed specifically for utilities, which improves field resource productivity and reduces mileage and overtime costs, and introduced new remote access technology with single sign-on to increase productive time for our mobile field workforce.

We completed our "storm hardening" initiative, which included the removal and trimming of overhanging tree branches on more than 2,600 spans of overhead power lines, and the redesign of our regular year-round tree trimming cycles. This aggressive initiative has enhanced public safety and yielded both reliability and productivity benefits. Our overhead distribution system is more resilient and less vulnerable to extreme weather events such as high winds, heavy snowfall and ice, and our vegetation management budget has decreased by $750,000.



We also piloted an innovative pole-setting technology that reduces the time and resources required to install our power distribution poles. This methodology enhances employee safety and is easily adapted to off-road equipment.

Our Facilities Renewal Plan continued to advance as well. The plan involves the sale of existing facilities that are nearing the end of useful life and require major capital investments in the next several years, and the construction of two combined facilities in the east and south ends of the city on two properties that were acquired in 2013 - one near Hunt Club Road and Highway 417 and the other near Fallowfield Road and Highway 416. In 2015, work progressed on positioning the project to ensure successful procurement, and design and construction. When fully implemented, the plan is expected to deliver savings of $3 million annually through a combination of cost reductions and productivity improvements. It will also enhance service through more strategically located and better-equipped facilities, and help to reduce the environmental impact of our operations.

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

At Hydro Ottawa, we seek to contribute to positive outcomes in our community and beyond.

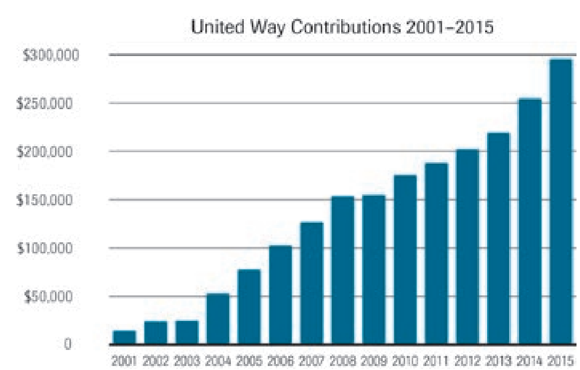
We continued to be active in our community

Our company has a proud tradition of contributing to quality of life in our community, be it through our United Way campaigns that have raised more than $2 million since the company was formed 15 years ago, our electricity safety and conservation presentations that have educated more than 200,000 children and youth, our continuing efforts to help mitigate the impact of energy costs for those in need, and the volunteer contributions of our employees that have benefitted many community initiatives.

These efforts continued in 2015. Our United Way fundraising campaign raised a record $295,360, and as a result, we were able to provide nearly $145,000 in financial assistance through our Brighter Tomorrows Fund [our United Way corporate matching dollars]. This fund assists front-line agencies that serve people who are homeless or at risk of being homeless to complete small capital projects that will improve their energy efficiency. Since its inception in 2009, the fund has contributed more than $890,000 in support of 62 energy efficiency projects. In 2015, it was recognized with a Workforce Magazine Silver Optimas Award for Corporate Citizenship.

Hydro Ottawa also participated in the provincial Low-Income Energy Assistance Program, a year-round emergency financial assistance program. In 2015, more than $208,000 was provided to 308 low-income households to help pay their electricity bills. In addition, 1,297 households received help from the Home Assistance Program, which provides free energy audits and professional installation of energy saving measures and advice on how to further reduce energy consumption.

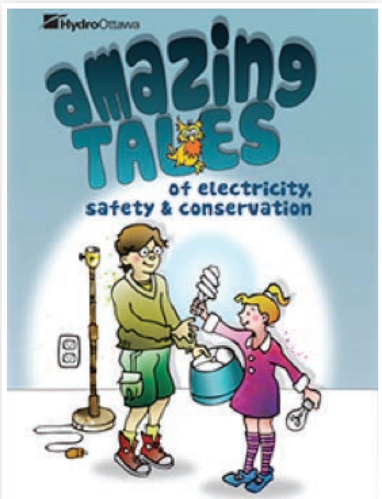
We renewed our partnership with Christie Lake Kids [CLK] once again and sponsored the Hydro Ottawa Sustainable Youth Leadership Centre, which provides a unique opportunity for disadvantaged youths to learn experientially about alternative energy while building leadership skills. We also sponsored the CLK STAR Cup and supported a limited number of other worthwhile community partnership initiatives, including Glowfair Festival, Brookstreet's Lumiere Rouge Charity Gala, Ottawa Food Truck Rally, Green Energy Doors Open, Help Santa Toy Parade, and the Mayor's Breakfast Series, to name a few.



$295,360 raised for United Way Ottawa from employee donations and corporate matching

More than 1,200 students in 49 classes from 41 schools registered for our Bright Ideas Contest. Devonshire Community Public School and St. Anthony's Catholic School both received $1,000 to put toward classroom resources. Five other classes received a prize of a classroom pizza lunch

1,104 visitors toured Hydro Ottawa's historic Generation Station No. 2 at Chaudière Falls as part of Doors Open Ottawa on June 6 and 7, 2015



We educated 20,964 elementary school students about electricity safety and conservation through 114 presentations at 50 elementary schools and two summer camps, and reached a further 1,055 Grade 5 students with energy conservation presentations at 21 Ottawa-area schools

Hydro Ottawa volunteers helped provide more than 1,000 children and adults with special needs exclusive access to the Capital Fair at Special Needs Day

We managed our own impacts on the environment

2015 CANADA'S GREENEST EMPLOYERS

Hydro Ottawa is already making an important contribution to environmental sustainability by generating renewable energy and actively promoting energy conservation. Equally important, though, is the need to continuously reduce the impact of our own operations on the environment through the use of "green" technology, resource-conserving activities and practices, and other means. This has been an increasing focus for Hydro Ottawa, and in 2015, we continued to practice what we preach by carefully managing our own impacts on the environment.

We added eight flex-fuel vehicles to our fleet and one with battery technology, and converted one aerial device to Biopure biodegradable oil. Our fleet now consists of 96 vehicles with an environmental benefit, accounting for 40 percent of the fleet. We maintained a high rate of non-hazardous waste diversion at over 90 percent, completed the implementation of our Fleet Management Information System to better manage fuel usage, and to optimize the efficiency and environmental performance of our fleet, reduced the footprint of our printers, and purchased 33 percent of our goods and services from local suppliers. We also partnered with the MaRS Advanced Energy Centre in Toronto to gain access to expertise and knowledge from across corporate, small business, government, academic, and research sectors to explore innovation opportunities and how Hydro Ottawa can adapt its business and strategy for the future.

Hydro Ottawa was recognized as one of Canada's Greenest Employers for the fifth year in a row for incorporating environmental values into our corporate culture.

Over 90% non-hazardous waste diverted from landfill

We committed to help restore power whenever and wherever needed

In 2015, Hydro Ottawa joined the North Atlantic Mutual Assistance Group [NAMAG] – a partnership of utilities committed to helping restore power whenever and wherever needed. NAMAG is made up of 29 utilities from Canada and the United States, representing approximately 36 million customers.

The restoration efforts following Hurricane Sandy in 2012, in which Hydro Ottawa was involved, pointed to a need for a more cohesive and all-encompassing assistance group.

Our membership in NAMAG will also help ensure we are prepared to provide our own customers and community with the best possible service.

And our performance was recognized alongside other corporate leaders

HUMAN RESOURCES INNOVATION

For the 7th consecutive year [2009–2015]

For Best Performance in HR for our Prime Time Program

Canada's Top Employers for Young People for the 2nd year [2014–2015]

LEADING SAFETY PROGRAMS

Canadian Electricity Association [CEA] 2015 Vice President's Award for Safety Excellence

President's Award for 250,000 and 500,000 hours worked without a lost-time injury

Shannon Nicholson, Supervisor, OHSE Management System, awarded 2015 National Outstanding Achievement Award by Canadian Society for Safety Engineering

CORPORATE SOCIAL RESPONSIBILITY

For Corporate Citizenship for our Brighter Tomorrow's Program

For the fifth year in a row [2011–2015]

Hydro Ottawa Holding Inc.

Management's Discussion and Analysis

Introduction

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

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

Business of Hydro Ottawa

Hydro Ottawa Holding Inc. ['Hydro Ottawa' or 'the Corporation'] was created as a result of the Electricity Act, 1998 ['Electricity Act'], which required all hydro utilities to operate as business corporations. Hydro Ottawa was incorporated on October 3, 2000 under the Business Corporations Act [Ontario] and is a for-profit company wholly owned by the City of Ottawa ['the Shareholder']. It is governed by an independent Board of Directors appointed by its Shareholder. The core businesses of the Corporation are electricity distribution, renewable energy generation and related services. Hydro Ottawa owns and operates two subsidiary companies, as described below:

Hydro Ottawa Limited: The core and by far the largest business of the Corporation is the distribution of electricity, which accounts for approximately 80 percent of the Corporation's capital assets and 90 percent of revenues. Hydro Ottawa Limited is a regulated electricity local distribution company ['LDC'] that owns and operates distribution infrastructure in the City of Ottawa and the Village of Casselman. Hydro Ottawa Limited is the largest LDC in eastern Ontario and the third largest municipally owned LDC in the province of Ontario. Hydro Ottawa Limited delivers electricity reliably and safely to approximately 324,000 residential and commercial customers across a service area of approximately 1,100 square kilometres. As a condition of its distribution licence, Hydro Ottawa Limited is also required to meet conservation and demand management ['CDM'] targets established by the Ontario Energy Board ['OEB']. Hydro Ottawa Limited receives power from the provincial electricity grid and embedded generators and distributes it across a network comprising 84 owned distribution stations and 5 Hydro One distribution stations,170 station class transformers, 2,854 kilometres of underground cable, 2,726 kilometres of overhead lines, 35,766 distribution transformers and 48,183 hydro poles. Hydro Ottawa Limited added 4,314 net new customers to its distribution system in 2015, an increase of 1.4 percent.

Energy Ottawa Inc. [‘Energy Ottawa’]: A generator of renewable energy and provider of commercial energy management services, Energy Ottawa is the largest municipally owned producer of green power in Ontario. Energy Ottawa generates 79-megawatts of clean electricity annually, which is enough to power 62,000 homes. Its diversified green energy portfolio includes six run-of-the-river hydroelectric generation plants at Chaudière Falls in the City of Ottawa’s core, six more in neighbouring Ontario communities and four in New York State. Energy Ottawa also holds interests in two landfill gas-to-energy joint ventures that convert millions of tonnes of previously flared-off methane gas into renewable energy at the Trail Road landfill site in Ottawa and the Laflèche landfill site in Moose Creek, Ontario. The construction of a new 29-megawatt below-ground generation facility is underway at Chaudière Falls. It is expected to be completed and online in the fourth quarter of 2017. This expansion will increase Energy Ottawa’s total capacity from 79 megawatts to 99 megawatts.

Vision and Strategy

OUR VISION

Hydro Ottawa’s vision is to be a leading and trusted integrated utility services Corporation. This vision is built upon the objectives that were set out for the Corporation at its inception – to increase the value of the Corporation for its Shareholder, to deliver efficient and effective services to our customers, and to grow competitive businesses that maximize the value of our existing assets and core competencies. The goal of Hydro Ottawa’s 2012–2016 Strategic Direction is to move the Corporation from ‘good to great’, leveraging our position as a leading and trusted service provider to become one of Canada’s most successful integrated utilities.

LEADING

For Hydro Ottawa, leading means consistently being among the top performers in the business in every critical area of our operations, and being regarded as a credible and trusted voice in our industry, helping to shape policy, regulatory and operational responses to the critical issues of the day. As our industry evolves in response to customer needs and technological and policy change, our goal is to ensure Hydro Ottawa continues to be a leader in this shifting strategic context, becoming one of the most successful utility companies in Canada.

TRUSTED

Trust is fundamental to Hydro Ottawa’s success; a continuing belief among our stakeholders that we will deliver on our mission reliably, in a transparent and accountable fashion. We are a Corporation with very deep roots in our community, established through more than 100 years of providing an essential service to homes and businesses, and we continue to be recognized as a service leader through numerous awards for innovation, leading safety and customer programs, corporate social responsibility, and business excellence. In the years to come, we will continue to demonstrate that we have the strength and ability to deliver on our mandate, coupled with a commitment to transparency, accountability, and the well-being of our community.

INTEGRATED

While yesterday's most successful utilities were vertically integrated – providing generation, transmission and distribution services – a new model of integrated utility is emerging based on a well-connected value chain in 'close to the customer' utility services. These horizontally integrated utilities are leveraging the synergies between utility functions to deliver efficiencies to customers and value to shareholders.

The distribution of utility commodities is similar, whether the commodity is electricity, water or heat. The skill sets employed to develop renewable energy facilities and install electrical infrastructure can be applied to other energy systems, such as district energy and distributed generation. Hydro Ottawa's strategic vision involves realizing synergies and economies of scale in 'close to the customer' utility services, to create additional value for the Corporation's Shareholder, savings and enhanced service to customers.

OUR STRATEGY

The essence of Hydro Ottawa's strategy is to put the customer at the centre of everything we do. Understanding and responding to the customer's needs and expectations for service quality, cleaner energy, and greater control over the management of energy costs will be key to Hydro Ottawa's continued success in an evolving landscape. The customer value we provide up to and beyond the meter will drive all critical areas of performance – our financial strength and business growth, our operational efficiency and effectiveness, and our contributions to the well-being of our community. To enhance our ability to respond to customer needs and expectations and ensure long-term financial sustainability, Hydro Ottawa will also maintain a focus on strategic business growth within our core areas of strength. Our growth agenda involves three basic components:

- achieving economies of scale by expanding our electricity distribution business beyond its current service territory and leveraging our core systems to support other utility services;
- increasing the supply of clean energy for customers and earnings for our Shareholder by expanding our renewable generation; and
- bringing innovative solutions to energy-conscious consumers and businesses by growing our energy management expertise.

Our strategy is structured around four critical areas of performance. These have driven our success to date and will continue to guide our activities throughout the current strategic plan. Hydro Ottawa refers to these as our four Key Areas of Focus, with Customer Value taking on central importance:

- Customer Value: We will deliver value across the entire customer experience;
- Financial Strength: We will create sustainable growth in our business and our earnings;
- Organizational Effectiveness: We will achieve performance excellence; and
- Corporate Citizenship: We will contribute to the well-being of the community.

Industry Overview

THE ROLE OF THE LOCAL DISTRIBUTION COMPANY

Ontario's LDCs take power from the high-voltage transmission grid, reduce the electricity voltage to a lower level [50,000 volts and under], and provide this electricity to customers, homes, businesses, institutions and industry. They also provide energy conservation services to their customers, as a condition of their distribution licenses issued by their regulator, the OEB.

The functions carried out by Ontario's LDCs include the following:

- Plan: Review performance and trending, project consumer demand growth, develop capital and maintenance plans;
- Design: Apply standards and rigor to projects and retrofit and execute plans;
- Build: Bring the conceptual design to construction;
- Operate: 24/7 operations;
- Maintain: Manage physical assets;
- Restore: Outage management, customer communications;
- Meter: Measure the customer's consumption;
- Deliver: Responsible for transforming electricity from high-voltage transmission system to low-voltage distribution system in the delivery of electricity to the customers;
- Bill: Obtain all the usage information and send the bill to the customer;
- Settle: Act as the billing agent for other organizations in Ontario's electricity system;
- Collect: Manage payment collection;
- Conserve: Promote conservation and demand management programs; and
- Customer Care: Manage the relationship with customers.

REGULATORY FRAMEWORK

The legal and policy framework for the Corporation's businesses is set mainly by the Government of Ontario, which passes legislation and regulations that govern the energy sector in the province. The Ministry of Energy works to develop the electricity generation, transmission and other energy related facilities in Ontario. The Ministry of Energy also has legislative responsibility for several agencies, including the Independent Electricity System Operator ['IESO'], which merged with the Ontario Power Authority on January 1, 2015.

In 1998, the government restructured Ontario's electricity industry, which allowed utilities to provide service, and build and maintain infrastructure to meet or exceed regulated standards, while earning a regulated return on invested capital.

Hydro Ottawa and its subsidiaries operate within the framework of the Electricity Act and the Ontario Energy Board Act, 1998 [‘OEB Act’]. The Electricity Act establishes the structure of the electricity industry and the roles and responsibilities of parties such as the IESO, Electrical Safety Authority and the Smart Meter Entity. The Electricity Act further establishes rights and obligations for distributors. For instance, distributors are obligated to connect any building that lies along their distribution systems upon request and access to its system must be non-discriminatory. The OEB Act establishes the authority and power to approve and fix all rates for the transmission and distribution of electricity in the province. In addition to setting or approving all rates charged by Hydro Ottawa Limited, the OEB establishes standards of service and conduct that must be followed as a condition of being licensed to distribute electricity or be an electricity retailer.

Hydro Ottawa Limited, as an electricity distributor, is both licensed and regulated by the OEB. Hydro Ottawa Holding Inc. and Energy Ottawa also have restrictions on business activities because they are affiliates to a distributor that is owned indirectly by a municipal corporation. Energy Ottawa and its affiliates are also licensed by the OEB as an electricity retailer and generator.

The permitted business activities of Hydro Ottawa Limited were expanded in 2009 as a result of the Green Energy and Green Economy Act, 2009 [‘Green Energy Act’] to include the ownership and operation of generation and energy storage facilities under established criteria. The Green Energy Act requires all distributors to file plans with the OEB on facilitating renewable energy generation and implementing a smart grid. It also amended the mandate of the OEB, expanding its objectives to include the promotion of CDM, facilitating the implementation of a smart grid and promoting the use and generation of electricity from renewable energy sources. On November 12, 2010, Hydro Ottawa Limited’s distribution licence was revised to reflect its additional mandate to achieve CDM targets. The Corporation filed its Green Energy Act plan with its 2012 Cost-of-Service application. The Green Energy Act establishes mandatory timelines and information requirements for each step of a process established for the connection of generation facilities that sell electricity through the distribution grid. In December 2014, a new province-wide program for CDM was announced by the Ministry of Energy, which has resulted in additional amendments to Hydro Ottawa Limited’s Distribution Licence regarding CDM activities and targets effective December 18, 2014.

THE ELECTRICITY MARKETPLACE

The Ontario electricity commodity market is open to competition at both the wholesale and retail levels. Since 1999, electricity distributors have been purchasing their electricity from the wholesale market overseen by the IESO and recovering costs of electricity in accordance with procedures mandated by the OEB. At the wholesale level, generators can bid into the electricity market or enter into a contract with the IESO.

At the retail level, consumers have the choice of purchasing the electricity commodity through a contract with a licensed electricity retailer or through a licensed distributor, such as Hydro Ottawa Limited, as part of a standard supply service [‘SSS’]. Under a SSS, the commodity is provided to customers on a pass-through basis such that commodity revenues match the cost. Residential and small commercial customers receive the SSS through a regulated price plan [tiered] or Time-of-Use [‘TOU’], under which the OEB sets the commodity rates for the province twice per year, in May and November, based on a forecast of the commodity costs.

Differences between the forecast and actual costs are tracked by the OEB in a variance account until the balance is cleared to all customers through future regulated commodity rates. Other customers pay for the commodity based on the provincial spot market price or through the terms of a retail contract.

Regardless of whether customers have signed a contract with a retailer or are supplied through a SSS, Hydro Ottawa Limited continues to be responsible for the delivery of the electricity through its distribution system to all customers within the licensed service area.

DETERMINING DISTRIBUTION RATES

Ontario's electricity distribution companies, such as Hydro Ottawa Limited, recover their costs from customers through electricity distribution rates, including 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.

Before LDCs can make any changes to their rates, they are required to seek approval from the OEB through a rate application. The OEB follows a multi-year process to set electricity distribution rates. The process is designed to encourage distribution companies to maximize their efficiency while generating the revenue required to reliably deliver electricity to consumers.

With the introduction of the new policy framework for regulation of the electricity industry in Ontario, or Renewed Regulatory Framework for Electricity ['RRFE'], three rate-setting models were identified from which LDCs could choose to set their rates, commencing in 2015:

- 4th Generation Incentive Rate-setting [suitable for most distributors];
- Custom Incentive Rate-setting [suitable for those distributors with large or highly variable capital requirements]; and
- Annual Incentive Rate-setting Index [suitable for distributors with limited incremental capital requirements].

The OEB believes these models will provide suitable choices for distributors with varying capital requirements, addressing the issues raised by electricity distributors regarding recovery of capital expenditures, while allowing greater focus by the electricity distributors on customer value and service. Hydro Ottawa's rates for 2014 and 2015 were established by using the 4th Generation Incentive Rate-setting model. Under this method, Hydro Ottawa's rates were adjusted by 1.4 and 1.3 percent, commencing on January 1, 2014 and January 1, 2015, respectively.

Hydro Ottawa filed a Custom Incentive Rate-setting application with the OEB in April 2015 for rates for the period January 1, 2016 through December 31, 2020. Hydro Ottawa's decision to file a Custom Incentive Rate-setting application was based upon Hydro Ottawa's large capital requirements during that period. The OEB held an open and transparent hearing process and, in the course of developing the 2016–2020 rate application, Hydro Ottawa invited public comment on the proposed rate application and hosted a public presentation session. The OEB rendered a decision on December 22, 2015 and on February 25, 2016 for pole attachment rates. The decisions result in a 2.7 percent increase in rates for 2016 for the average Hydro Ottawa residential customer.

As directed by the OEB, Hydro Ottawa is incrementally transitioning residential customers to a fully fixed distribution charge by 2020. The distribution charge is the revenue retained by Hydro Ottawa, and represents less than 20% of the total bill. Currently, the average consumption for a Hydro Ottawa residential customer is approximately 640 kWh per month. In rate change publications, the OEB uses a higher provincial residential average electricity consumption of 800 kWh per month. As a result, the OEB published distribution charge rate impacts may differ from the actual experience of the Hydro Ottawa average customer.

Costs and rates vary from distributor to distributor depending on factors such as the age and condition of assets, geographic terrain and distance, and population density and growth. The proportion of residential to commercial and industrial consumers can also contribute to cost differences between distribution companies. Electricity bills include charges for the commodity, wholesale market services, transmission services, distribution services, debt retirement, and harmonized sales tax. Revenues from all of these charges, except distribution services, are collected from customers on a pass-through basis. Differences between costs and revenues collected for these pass-through charges are tracked as regulatory deferral debit/credit balances to be cleared through rate riders [a temporary credit or charge applied to the total of the customer's bill, before taxes], in a subsequent period. Distribution services revenue, which represents only about 20 percent of the bill, is the only amount retained by the LDC. The OEB approved distribution rates include a fixed charge and a variable charge based on electricity consumption or peak demand. Each year the OEB compares the operating costs per customer of all Ontario distributors. In August 2015, the OEB issued the 2014 Yearbook of Electricity Distributors, in which Hydro Ottawa ranked 22nd out of 72 electricity distributors in terms of lowest costs per customer.

Selected Consolidated Financial Results

The selected consolidated financial results of the Corporation presented below should be viewed in conjunction with the audited consolidated financial statements for the years ended December 31, 2015 and 2014.

TRANSITION TO IFRS

The audited consolidated financial statements and accompanying notes for the year ended December 31, 2015 represent the first annual financial statements of the Corporation and its subsidiaries prepared in accordance with IFRS. The Corporation's financial statements were previously prepared in accordance with Part V of the Chartered Professional Accountants of Canada Handbook for publicly accountable entities ['pre-changeover CGAAP']. Although there are many similarities between pre-changeover CGAAP and IFRS, there were some significant differences which are described in detail in Note 27 of the Corporation's consolidated financial statements.

The most significant impacts to the Corporation's consolidated financial statements as a result of the January 1, 2015 transition to IFRS are as follows:

- Upon transition to IFRS, management has decided to early adopt IFRS 14. IFRS 14 is an interim standard that permits the Corporation to continue recognizing regulatory deferral account balances in its consolidated financial statements, but requires a presentation format that provides the user greater insight into what the financial performance of the Corporation would be in absence of rate-regulated accounting. Had the Corporation chosen not to early adopt IFRS 14 upon transition, a derecognition of some, or perhaps all, of the Corporation's regulatory deferral balances would have resulted in significant volatility in the Corporation's consolidated earnings in the comparative, current and future years. Under the new presentation format, the change in the regulatory debit and credit balances on the consolidated balance sheet equal the net movement in regulatory deferral account balances on the consolidated statement of income.
- Management has concluded that it does not have control of its joint ventures under the applicable IFRS standards, whereas under pre-changeover CGAAP, the Corporation was required to consolidate them. As a result, the assets, liabilities and results of activities of these joint ventures are no longer consolidated with the accounts of the Corporation. The equity impacts as at January 1, 2014 and December 31, 2014 are decreases to retained earnings of $1.3 million and $1.6 million respectively. The impact for the year ended December 31, 2014 is a decrease in net income of $0.3 million.
- Under IFRS, the Corporation recognizes customer contributions as deferred revenue and recognizes revenue over the useful lives of the related property, plant and equipment to which they pertain. Under pre-changeover CGAAP, the Corporation recorded such contributions as an offset against the cost of property, plant and equipment and amortized to income, as an offset to depreciation. While this change has significantly impacted the Corporation's consolidated balance sheet, consolidated net income is not impacted.

BUSINESS ACQUISITION

On March 23, 2015, the Corporation entered into a Share and Unit Purchase Agreement with Fortis Inc. to acquire 100 percent of four entities that collectively own and operate 10 run-of-the-river hydroelectric generation facilities in New York State and Ontario for a cash purchase price of $77.0 million [$62.5 million US] and $16 million respectively ['the Fortis acquisition']. The Corporation completed its acquisition of the facilities in New York State on June 22, 2015 and the Ontario facilities on July 17, 2015 with respective closing adjustments of $0.8 million [$0.7 million US] and $1.3 million, bringing the final cash purchase prices to $77.8 million [$63.2 million US] and $17.3 million. The acquisition provides an entry to the U.S market and brings the Corporation new recurring revenue through power purchase agreements with Niagara Mohawk Power Corporation and the IESO. The four stations in New York State have a combined operating capacity of 22.6 megawatts while the six stations in Ontario have a combined operating capacity of 8.3 megawatts.

CONSOLIDATED STATEMENTS OF INCOME [SUMMARY]

As a result of the adoption of IFRS in 2015 [including the early adoption of IFRS 14], several of the Corporation's line items in its audited consolidated statements of income are subject to high volatility. When analyzing and interpreting financial variances, management excludes the presentation impacts of IFRS 14 ['pre-IFRS 14'] to keep the net movements in regulatory deferral account balances against the line items to which they relate. Management feels that this more accurately represents the financial performance of the Corporation, given its rate-regulated environment as prescribed by the OEB. Consequently, the analysis that follows is based on pre-IFRS 14 financial information unless otherwise noted.

[in thousands of Canadian dollars]	2015	2014	Change
Revenue			
Power recovery	890,116	793,967	68,479
Distribution sales	162,037	158,523	2,893
Other revenue	59,921	50,832	9,089
	1,112,074	1,003,322	80,461
Expenses			
Purchased power	865,178	808,718	69,321
Operating costs	126,138	121,157	4,969
	991,316	929,875	74,290
EBITDA	120,758	73,447	6,171
Depreciation and amortization	42,632	38,635	3,997
Impairment charges	–	4,023	[4,023]
Financing costs	19,042	17,499	1,543
Interest income	[1,056]	[1,422]	366
Share of profit from joint ventures	[509]	[84]	[425]
Income tax expense	15,472	10,554	2,480
	62,865	64,377	[1,512]
Income before the net movement in regulatory deferral account balances related to income	45,177	4,242	2,233
Net movement in regulatory deferral account balances related to income, net of tax	[12,807]	25,895	–
Net income	32,370	30,137	2,233

Net income increased by approximately $2.2 million [7 percent] in 2015. The increase in net income was primarily due to a $2.3 million CDM cost efficiency incentive realized in the year, a $2.9 million increase in distribution sales, a $4.0 million increase in generation and other revenue and a $4.0 million reduction in impairment charges relating to assets at Chaudière Falls in 2014. These variances were partially offset by $2.7 million in acquisition costs related to the Fortis acquisition and an increase in financing costs, depreciation and amortization, and income tax expense of $1.5 million, $4.0 million and $2.5 million, respectively.

REVENUE

Revenue is earned from electricity distribution, renewable energy production, energy management services, CDM programs and sundry activities. In 2015, Hydro Ottawa's total revenue amounted to approximately $1.1 billion, an increase of $80.5 million.

The largest component in Hydro Ottawa's total revenue is the cost of power recovered from the customer through provincially-established rates. The cost of power is a flow-through amount, which poses limited risk to Hydro Ottawa's financial performance. However, a difference between power recovery and purchased power arises when there is a timing difference between the amounts charged by Hydro Ottawa Limited to customers, based on regulated rates, and the electricity and non-competitive electricity service costs billed monthly by the IESO to Hydro Ottawa Limited. This difference is recorded as a settlement variance. Hydro Ottawa Limited's power recovery increased by $68.5 million, mainly due to increases in commodity and global adjustment rates included in purchased power costs.

Distribution sales are recorded based on OEB-approved distribution rates to recover the costs incurred by Hydro Ottawa Limited in delivering electricity to customers, which includes revenue related to the collection of OEB-approved rate riders. Revenue from distribution sales increased $2.9 million or 2 percent from 2014 due to customer growth and a modest increase in rates established by means of the 4th Generation Incentive Rate-Setting Index.

Energy Ottawa's hydroelectric revenues increased $2.7 million from 2014 despite the shutdown of the Ontario generation facilities at Chaudière Falls in September 2015 to begin the multi-year expansion at the site ['Chaudière Expansion']. The increase is due in large part to the $1.3 million in revenues derived from the Fortis acquisition and the completion of the required shutdown of generation assets for repairs to the Bronson bulkhead in late 2014. Hydro Ottawa once again saw a rise in revenue of $5.1 million stemming from its CDM programs, which includes a $2.3 million cost-efficiency incentive recognized in the year as a result of achieving its performance objectives at the conclusion of the 2011–2014 CDM program. Revenues from sundry activities increased by $1.3 million as a result of significant revenue earned from increased recoverable work in 2015.

PURCHASED POWER AND OPERATING COSTS

Purchased power costs represent the cost of electricity delivered to customers within Hydro Ottawa Limited's distribution service territory. These costs consist of the commodity, wholesale market service charges, transmission charges and the global adjustment levied by the IESO, net of energy generated by Energy Ottawa and supplied to Hydro Ottawa Limited as an embedded generator within Hydro Ottawa Limited's service territory. The cost of purchased power increased by $69.3 million, mainly due to increased commodity and global adjustment rates. The global adjustment accounts for differences between the market price and the rates paid to regulated and contracted generators and for CDM programs. When the spot market price of electricity is lower, the global adjustment is higher in order to cover the additional costs of energy contracts and other regulated generation.

Operating costs in the current year of $125.8 million increased by $5.0 million over 2014 due in part to the Fortis acquisition. In addition to the $1.3 million in operating costs arising from these new operations, the Corporation incurred acquisition-related costs, consisting primarily of legal and consulting fees amounting to approximately $2.7 million. The increase in acquisition-related costs was partially offset by other operating and administrative costs, including a reduction of $1.7 million in bad debts expense. The CDM programs' costs have also increased over the prior year by $2.9 million offset by corresponding increased revenues.

DEPRECIATION AND AMORTIZATION

Depreciation and amortization on Hydro Ottawa's property, plant and equipment increased in 2015 by $4.0 million primarily due to the ongoing investment in the Corporation's electricity distribution infrastructure and the Fortis acquisition.

SHARE OF PROFIT FROM JOINT VENTURES

Share of profit from joint ventures represents the Corporation's share of net income from continuing operations of Moose Creek Energy LP [50.05 percent] and of PowerTrail Inc. [60.00 percent]. For additional details regarding the Corporation's joint ventures, see Note 11 in the consolidated financial statements.

FINANCING COSTS AND TAXES

Financing costs have increased by $1.5 million in the current year as a result of the issuance of two new senior unsecured debentures totalling $375 million, which occurred in February 2015. The new issuances [$200 million, 10 years at 2.6% and $175 million, 30 years at 3.6%] replaced a $200 million 4.9% debenture that was due and repaid on February 9, 2015. The $175 million of net debenture proceeds indirectly financed the Fortis acquisition and other ongoing infrastructure investments of the Corporation.

Interest income comprises interest earned on cash and notes receivable from joint ventures.

The Corporation's effective tax rate increased from 25.9 percent in 2014 to 32.3 percent in 2015 as a result of permanent and temporary differences between the accounting and tax basis of assets and liabilities that arose during the year. As Hydro Ottawa Limited is able to recover deferred income taxes through annual distribution rate adjustments as approved by the OEB, it records a regulatory deferral account credit [or debit] balance for the amounts of deferred taxes expected to be refunded to [or recovered from] customers in future rates. The net $2.5 million increase in income tax expense is a result of increased deferred tax expense stemming from the Corporation's business acquisition in 2015 and from tax benefits arising from the loss carryforward of the Corporation's non-regulated operations [Energy Ottawa] not recognized in the current year. For additional details regarding income taxes see Notes 3[h] and 22 to the consolidated financial statements.

NET MOVEMENT IN REGULATORY DEFERRAL ACCOUNT BALANCES

In accordance with IFRS 14, the Corporation has separately presented the net movement in regulatory deferral balances in the consolidated statements of income. The changes in the regulatory debit [decrease of $6.2 million] and credit [increase of $6.6 million] balances for the year on the consolidated balance sheet equal the net movement in regulatory deferral account balances, net of tax [decrease in income of $12.8 million]. The net movement in regulatory deferral account balances was primarily due to an increase in settlement variances of $22.2 million along with distribution sales earned from rate riders of $2.5 million, offset by deferred taxes and operating costs to be recovered through future rates of $11.6 million and $0.3 million, respectively.

CONSOLIDATED BALANCE SHEET [SUMMARY]

[in thousands of Canadian dollars]	2015	2014	Change
Current assets	181,376	171,996	9,380
Non-current assets	1,088,557	902,029	186,528
Total assets	1,269,933	1,074,025	195,908
Regulatory deferral account debit balances	14,430	20,623	[6,193]
Total assets and regulatory deferral account debit balances	1,284,363	1,094,648	189,715
Current liabilities	159,976	404,772	[244,796]
Non-current liabilities	670,165	263,076	407,089
Total liabilities	830,141	667,848	162,293
Shareholder's equity	413,397	392,589	20,808
Total liabilities and shareholder's equity	1,243,538	1,060,437	183,101
Regulatory deferral account credit balances	40,825	34,211	6,614
Total liabilities, shareholder's equity and regulatory deferral account credit balances	1,284,363	1,094,648	189,715

ASSETS

Total assets increased by approximately $195.9 million during the year. This increase is largely attributable to property, plant and equipment, and intangible assets, which have increased by $197 million. This is a result of the acquisition of 10 run-of-the-river hydroelectric generation facilities from Fortis Inc., the start of construction of the expansion at Chaudière Falls and our continuing investment in electrical distribution and generation infrastructure.

LIABILITIES

Total liabilities increased by $162.3 million in 2015. The increase was primarily due to the issuance of new senior unsecured debentures in the amount of $375 million, which occurred in February 2015. The new issuances replaced $200 million in senior unsecured debentures, which was repaid on February 9, 2015 and financed the acquisition of 10 run-of-the-river hydroelectric generation facilities from Fortis Inc., as well as ongoing infrastructure investments.

REGULATORY DEFERRAL ACCOUNT BALANCES

According to IFRS 14, a regulatory deferral account balance is defined 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, 2015, Hydro Ottawa Limited has recognized $14.4 million in regulatory deferral account debit balances and $40.8 million in regulatory deferral account credit balances.

The $6.2 million decrease in regulatory deferral account debit balances and the $6.6 million increase in regulatory deferral account credit balances were largely due to the settlement of electricity and global adjustment pass-through costs.

CONSOLIDATED STATEMENT OF CASH FLOWS [SUMMARY]

[in thousands of Canadian dollars]	2015	2014	Change
Bank indebtedness, beginning of year	[30,927]	[11,209]	[19,718]
Cash provided by Operating Activities	74,584	107,871	[33,287]
Cash used in Investing Activities	[199,926]	[107,199]	[92,727]
Cash [used in] provided by Financing Activities	160,212	[20,390]	180,602
Foreign exchange impact on cash held in US dollars	59	–	59
Cash [bank indebtedness], end of year	4,002	[30,927]	34,929

OPERATING ACTIVITIES

Cash generated by operating activities decreased by $33.3 million in 2015. The majority of this decrease relates to negative fluctuations within working capital, namely a decrease in cash as a result of higher pass-through electricity costs and the timing of billing and collection activities from electricity customers, and a downswing in cash from accounts payable and accrued liabilities.

INVESTING ACTIVITIES

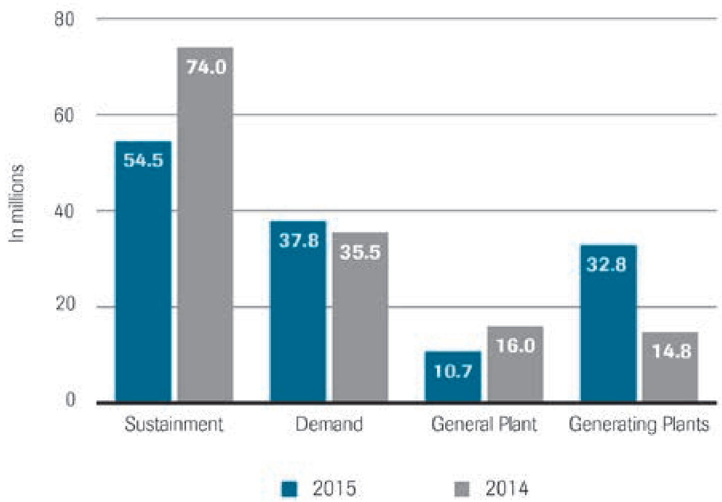
Total cash used in investing activities increased $92.7 million in 2015. The majority of this increase relates to the acquisition of 10 run-of-the-river hydroelectric generation facilities in New York State and Ontario from Fortis Inc. for $90.6 million. The total 2015 investment in property, plant and equipment and intangible assets, net of contributed capital is approximately $117 million [$123 million – net of non-cash transactions such as capital purchases included in accounts payable and accrued liabilities and proceeds from disposal]. Refer to the capital expenditures section below for additional information.

FINANCING ACTIVITIES

Dividends were paid to the Shareholder in 2015 in accordance with the approved dividend policy. The 2015 payment totaled $18.2 million based on 2014 results, and the 2014 payment totaled $19.3 million based on 2013 results. Total cash provided by financing activities increased by $180.6 million in 2015. The majority of this increase relates to the issuance of new senior unsecured debentures in February 2015 as described above.

CAPITAL EXPENDITURES

Investment in the Hydro Ottawa Limited electricity distribution system and generation infrastructure continues to be robust notwithstanding the acquisition of 10 run-of-the-river hydroelectric generation facilities in New York State and Ontario from Fortis. Hydro Ottawa invested heavily in its distribution system and aging infrastructure again in 2015. The gross capital expenditures were $135.8 million in 2015, offset by capital contributions; this amounted to $117.0 million, a decrease of $4.2 million or 3 percent under the prior year. The following chart shows Hydro Ottawa's capital investments by category for both 2015 and 2014:



Capital investments in 2015 included approximately $54 million on sustainment capital to replace aging infrastructure and to modify the existing distribution system; $38 million on demand projects [offset by contributed capital of $19 million], which includes third-party-driven growth projects such as new residential or commercial installations, and municipal improvement projects including the City of Ottawa's Light Rail Transit project; $11 million on general plant including Information Technology infrastructure, fleet, and other sundry items; and $33 million in generating plants, which includes work for the expansion at Chaudière Falls.

In 2015, 1,283 new poles, 482 overhead transformers, and 237 km of overhead cables were installed. Over 220 demand capital projects were initiated, including the addition of 4,460 new residential and 500 new commercial connections.

Sustainment was significantly higher in the previous year as the Corporation recognized capital contributions relating to the true up of Hydro Ottawa Limited's Connection and Cost Recovery Agreements with Hydro One Networks Inc., while general plant was slightly higher in the previous year as it contained costs relating to Hydro Ottawa's new customer information and billing system which was deployed in March 2014.

SUBSEQUENT EVENT

On November 17, 2015, Energy Ottawa entered into an asset purchase agreement for generation assets. The agreement includes numerous closing conditions, which can have a material impact on the value of the agreement. Hence, the value of the purchase commitment is not determinable at this time. The closing of this transaction is currently expected to occur in mid–2016.

LIQUIDITY AND CAPITAL RESOURCES

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

On August 20, 2015, the Corporation renewed its credit facility for $341 million. The Corporation may use up to $75 million of the facility for general operating requirements and annual capital expenditures. A $100 million three-year revolving credit line remains available for larger capital expenditures and acquisitions. To ensure appropriate liquidity, an additional $150 million one-year credit line was also placed to provide short-term financing for the Chaudière expansion project until long-term financing is placed during 2016. Capital expenditure requirements in excess of this, if any, will be funded through future bond issuances. As at December 31, 2015, the Corporation had drawn $11.7 million in standby letters of credit against its credit facility. The remaining facility is adequate to support the short-term working capital deficit experienced each month to settle the IESO costs of power invoice in advance of receiving payment from customers.

The Corporation's bonds carry covenants normally associated with this type of debt [see Notes 16 and 17 of the consolidated financial statements for further details]. The Corporation is in compliance with these covenants as at December 31, 2015.

For additional details regarding the Corporation's sources of liquidity and capital resources, see Notes 13, 16 and 19[d] to the consolidated financial statements.

CREDIT RATINGS

Dominion Bond Rating Service Inc. ['DBRS'] reaffirmed Hydro Ottawa's rating at 'A' with a stable trend during the year. DBRS did comment that the mid-year acquisition of ten run-of-the-river hydroelectric facilities, with a capacity of approximately 30.9 megawatts, did not warrant any negative rating action, but noted Hydro Ottawa's business risk profile may be negatively affected if earnings from non-regulated operations exceed 20 percent. Standard & Poor's revised its rating to A- with a stable outlook after the acquisition noting the increase in unregulated operations and weaker metrics over the two-year outlook timeframe. Both ratings reflect the stable and predictable cash flows from the regulated electricity distribution business, which contributes the majority of operating cash flows.

Accounting Estimates and Changes

SIGNIFICANT ACCOUNTING ESTIMATES

The preparation of consolidated financial statements, in conformity with IFRS, requires management to make estimates and assumptions that affect the reported amounts of consolidated revenues, expenses, assets, liabilities, and the disclosure of commitments and contingencies as of the date of the consolidated financial statements [see Note 2[d] of the consolidated financial statements for further details].

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

The following accounting estimates require management's judgments and assumptions in preparing financial statements and, as such, are considered to be critical. References to the associated note in the consolidated financial statements are provided in brackets:

- Useful lives of property, plant and equipment and intangible assets [Notes 3[k] and 3[l]]
- Unbilled revenue [Note 6]
- Regulatory deferral accounts [Note 7]
- Capital contribution obligations [Note 3[p]]
- Employee future benefit [Note 15]
- Income taxes [Note 22]
- Allowance for doubtful accounts [Note 19[c]]
- Contingent liabilities [Note 24]
- Impairment of non-financial assets [Notes 8 and 9]
- Fair value of assets and liabilities acquired [Note 5]

ACCOUNTING CHANGES

A number of new standards, amendments and interpretations are not yet effective for the year ended December 31, 2015, and have not been applied in preparing these consolidated financial statements. The Corporation continues to analyze these standards and has initially determined that the following could have an impact on its consolidated financial statements.

In May 2014, the IASB published a new standard IFRS 15 Revenue from Contracts with Customers ['IFRS 15'], which replaces most of the detailed guidance on revenue recognition that currently exists under IFRS. IFRS 15 specifies how and when an entity will recognize revenue and additional disclosure requirements. On July 22, 2015, the IASB confirmed a one-year deferral of the effective date of IFRS 15 to reporting periods beginning on or after January 1, 2018.

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

In January 2016, the IASB issued a new standard IFRS 16 Leases. It replaces accounting requirements introduced more than 30 years ago that are no longer considered suitable and is a major revision of the way in which companies account for leases. The new standard becomes effective for reporting periods beginning on or after January 1, 2019. In addition, on January 29, 2016, the IASB published amendments to IAS 7 Statement of Cash Flows ['IAS 7']. The amendments are intended to clarify IAS 7 to improve information provided to users of financial statements about an entity's financing activities. They are effective for annual periods beginning on or after January 1, 2017, with earlier application being permitted.

RATE-REGULATED ACCOUNTING

IFRS does not currently contain a Standard that specifically addresses the accounting for rate-regulated activities. Due to the significance of the matter, the IASB has a project to consider the broad issues of rate regulation. This project is separate from the issuance of IFRS 14 which was a short-term measure to allow first-time adopters to continue to apply their previous GAAP recognition and measurement policies for regulatory deferral accounts until the IASB concludes the rate-regulated project. In the event, the rate-regulated project does not result in a standard that recognizes the financial effects of rate regulation, the Corporation will be required to derecognize some, or perhaps all, of its regulatory deferral account balances, which represent a significant proportion of the Corporation's assets and liabilities.

Critical Non-capital Resources and Internal processes

CRITICAL NON-CAPITAL RESOURCES

The Corporation employs almost 700 people with Hydro Ottawa Limited accounting for close to 90 percent of this workforce.

Over 40 percent of Hydro Ottawa's workforce become eligible to retire by 2025, of which, over 65 percent are skilled workers in trades or technical professions; the other 35 percent are management, administrative, professional, and clerical employees. This reflects a broader trend of workforce demographics seen by utilities in Ontario and across Canada.

In planning for these retirements, Hydro Ottawa has put in place a comprehensive and integrated talent management strategy to ensure a sustainable and prepared workforce. This includes:

- Extensive in-house apprenticeship programs, and an engineering intern training and development program, to ensure the availability of qualified journeypersons and professional engineers;
- A succession planning and management program and training and development program to ensure that there are qualified employees in the talent pipeline for key positions;
- A proactive approach to knowledge management and knowledge transfer for key positions, including an older worker and retiree engagement strategy so that work is seamlessly transitioned from our veteran workforce to the next generations;

- A Diversity Plan, which fosters an inclusive culture that leverages diversity and enhances employee engagement and innovation; and
- Partnerships with industry and educational institutions to support the implementation of the talent management strategy. These include, most notably, collaborations with Algonquin College to deliver the College's Powerline Technician diploma program, and with Carleton University's Sustainable and Renewable Energy Engineering Department for the establishment of a smart grid laboratory to foster innovative research on electrical power systems and promote the training of engineers in the smart grid environment.

The Corporation provides a defined benefit pension plan for the majority of its employees through the Ontario Municipal Employees Retirement System ['OMERS']. Also, as a result of recent business acquisitions in 2012 and 2015, the Corporation established a defined benefit pension plan and a defined contribution pension plan for a small number of employees. The management, operation and administration of these additional plans are undertaken by a Retirement Committee and the Hydro Ottawa Board of Directors is kept apprised via reporting to the Governance and Management Resources Committee.

INTERNAL PROCESSES

Various technologies and processes have been introduced to enhance sustainability and better manage electrical distribution assets and improve customer service, including increasing the automation and reliability of the network through faster restoration times. Hydro Ottawa believes a commitment to sustainability is important not only because it benefits the environment, but also because it improves the Corporation's business.

In 2015, the Corporation continued to focus on leveraging customer access to their account information through customer self-serve options. These options result in improved customer satisfaction, fewer complaints and improved efficiencies. As of December 31, 2015, over 135,000 customers [42 percent of all customers] had subscribed to MyHydroLink, a web-based customer portal that provides a number of self-service options. Over 100,000 customers [31 percent of all customers] have also opted to receive their Hydro Ottawa bill electronically, and over 69,000 customers [21 percent of all customers] have subscribed to an automated payment process that is more convenient for them and more efficient for the utility. Customer use of Hydro Ottawa's mobile web offering continued to increase in popularity in 2015. This mobile service features many customer account information options along with access to Hydro Ottawa's award winning Outage Communications system. Hydro Ottawa Mobile is available to customers with a smart phone such as an iPhone, Android device or Blackberry.

Innovation continued to be a priority in 2015. Hydro Ottawa introduced a unique Bill Reporting Service designed for large customers. This service provides a variety of paperless benefits to both our customers and to Hydro Ottawa. MyHydroLink was enhanced to make billing information available electronically to 2,700 mid-size class commercial customers. An alternative customer credit card payment option was implemented that has reduced convenience fees for customers from an average of over 4 percent to 1.75 percent. This solution is now being implemented by other Canadian Electricity Association members. Hydro Ottawa also implemented a unique customer communications channel in 2015 by attaching digital videos of interest to our 100,000 customers that receive their bills electronically.

In 2015, Hydro Ottawa continued to deploy a Remote Disconnect/Reconnect feature that allows electrical service to be interrupted and restored to a customer's premises remotely by Hydro Ottawa staff. This allows Hydro Ottawa to restore service to customers more quickly and reduce the number of truck-rolls required to respond to non-payment situations. Over 14,000 meters are now equipped with this feature.

The Corporation continues to place a significant emphasis on cost containment and productivity improvements in order to enhance financial strength and operational performance. The OEB sets productivity improvement targets for electricity distributors as part of its Incentive Regulation Mechanism, and the Corporation pursues corporate-wide efficiencies in addition to those targets. These initiatives include more scrutiny over contract renegotiations, and increased workforce productivity through better and more efficient training delivery methods. In 2015, Hydro Ottawa completed the implementation and initial deployment of the Mobile Workforce Management System. This is a comprehensive scheduling and dispatch tool that optimizes crew schedules and daily routes to improve resource productivity, reduce overtime costs, and increase the ability to meet customer service level commitments. The first group targeted was our residential service connections group. Collections and metering are scheduled for early 2016 and additional groups will be brought on-line throughout the year.

Hydro Ottawa Limited also continues to maintain certification to several international standards, including ISO 9001 Quality Management System, ISO 14001 Environmental Management System and OHSAS 18001 Occupational Health and Safety Management System. The certifications for the latter two management systems were extended to certain Energy Ottawa generation facilities and to energy services business operations in 2014. Internal and external third-party audits are conducted annually to confirm and maintain certification and to attain re-registration as required by the standards.

Lastly, as part of a broader corporate strategy, Hydro Ottawa is focused on the need to yield productivity benefits through consolidation of work, rationalization of headcount for redeployment to trades hiring, and ongoing evaluation of possibilities to outsource work that is not considered to be a core or valued-added aspect of service delivery.

Risks and Uncertainties

The ability to manage and mitigate risk, to maintain flexibility, and to respond effectively to changes in our business environment is critical to the Corporation's continued success.

The Corporation's Enterprise Risk Management system establishes the framework that allows the Corporation to predict and respond to risks and opportunities that may have an impact upon its strategic direction and business activities, and to do so in an effective, consistent and integrated manner. An annual business planning cycle enables continuous review of assumptions and the state of the market in which the Corporation operates.

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

POLICY AND REGULATORY ENVIRONMENT

Hydro Ottawa's businesses operate in a regulated environment. Business performance could be adversely affected by significant policy and regulatory changes including, but not limited to, changes in rate regulation, policies relating to the production, procurement, pricing or sale of renewable and clean energy, carbon emissions, CDM, the consolidation of electrical utilities, or restrictions on utility service provision.

The OEB approves local electricity distribution rates partially based on projected load growth and consumption levels. While Hydro Ottawa Limited has obtained OEB approval for a rebasing of its distribution rates for the 2016–2020 timeframe, results may be affected if actual loads and energy consumption are not in keeping with forecast.

In the province of Ontario, prolonged uncertainty in policy direction on the consolidation and integration of local distribution companies could affect opportunities for growth.

MARKET PRICES FOR ELECTRICITY

A portion of the Corporation's generation revenue is directly linked to the real-time market price for electricity in the state of New York, USA. Market prices for electricity fluctuate due to a number of factors, including: the amount of excess generating capacity relative to load in that market; the structure of that market; weather conditions that impact electrical load; growth in demand for electricity; absolute and relative prices for energy; and developments in conservation and demand management.

EXCHANGE RATE FLUCTUATIONS

The Corporation's functional currency is the Canadian dollar. A significant depreciation of the value of the US dollar relative to the Canadian dollar may adversely affect the value of the Corporation's US-based assets and the related revenues. Conversely, a significant depreciation of the Canadian dollar relative to the US dollar may affect the Corporation's capacity to finance and the expected rate of return from its US investments.

AGING DISTRIBUTION INFRASTRUCTURE

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

ECONOMY

The state of the local, national and international economies could have a significant impact on the Corporation's business performance through factors such as interest rates, 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

Significant future changes in macro-economic policy direction and emerging business or financial risks could affect the Corporation's existing credit ratings.

Although the Corporation's credit rating continues to be high overall, recent investments in unregulated generation growth have increased corporate leverage and put short term pressure on ratings. One credit rating was downgraded in 2015 to from A [stable] to A- [stable]. The Corporation is subject to financial risk with changes in its credit rating which may raise the cost of capital and affect future access to financial markets. Hydro Ottawa is committed to maintaining a reasonable capital structure and its investment grade rating. Growth in equity is required to offset the increased leverage resulting from future business development and capital programs, and options in this regard need to be considered.

DEPENDENCE ON PARTNERS

Current and future growth opportunities may depend upon the presence of willing partners capable of performing to long-term expectations. The absence of municipalities willing to partner on utility service delivery, or of willing partners for mergers and acquisitions, or the underperformance of key business partners, could have a negative impact on Hydro Ottawa's ability to meet its growth objectives.

The Corporation is a member of the Municipal Electric Association Reciprocal Insurance Exchange [MEARIE], which insures the electricity distribution assets of many municipally-owned LDCs in Ontario [though not Hydro Ottawa]. If at any time MEARIE's current premiums, reserves and re-insurance agreements are not sufficient to meet its policy payout obligations, members of MEARIE may be required to make additional contributions to MEARIE's corpus.

PENSION PLANS

The Corporation provides a defined benefit pension plan for the majority of its employees through the 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. OMERS' future funding shortfalls and net losses, 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.

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

TECHNOLOGY INFRASTRUCTURE

The Corporation's business performance is dependent upon complex technology systems, including customer information and billing systems, advanced metering, and operational technologies such as geographic information systems, system control and outage management systems. Increasing automation, the integration of systems, and extensive use of common technology in facilitating such integration and connectivity present emerging risks that the Corporation must manage effectively. The failure of one or more of these key systems, or a failure of the Corporation to plan effectively for future technology needs or transition effectively to new technology systems could adversely impact the Corporation's business operations.

CYBER SECURITY

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 cyber security risks. A security breach, data corruption or system failure at a shared resource or common service provider, could put Hydro Ottawa's information systems and information assets at risk.

TIME-OF-USE TECHNOLOGY

Given the number of devices, systems and web interfaces involved in the smart meter – TOU billing process, as well as the number of external and internal service providers engaged, 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 the meter-to-cash cycle. Some first-generation components of the TOU technology infrastructure, e.g. smart meters, may need to be replaced ahead of their lifespan, so that the performance of the system as a whole may be improved, with additional functionalities. If regulatory approval is not forthcoming for the early replacement of these first-generation components, utilities may face the risk of stranded assets.

CUSTOMER, MEDIA PERCEPTIONS

Electrical utilities across Ontario are confronted with risks arising from negative customer and media perceptions. These risks might become more prominent as the Corporation transitions its residential customers to fixed distribution rates between 2016 and 2020, in accordance with the OEB's directives.

LABOUR FORCE DEMOGRAPHICS

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

WEATHER, HYDROLOGY

Severe weather can significantly impact financial results. Storms increase capital and maintenance costs to repair or replace damaged equipment and infrastructure, to ensure the continuing reliability of the electricity distribution system. Weather fluctuations also influence distribution revenues, which tend to increase with severe weather and decrease with moderate weather.

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

Outlook

Subject to the risks and uncertainties discussed in this document, Hydro Ottawa will continue to provide efficient, reliable electricity distribution services to customers at a competitive cost, generate green power, and provide energy services and conservation expertise while maintaining sustainable earnings. The Corporation will achieve this by continuing to invest in core distribution assets, improving productivity and pursuing business growth opportunities that leverage corporate strengths.

With the 2015 approval of the 2016–2020 Custom Incentive Rate application, Hydro Ottawa Limited has received approval for capital investment in electricity infrastructure for the next five years. Hydro Ottawa customers will continue to benefit from reliable electricity distribution with stable, moderate, and predictable rate impacts.

The Corporation also continues to actively pursue opportunities for expansion in non-regulated business lines in accordance with the endorsed strategy, as evidenced by the attainment of a long-term power purchase agreement and the current expansion of its generation facilities at Chaudière Falls, and the 2015 acquisition of additional generation assets in Ontario and New York State.

Hydro Ottawa Holding Inc.

Consolidated Financial Statements

December 31, 2015

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Hydro Ottawa
Holding Inc.

Report of Management

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

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

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

On behalf of Management,

Bryce Conrad
President and Chief Executive Officer

Geoff Simpson
Chief Financial Officer

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Independent auditors' report

To the Shareholder of
Hydro Ottawa Holding Inc.

We have audited the accompanying consolidated financial statements of **Hydro Ottawa Holding Inc.**, which comprise the consolidated balance sheets as at December 31, 2015 and 2014, and January 1, 2014, and the consolidated statements of income and comprehensive income, changes in equity and cash flows for the years ended December 31, 2015 and 2014, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of **Hydro Ottawa Holding Inc.** as at December 31, 2015 and 2014, and January 1, 2014, and its financial performance and its cash flows for the years ended December 31, 2015 and 2014 in accordance with International Financial Reporting Standards.

Ernst & Young LLP

Ottawa, Canada
April 21, 2016

Chartered Professional Accountants
Licensed Public Accountants

A member firm of Ernst & Young Global Limited

Hydro Ottawa Holding Inc.

Consolidated Statements of Income
Years ended December 31, 2015 and 2014
[in thousands of Canadian dollars]

	2015 $	2014 [Note 28] $
Revenue		
Power recovery	**890,116**	793,967
Distribution sales	**162,037**	158,523
Generation revenue	**16,238**	13,550
Other revenue	**43,683**	37,282
	1,112,074	1,003,322
Expenses		
Purchased power	**865,178**	808,718
Operating costs [Note 20]	**126,138**	121,118
Depreciation [Notes 8 and 10]	**34,819**	32,141
Amortization [Note 9]	**7,813**	6,494
	1,033,948	968,471
Operating income	**78,126**	34,851
Financing costs [Note 21]	**19,042**	17,499
Interest income	**(1,056)**	(1,422)
Share of profit from joint ventures [Notes 11(a) and (b)]	**(509)**	(45)
Impairment charges [Notes 8 and 9]	**-**	4,023
Income before income taxes and the net movement in regulatory deferral account balances related to income	**60,649**	14,796
Income tax expense [Note 22]	**15,472**	10,554
Income before the net movement in regulatory deferral account balances related to income	**45,177**	4,242
Net movement in regulatory deferral account balances related to income, net of tax [Note 7]	**(12,807)**	25,895
Net income	**32,370**	30,137

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

Hydro Ottawa Holding Inc.

Consolidated Statements of Comprehensive Income
Years ended December 31, 2015 and 2014
[in thousands of Canadian dollars]

	2015 $	2014 [Note 28] $
Net income	**32,370**	30,137
Other comprehensive income		
Items that may be subsequently reclassified to net income		
Exchange differences on translation of foreign operations, net of tax	**6,905**	-
Items that will not be subsequently reclassified to net income		
Actuarial loss on post-employment benefits, net of tax	**(267)**	(807)
Net movement in regulatory deferral account balances related to other comprehensive income, net of tax	**-**	844
Other comprehensive income, net of tax	**6,638**	37
Net income and comprehensive income	**39,008**	30,174

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

Hydro Ottawa Holding Inc.

Hydro Ottawa Holding Inc.

Consolidated Balance Sheets
As at December 31, 2015 and 2014, and January 1, 2014
[in thousands of Canadian dollars]

	December 31, 2015 $	December 31, 2014 [Note 28] $	January 1, 2014 [Note 28] $
Assets			
Current assets			
Cash	**4,002**	-	-
Accounts receivable [Note 6]	**172,024**	153,458	176,835
Income taxes receivable	**1,677**	4,298	2,372
Prepaid expenses	**2,941**	1,018	3,065
Current portion of notes receivable from joint ventures [Note 12]	**732**	13,222	563
	181,376	171,996	182,835
Non-current assets			
Property, plant and equipment [Note 8]	**959,372**	789,632	712,292
Intangible assets [Note 9]	**113,359**	86,081	65,477
Investment properties [Note 10]	**2,360**	2,216	2,189
Deferred income tax asset [Note 22]	**2,250**	12,118	20,765
Notes receivable from joint ventures [Note 12]	**4,035**	5,000	14,573
Investments in joint ventures [Note 11(a)]	**6,794**	6,284	3,535
Retirement benefit asset [Note 15(a)]	**387**	697	577
Total assets	**1,269,933**	1,074,024	1,002,243
Regulatory deferral account debit balances [Note 7]	**14,430**	20,623	12,472
Total assets and regulatory deferral account debit balances	**1,284,363**	1,094,647	1,014,715
Liabilities and shareholder's equity			
Current liabilities			
Bank indebtedness [Note 13]	**-**	30,927	11,209
Accounts payable and accrued liabilities [Note 14]	**158,939**	173,844	131,547
Income taxes payable	**1,037**	-	156
Current portion of debentures [Note 16]	**-**	200,000	-
	159,976	404,771	142,912
Non-current liabilities			
Deferred revenue [Note 3(iv)]	**52,676**	33,385	10,778
Employee future benefits [Note 15(b)]	**11,332**	11,046	9,654
Customer deposits	**18,206**	12,459	13,085
Debentures [Note 16]	**571,519**	198,638	398,393
Deferred income tax liability [Note 22]	**13,695**	5,359	5,352
Other liabilities	**2,737**	2,189	27
Total liabilities	**830,141**	667,847	580,201
Shareholder's equity			
Share capital [Note 18]	**228,453**	228,453	228,453
Accumulated other comprehensive income	**6,675**	37	-
Retained earnings	**178,269**	164,099	153,262
Total liabilities and shareholder's equity	**1,243,538**	1,060,436	961,916
Regulatory deferral account credit balances [Note 7]	**40,825**	34,211	52,799
Total liabilities, shareholder's equity and regulatory deferral account credit balances	**1,284,363**	1,094,647	1,014,715

Contingent liabilities and commitments [Notes 24 and 25]

On behalf of the Board:

Director

Director

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

Hydro Ottawa Holding Inc.

Hydro Ottawa Holding Inc.

Consolidated Statements of Changes in Equity
Years ended December 31, 2015 and 2014
[in thousands of Canadian dollars]

	Share capital $	Accumulated other comprehensive income $	Retained earnings $	Total $
Balance as at January 1, 2014	228,453	-	153,262	381,715
Net income	-	-	30,137	30,137
Other comprehensive income	-	37	-	37
Dividends [Note 18]	-	-	(19,300)	(19,300)
Balance as at December 31, 2014	228,453	37	164,099	392,589
Net income	-	-	32,370	32,370
Other comprehensive income	-	6,638	-	6,638
Dividends [Note 18]	-	-	(18,200)	(18,200)
Balance as at December 31, 2015	**228,453**	**6,675**	**178,269**	**413,397**

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

Hydro Ottawa Holding Inc.

Consolidated Statements of Cash Flows
Years ended December 31, 2015 and 2014
[in thousands of Canadian dollars]

	2015	2014 [Note 28]
	$	$
Net inflow (outflow) of cash related to the following activities:		
Operating		
Net income	**32,370**	30,137
Adjustments for:		
Depreciation	**34,819**	32,141
Amortization	**7,813**	6,494
Loss on disposal of capital assets [Notes 8 and 9]	**538**	2,076
Impairment charges [Notes 8 and 9]	**-**	4,023
Amortization of debt-issuance costs	**166**	245
Share of profit from joint ventures [Notes 11(a) and (b)]	**(509)**	(45)
Amortization of deferred revenue	**(985)**	(324)
Financing costs, net of interest income	**17,986**	16,077
Financing costs paid, net of interest income received	**(19,186)**	(18,403)
Income tax expense	**15,472**	10,554
Employee future benefits	**231**	(11)
Income taxes refunded (paid)	**2,863**	(1,168)
	91,578	81,796
Net changes in non-cash working capital and other operating balances [Note 23]	**(29,801)**	51,970
Net movements in regulatory deferral account balances	**12,807**	(25,895)
	74,584	107,871
Investing		
Acquisition of property, plant and equipment	**(128,615)**	(113,387)
Acquisition of intangible assets	**(15,394)**	(12,056)
Proceeds from disposal of property, plant and equipment	**704**	834
Additions to deferred revenue	**20,276**	22,932
Acquisition of subsidiaries, net of cash acquired [Note 5]	**(90,564)**	-
Investment in joint venture [Note 11(a)]	**-**	(2,705)
Loan to joint venture [Note 12]	**-**	(3,307)
Repayments on loans to joint ventures	**13,667**	490
	(199,926)	(107,199)
Financing		
Debenture issuance proceeds, net of debt-issuance costs	**372,715**	-
Change in customer deposits	**5,697**	(1,090)
Dividends paid [Note 18]	**(18,200)**	(19,300)
Debentures repaid [Note 16]	**(200,000)**	-
	160,212	(20,390)
Effects of exchange rate changes on cash held in U.S. dollars	**59**	-
Net change in cash	**34,929**	(19,718)
Bank indebtedness, beginning of year	**(30,927)**	(11,209)
Cash (bank indebtedness), end of year	**4,002**	(30,927)

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

Hydro Ottawa Holding Inc.

Notes to the Consolidated Financial Statements
Years ended December 31, 2015 and 2014
[in thousands of Canadian dollars]

1. DESCRIPTION OF BUSINESS AND CORPORATE INFORMATION

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

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

Energy Ottawa is a power generation company that generates renewable energy. Energy Ottawa also offers a range of expert energy management and procurement services to large energy consuming organizations and companies. Energy Ottawa holds interests in the following entities:

- 2425932 Ontario Inc. is a wholly owned subsidiary incorporated on July 9, 2014 that ultimately holds EO Generation GP Inc., EO Generation Limited Partnership and Gananoque Water Power Co. [all three collectively referred to herein as 'EOGen'], as well as EONY Generation Limited ['EONY'] which were all acquired by the Corporation as described in [Note 5] of these consolidated financial statements. The Corporation's U.S. operations are held through EONY Generation Holding Inc., an entity incorporated by the Corporation on April 30, 2015 to own 100% of EONY. The Corporation also formed EO Holding Trust on June 17, 2015, for which the beneficiary is the Corporation, and/or any of its non-regulated subsidiaries [i.e. excluding Hydro Ottawa Limited].

- Chaudiere Hydro L.P. is a subsidiary formed on June 22, 2012 and is over 99.99% owned by Energy Ottawa and less than 0.01% owned by Chaudiere Hydro Inc. ['Chaudiere Hydro GP']. Chaudiere Hydro L.P. was formed to own and operate three hydroelectric generation plants and related assets acquired by the Corporation in 2012. Chaudiere Hydro GP is wholly owned by Energy Ottawa and was incorporated on June 18, 2012 to act as the general partner of Chaudiere Hydro L.P.

- Chaudiere Hydro North LP ['CHLP North'] and Chaudiere Hydro North Inc. [the general partner of CHLP North] are wholly owned subsidiaries of the Corporation and were formed on December 7, 2015 and November 4, 2015, respectively. Neither of these entities had active operations as at December 31, 2015. Subsequent to year-end, on January 1, 2016, the Corporation transferred, assigned and conveyed assets relating to CHLP's hydroelectric generating facilities located in Quebec to CHLP North. As all three impacted entities are subsidiaries and consolidated into the Corporation's financial statements, there is no impact on the present and future consolidated financial reporting of the Corporation.

- Moose Creek Energy LP ['Moose Creek LP'] is a 50.05% owned joint venture formed on April 19, 2011 to facilitate the construction and operation of a generation plant and gas collection system at the Laflèche landfill site in Moose Creek, Ontario. Moose Creek Energy Inc., a 50.00% owned joint venture incorporated on March 2, 2011, is the general partner of Moose Creek LP and does not contain significant assets, liabilities or equity.

- PowerTrail Inc. ['PowerTrail'] is a 60.00% owned joint venture incorporated on August 10, 2005 to construct and operate a generation plant and gas collection system at the Trail Road landfill site in Ottawa, Ontario.

Hydro Ottawa Holding Inc.

Notes to the Consolidated Financial Statements
Years ended December 31, 2015 and 2014
[in thousands of Canadian dollars]

1. DESCRIPTION OF BUSINESS AND CORPORATE INFORMATION [CONTINUED]

- Chaudiere Water Power Inc. ['CWPI'] is a 66.67% owned joint operation incorporated on August 12, 1980 to act as an agent for the three principals of CWPI: Energy Ottawa, Chaudiere Hydro L.P., and Gatineau Power Company, a subsidiary of Hydro Québec, with a mandate to operate the Chaudière Dam facilities on the Ottawa River. The facilities are not owned by CWPI; they are jointly owned by the principals. In accordance with the shareholders' agreement, all expenses incurred by CWPI directly related to the facilities are fully reimbursed in accordance with each principal's ownership percentage.

- SolarTrail LP is a 84.99% owned joint venture formed on July 31, 2015 to engage in solar energy operations. SolarTrail GP Inc. is a wholly owned partnership and was incorporated on July 28, 2015 to act as the general partner of SolarTrail LP.

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. The term 'International Financial Reporting Standards' includes International Financial Reporting Standards ['IFRSs'] as issued by the International Accounting Standards Board ['IASB'], International Accounting Standards ['IASs'] as issued by the IASB's predecessor, the Board of the International Accounting Standards Committee, and adopted by the IASB upon its inception, and Interpretations developed by the IFRS Interpretations Committee [previously named the International Financial Reporting Interpretations Committee. ['IFRIC'] or its predecessor, the Standing Interpretations Committee ['SIC'].

The Corporation has restated its opening consolidated balance sheet as at January 1, 2014, its IFRS transition date, by applying IFRS retrospectively, except with regards to specific items, in respect of which IFRS 1 *First-time Adoption of International Financial Reporting Standards* either prohibits or modifies the retrospective application of IFRS. In the opinion of management, all adjustments necessary for fair presentation are described in Note 28 of these consolidated financial statements. These consolidated financial statements have been approved and authorized by the Corporation's Board of Directors for issue on April 21, 2016.

(b) Basis of measurement

The Corporation's consolidated financial statements are prepared on an historical cost basis, with the exception of certain financial instruments that are measured at fair value.

(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 judgments, estimates, and assumptions that affect the reported amounts of revenue, expenses, assets, liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements.

Hydro Ottawa Holding Inc.

Notes to the Consolidated Financial Statements
Years ended December 31, 2015 and 2014
[in thousands of Canadian dollars]

2. BASIS OF PRESENTATION [CONTINUED]

(d) Use of estimates and judgments [continued]

Due to the inherent uncertainty involved in making such estimates, actual results could differ from estimates recorded in preparing these consolidated financial statements, including changes as a result of future decisions made by the Ontario Energy Board ['OEB'] or the Ontario provincial government. Management reviews its estimates 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 within reasonable limits of materiality and 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 includes unbilled revenue, are reported based on the amounts expected to be recovered less an estimated allowance for uncollectible amounts. Management utilizes historical loss experience in conjunction with the aging and arrears status of accounts receivable at year-end in the determination of the allowance.

The measurement of unbilled revenue is based on an estimate of the amount of electricity consumed by customers between the date of the last bill and the year-end date

(ii) Regulatory deferral account balances

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

(iii) Useful lives of depreciable assets

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

(iv) Impairment of non-financial assets

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

(v) Employee future benefits

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

(vi) Capital contribution obligations

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

2. BASIS OF PRESENTATION [CONTINUED]

(d) Use of estimates and judgments [continued]

(vii) Fair value of assets and liabilities acquired

The purchase of an existing business requires management to assign fair values to the assets and liabilities purchased. Fair values can be determined by applying judgment based on experience in the industry, third-party independent appraisals and negotiation with the seller, and by examining open market data for similar assets in the same industry.

(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.

(ix) Contingent liabilities

From time to time, the Corporation is subject to legal proceedings, assessments and claims in the ordinary course of business. Accordingly, the Corporation must assess the likelihood of any adverse judgments or outcomes as well as potential ranges of probable costs and losses.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of consolidation

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

(b) Joint arrangements

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

The Corporation's interests in joint ventures are tested for recoverability when events or circumstances indicate a possible impairment. An impairment loss is recognized in earnings when the carrying value of the Corporation's interest in an individual joint venture is higher than its recoverable amount. The recoverable amount is the higher of fair value less disposal costs and value-in-use. An impairment loss may be reversed if there is objective evidence that a change in the

3. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

(b) Joint arrangements [continued]

estimated recoverable amount of the investment is warranted.

(c) Business combinations

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

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

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

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

(d) Foreign currency translation

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

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

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

(e) Regulation

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

For the fiscal year ended December 31, 2015, Hydro Ottawa Limited operated under an incentive regulation mechanism ['IRM'] prescribed by the OEB. On December 4, 2014, the OEB approved Hydro Ottawa Limited's IRM rate adjustment effective from January 1, 2015 to December 31, 2015.

In 2013, the OEB issued a report entitled *Renewed Regulatory Framework for Electricity Distributors: A Performance-Based Approach* ['RRFE']. The RRFE provides distributors three rate setting methods: 4th Generation IR, Custom IR and Annual IR Index. Hydro Ottawa Limited filed a custom incentive rate-setting application ['Custom IR'] with OEB on April 29, 2015 seeking approval to change the rates that Hydro Ottawa Limited charges for electricity delivery, retail services, allowances, loss factor and specific services charges for a period of five years, to be effective January 1, 2016 to December 31, 2020. This application requested a revenue requirement to recover costs, and provides a rate of return on a

Hydro Ottawa Holding Inc.

Notes to the Consolidated Financial Statements
Years ended December 31, 2015 and 2014
[in thousands of Canadian dollars]

3. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

(e) Regulation [continued]

deemed capital structure applied to rate base assets. OEB issued its decision and rate order on December 22, 2015 and approved the 2016 Tariff of Rates and Charges with interim rates for pole attachment charge. For subsequent years, 2017 to 2020, a cost of service application will not be filed. Distribution rates in 2017 and 2018 will be adjusted annually by a custom index that includes a productivity and inflation factor. For the years 2019 and 2020, Hydro Ottawa Limited agreed to adjust the deemed return on equity and cost of capital after the third year (2018) of the Custom IR term. Hydro Ottawa Limited will annually [2017 to 2020] update low voltage, transmission, retailer services and specific services charges. In addition, Hydro Ottawa Limited may introduce new rate riders depending on the timing of the clearance of variance account and deferral accounts.

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

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

The following regulatory treatments have resulted from the adoption of IFRS 14, *Regulatory deferral accounts* which permits rate-regulated entities that have not yet transitioned to IFRS to use its existing rate-regulated activities practices:

(i) Regulatory deferral account balances

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

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

Regulatory deferral account balances principally comprise of the following:

- Regulatory asset/liability refund account ['RARA'/'RLRA'] consists of balances of regulatory assets or regulatory liabilities approved for disposition by the OEB through temporary additional rates referred to as rate riders.

- Settlement variances relate primarily to the charges Hydro Ottawa Limited incurred for transmission services, the commodity, wholesale market operations and the global adjustment that were not settled with customers during the year. The nature of the settlement variances is such that the balance can fluctuate between assets and liabilities over time, and they are reported at year-end dates in accordance with rules prescribed by the OEB.

- Stranded meter costs represent the net book value of conventional meters removed upon the installation of smart meters.

- Other Post-employment Benefits deferral account ['OPEB deferral account'] was authorized by the OEB in 2011 to record the annual adjustment to post-retirement benefits relating to the cumulative actuarial gains

3. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

(e) Regulation [continued]

(i) Regulatory deferral account balances [continued]

or losses.

(ii) Other regulatory variances and deferred costs

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

- The OEB allows electricity distributors to record in a deferral account the difference between low voltage charges paid to Hydro One Networks Inc. ['HONI'] and those charged to customers.

- The OEB allows electricity distributors to record in a deferral account, the net cost of providing retailer billing services and transaction request services. As of January 1, 2016, Hydro Ottawa Limited has incorporated the net costs into its revenue requirement and will no longer record the net cost into the deferral accounts.

- The OEB approved a deferral account for distributors to record one time administrative incremental IFRS transition costs, which were not already approved and included for recovery in distribution rates.

- In its Guidelines released June 16, 2009, the OEB created four new deferral accounts to allow distributors to begin recording expenditures for certain activities relating to the connection of renewable generation and the development of a smart grid. These deferral accounts were authorized to be used to record qualifying incremental capital investments or operating, maintenance and administrative expenses.

- In its Guidelines released December 19, 2014, the OEB advised Distributors to continue to rely on the Lost Revenue adjustment mechanism to track and dispose of lost revenue that results from approved Conservation and Demand Management ['CDM'] programs between 2015 and 2020, noting that the same process as described in the OEB Guidelines released April 26, 2012 regarding the 2011 to 2014 period should be followed. Hydro Ottawa Limited is to record the difference between the actual validated CDM activities and activities included in Hydro Ottawa Limited's load forecast multiplied by the appropriate variable distribution rate.

- The OEB directed distributors to record the input tax credit savings arising from the elimination of the provincial sales tax and implementation of the harmonized sales tax on July 1, 2010 in a separate account. The OEB concluded that fifty percent of the balances should be returned to the ratepayers for the period up to the rebasing date, which for Hydro Ottawa Limited was January 1, 2012.

(f) Revenue recognition

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

3. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

(f) Revenue recognition [continued]

(i) Power recovery

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

(ii) Distribution sales

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

(iii) Generation revenue

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

(iv) Other revenue

Other revenue related to the provision of services is recognized as services are rendered. Other revenue includes contract revenue, commercial services revenue, capital contributions and CDM revenue.

Contract revenue and commercial services revenue are accounted for using the percentage-of-completion method, whereby revenue and the corresponding costs are recognized proportionately with the degree of completion of the services under contract. Losses on contracts are fully recognized when they become evident.

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

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

(g) Interest income and financing costs

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

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

Hydro Ottawa Holding Inc.

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3. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

(h) Income taxes

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

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

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

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

PowerTrail, CWPI, and 2425932 Ontario Inc. are taxable under the ITA and TAO as less than 90% of each company's capital is owned by the City of Ottawa through Energy Ottawa and the Corporation. Corporate income taxes are accounted for using the liability method as described above.

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

(i) Bank indebtedness

Bank indebtedness includes short-term advances and/or bankers' acceptances with a maturity date of three months or less, and outstanding cheques.

(j) Financial instruments

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

The Corporation classifies and measures its financial instruments as follows:

- Cash is classified as FVTPL and measured at fair value.
- Accounts receivable and notes receivable from joint ventures are classified as loans and receivables and are measured at amortized cost using the effective interest method, less any impairment if applicable.
- Bank indebtedness, accounts payable and accrued liabilities, customer deposits, capital contribution obligations and debentures are classified as other financial liabilities and are measured at amortized cost using the effective interest rate method.

3. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

(j) Financial instruments [continued]

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

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

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

(k) Property, plant and equipment

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

Spare parts and standby equipment 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.

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. Contributions from customers are treated as deferred revenue.

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

Depreciation is recorded on a straight-line basis over the estimated service life of each component of property, plant and equipment.

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

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

Hydro Ottawa Holding Inc.

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3. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

(k) Property, plant and equipment [continued]

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

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

The Corporation reviews its property, plant and equipment for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. If events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable, the Corporation will estimate the future cash flows expected to result from the use of the asset group and their eventual disposition, and record an impairment loss, if required. The Corporation's primary measure of fair value is based on discounted cash flows.

(l) Intangible assets

Intangible assets include land rights, computer software, capital contributions, power purchase agreements and assets under development.

Intangible assets with finite lives are measured at cost less accumulated amortization and accumulated impairment losses, if any. Intangible assets are amortized on a straight-line basis over the estimated service lives of the related assets. Intangible assets acquired in a business combination are initially recorded at their acquisition-date fair values.

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

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

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

Land rights	50 years
Computer software	5 to 10 years
Capital contributions	45 years
Power purchase agreement	7 years

Hydro Ottawa Holding Inc.

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3. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

(l) Intangible assets [continued]

Water rights, which have an indefinite useful life because a river is a self-sustaining natural resource, and assets under development are not subject to amortization.

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

The Corporation reviews its intangible assets subject to amortization for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. If events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable, the Corporation will estimate the future cash flows expected to result from the use of the asset group and their eventual disposition, and record an impairment loss, if required. The Corporation's primary measure of fair value is based on discounted cash flows.

The Corporation reviews its intangible assets not subject to amortization annually for the possibility of impairment. Through this process, the assessment of indefinite life is reviewed to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

(m) Investment properties

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

(n) 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.

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

– CHPP assets are held by an insurance corporation and are measured at fair value, which is based on published market mid-price information in the case of quoted securities.

Hydro Ottawa Holding Inc.

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3. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

(n) Employee future benefits [continued]

(i) Pension plans [continued]

- Accrued 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 expected plan investment performance, salary escalation, retirement ages, life expectancy and health care costs.

- The actuarial gains and losses arising on the plan assets and defined benefit obligation are recognized into income in the year in which they occur using the immediate recognition approach.

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

Since the CHPP is funded, the fair value of the Chaudiere Hydro Pension Plan assets is offset against the accrued benefit obligation. The net amount is recognized as a retirement benefit asset or retirement benefit liability.

(ii) Other post-employment benefits

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

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

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

(o) Customer deposits

Customer deposits are cash collections from customers to guarantee the payment of energy bills and fulfillment of construction obligations. 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]

(p) Capital contribution obligations

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

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

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

(q) Provisions and contingencies

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

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

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

(r) Deferred revenue

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

(s) Debt-issuance costs

The Corporation incurred debt-issuance costs that were external, direct and incremental in nature arising from its debenture offerings and credit facility restructuring. Debt-issuance costs associated with its debenture offerings are netted against the proceeds of debt and amortized using the effective yield method. Credit facility restructuring costs are amortized over the initial term of the revolving term credit facility.

Hydro Ottawa Holding Inc.

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3. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

(t) Leases

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

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

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

4. FUTURE CHANGES IN ACCOUNTING POLICIES

A number of new standards, amendments and interpretations are not yet effective for the year ended December 31, 2015 and have not been applied in preparing these consolidated financial statements. The Corporation continues to analyze these standards and has initially determined that the following could have an impact on its consolidated financial statements.

In May 2014, the IASB published a new standard, IFRS 15 *Revenue from Contracts with Customers* [‘IFRS 15’], which replaces most of the detailed guidance on revenue recognition that currently exists under IFRS. IFRS 15 specifies how and when an entity will recognize revenue and additional disclosure requirements. On July 22, 2015, the IASB confirmed a one-year deferral of the effective date of IFRS 15 to reporting periods beginning on or after January 1, 2018.

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

In January 2016, the IASB issued a new standard, IFRS 16 *Leases* [‘IFRS 16’]. It replaces accounting requirements introduced more than 30 years ago that are no longer considered suitable and is a major revision of the way in which companies account for leases. The new standard becomes effective for reporting periods beginning on or after January 1, 2019. In addition, on January 29, 2016, the IASB published amendments to IAS 7 *Statement of Cash Flows* ['IAS 7']. The amendments are intended to clarify IAS 7 to improve information provided to users of financial statements about an entity's financing activities. They are effective for annual periods beginning on or after 1 January 2017, with earlier application being permitted.

5. BUSINESS COMBINATIONS

On March 23, 2015, the Corporation, through Energy Ottawa's subsidiary 2425932 Ontario Inc., entered into a Share and Unit Purchase Agreement ['SPA'] with Fortis Inc. to acquire 100% of four entities that collectively own and operate 10 run-of-the-river hydroelectric generation facilities in New York State [EONY] and Ontario [EOGen] for a cash purchase price of $77,038 [$62,500 USD] and $16,000 respectively. The Corporation completed its acquisition of EONY on June 22, 2015 and EOGen on July 17, 2015 with respective closing adjustments of $820 [$666 USD] and $1,261, bringing the final cash purchase prices to $77,858 [$63,166 USD] and $17,261. The acquisition provides an entry to the U.S. market and brings the Corporation new recurring revenue through power purchase agreements with Niagara Mohawk Power Corp in EONY and the Independent Electricity System Operator ['IESO'] in EOGen. The four stations in New York State have a combined operating capacity of 22.6MW while the six stations in Ontario have a combined operating capacity of 8.3MW.

Hydro Ottawa Holding Inc.

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5. BUSINESS COMBINATIONS [CONTINUED]

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

	Acquisition date fair value $
Current assets	
Cash	**2,268**
Accounts receivable	**1,756**
Prepaid expenses	**228**
Current liabilities	
Accounts payable and accrued liabilities	**(490)**
Non-current assets	
Land and buildings	
Land	**1,845**
Buildings and fixtures	**16,528**
Furniture and equipment	
Rolling stock	**111**
Furniture and equipment	**107**
Generation	
Generating plant and equipment	**25,908**
Reservoirs, dams and waterways	**16,504**
Power purchase agreement	**1,276**
Computer software	**445**
Water rights	**30,690**
Investment property	**150**
Deferred income tax assets	**2,079**
Non-current liabilities	
Deferred income tax liabilities	**(4,286)**
Total net assets acquired	**95,119**

Hydro Ottawa Holding Inc.

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5. BUSINESS COMBINATIONS [CONTINUED]

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

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

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

6. ACCOUNTS RECEIVABLE

	December 31, 2015 **$**	December 31, 2014 $	January 1, 2014 $
Electricity receivables	**59,198**	51,209	52,336
Unbilled revenue	**88,036**	81,957	106,757
Trade and other receivables	**21,071**	15,452	11,209
Less: allowance for doubtful accounts [Note 19(c)]	**(1,927)**	(3,828)	(1,642)
	166,378	144,790	168,660
Amounts due from related parties [Note 26]	**5,646**	8,668	8,175
	172,024	153,458	176,835
Aging:			
Outstanding for 30 days or less	**74,986**	58,447	64,096
Outstanding for more than 30 days but not more than 120 days	**8,242**	11,836	5,665
Outstanding for more than 120 days	**2,687**	5,046	1,959
Unbilled revenue	**88,036**	81,957	106,757
Less: allowance for doubtful accounts	**(1,927)**	(3,828)	(1,642)
	172,024	153,458	176,835

Hydro Ottawa Holding Inc.

Notes to the Consolidated Financial Statements
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7. REGULATORY DEFERRAL ACCOUNT BALANCES

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

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

	Remaining recovery/ reversal [years]	January 1, 2014 $	Balances arising in the year $	Recovery/ reversal $	Other movements[1] $	December 31, 2014 $
Regulatory deferral account debit balances						
RARA	1	475	1	(267)	-	209
Settlement variances	1 - 5	5,527	(9,508)	314	15,890	12,223
OPEB deferral account	1 - 5	3,109	1,323	-	-	4,432
Other variances and deferred costs	1 - 5	3,361	567	(31)	(138)	3,759
		12,472	(7,617)	16	15,752	20,623

Hydro Ottawa Holding Inc.

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7. REGULATORY DEFERRAL ACCOUNT BALANCES [CONTINUED]

	Remaining recovery/ reversal [years]	January 1, 2014 $	Balances arising in the year $	Recovery/ reversal $	Other movements[1] $	December 31, 2014 $
Regulatory deferral account credit balances						
RLRA	1	2,002	510	631	-	3,143
Settlement variances	1 - 5	27,374	(9,849)	(18,827)	15,716	14,414
Stranded meters	1	-	-	2,987	-	2,987
Smart meters	N/A	1,045	(1,045)	-	-	-
Regulatory liability for deferred income taxes	N/A	20,711	(8,641)	-	-	12,070
Other variances and deferred costs	1 - 5	1,667	(75)	(31)	36	1,597
		52,799	(19,100)	(15,240)	15,752	34,211

[1] Other movements represent reclassifications of balances.

The following regulatory deferral account balances include accrued interest:

– The RARA/RLRA includes accrued interest costs up to December 31, 2015 of $46 [December 31, 2014 – $174 and January 1, 2014 – $178].

– Settlement variances include accrued interest costs of $97 as at December 31, 2015 [December 31, 2014 – $19 and January 1, 2014 – $284].

– Other variance and deferred costs include accrued interest earned of $12 as at December 31, 2015 [December 31, 2014 – $48 and January 1, 2014 – $34].

8. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings $	**Distribution and other $**	**Generation $**	**Assets under construction $**	**Total $**
Cost					
Balance as at January 1, 2014	92,141	524,840	48,398	55,104	720,483
Additions, net of transfers	1,596	98,206	5,876	9,324	115,002
Disposals and impairments	(2)	(5,243)	(3,714)	-	(8,959)
Balance as at December 31, 2014	93,735	617,803	50,560	64,428	826,526
Additions, net of transfers	1,441	116,863	1,753	18,529	138,586
Acquired via business combination	18,373	218	42,412	-	61,003
Exchange differences	2,030	13	4,092	1	6,136
Disposals and impairments	-	(1,321)	(17)	-	(1,338)
Balance as at December 31, 2015	**115,579**	**733,576**	**98,800**	**82,958**	**1,030,913**

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8. PROPERTY, PLANT AND EQUIPMENT [CONTINUED]

	Land and buildings $	Distribution and other $	Generation $	Assets under construction $	Total $
Accumulated depreciation					
Balance as at January 1, 2014	(387)	(124)	(7,680)	-	(8,191)
Depreciation	(2,649)	(27,905)	(1,485)	-	(32,039)
Disposals and impairments	2	2,530	804	-	3,336
Balance as at December 31, 2014	(3,034)	(25,499)	(8,361)	-	(36,894)
Depreciation	(2,947)	(29,511)	(2,249)	-	(34,707)
Exchange differences	(10)	(1)	(24)	-	(35)
Disposals and impairments	-	92	3	-	95
Balance as at December 31, 2015	**(5,991)**	**(54,919)**	**(10,631)**	**-**	**(71,541)**
Net book value					
As at January 1, 2014	91,754	524,716	40,718	55,104	712,292
As at December 31, 2014	90,701	592,304	42,199	64,428	789,632
As at December 31, 2015	**109,588**	**678,657**	**88,169**	**82,958**	**959,372**

During the year, the Corporation capitalized borrowing costs of $1,199 [2014 – $1,243] to property, plant and equipment. The average annual interest rate for 2015 was 4.1% [2014 – 4.6%].

During the year, the Corporation incurred a loss on disposal of property, plant and equipment of $538 [2014 – $1,902].

On February 7, 2014, the Corporation's subsidiary Chaudiere Hydro L.P. was granted a forty year Hydroelectric Standard Offer Program – Municipal Stream Contract ['HESOP Contract'] by the IESO to produce renewable waterpower. As a result of this opportunity, the Corporation has embarked on a multi-year project to expand its Ontario generation facilities [the 'Ontario Group'] at Chaudière Falls increasing its total capacity from 38 megawatts to 58 megawatts. The anticipated commercial operation date is in 2017 and the Corporation plans to continue its investment in significant resources on this expansion over the next two years ['Chaudiere Expansion'].

To allow for the construction of the new hydroelectric generation facility, Chaudiere Hydro L.P. needed to permanently decommission the two Ontario generating stations at Chaudière Falls in July 2015. Consequently, the Corporation recorded impairment charges in 2014 of $4,023 against the Ontario Group, of which $2,786 related to generating plant and equipment while the remaining $1,237 pertained to the power purchase agreement with Hydro Québec [Note 9] as the new facility will operate under the new HESOP Contract instead. Impairment charges recorded with respect to the Ontario Group reduced its carrying value to its value-in-use as at December 31, 2014, which was based on discounted cash flows.

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9. INTANGIBLE ASSETS

	Land and water rights $	Computer software $	Capital contributions and other agreements $	Assets under development $	Total $
Cost					
Balance as at January 1, 2014	18,720	6,754	6,856	33,937	66,267
Additions, net of transfers	11	33,248	637	(5,561)	28,335
Disposals and impairments	-	(30)	(1,875)	-	(1,905)
Balance as at December 31, 2014	18,731	39,972	5,618	28,376	92,697
Additions	20	9,883	14,133	(24,324)	(288)
Acquired via business combination	30,690	445	1,276	-	32,411
Exchange differences	2,923	45	-	-	2,968
Balance as at December 31, 2015	**52,364**	**50,345**	**21,027**	**4,052**	**127,788**
Accumulated amortization					
Balance as at January 1, 2014	-	(8)	(782)	-	(790)
Amortization	(49)	(5,673)	(772)	-	(6,494)
Disposals and impairments	-	30	638	-	668
Balance as at December 31, 2014	(49)	(5,651)	(916)	-	(6,616)
Amortization	(49)	(7,131)	(633)	-	(7,813)
Disposals and impairments	-	-	-	-	-
Balance as at December 31, 2015	**(98)**	**(12,782)**	**(1,549)**	**-**	**(14,429)**
Net book value					
As at January 1, 2014	18,720	6,746	6,074	33,937	65,477
As at December 31, 2014	18,682	34,321	4,702	28,376	86,081
As at December 31, 2015	**52,266**	**37,563**	**19,478**	**4,052**	**113,359**

During the year, the Corporation capitalized borrowing costs of $515 [2014 – $571] to intangible assets. The average annual interest rate for 2015 was 4.1% [2014 – 4.6%].

During the year, the Corporation incurred a loss on disposal of intangible assets of $nil [2014 – $174] and as described in Note 8, in 2014, the Corporation recorded impairment charges of $1,237 against the power purchase agreement with Hydro Québec.

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10. INVESTMENT PROPERTIES

	2015 $	2014 $
Net book value, beginning of year	**2,216**	2,189
Additions	**106**	129
Acquired via business combination	**150**	-
Depreciation	**(112)**	(102)
Net book value, end of year	**2,360**	2,216

The fair value of investment properties is $5,107, which is based on the latest Municipal Property Assessment Corporation valuation dated September 8, 2015. The investment property acquired via business combination is valued at its acquisition date fair value.

11. INVESTMENTS IN JOINT ARRANGEMENTS

(a) Investments in joint ventures

	2015 $	2014 $
Moose Creek LP [50.05%]		
Investment in joint venture, beginning of year	**3,370**	890
Capital investments	**-**	2,705
Share of income (loss) from continuing operations	**118**	(225)
Investment in joint venture, end of year	**3,488**	3,370
PowerTrail [60%]		
Investment in joint venture, beginning of year	**2,914**	2,645
Share of profit from continuing operations, net of tax	**372**	289
Other adjustments	**20**	(20)
Investment in joint venture, end of year	**3,306**	2,914
Total investments in joint ventures	**6,794**	6,284

In 2014, Moose Creek LP issued 2,705 Class A units to the Corporation at a price of one dollar per unit. The issuance was made with the purpose of adjusting the Partnership's financing and capital structure. In turn, the Partnership repaid a significant portion of its notes receivable due to the Corporation in 2015 as described in Note 12 of these consolidated financial statements.

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11. INVESTMENTS IN JOINT ARRANGEMENTS [CONTINUED]

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

	December 31, 2015 $	December 31, 2014 $	January 1, 2014 $
Moose Creek LP [50.05%]			
Current assets	**1,249**	13,633	1,745
Non-current assets	**13,223**	12,868	13,063
Total assets	**14,472**	26,501	14,808
Current liabilities	**1,552**	13,297	681
Non-current liabilities	**5,710**	6,230	12,102
Total liabilities	**7,262**	19,527	12,783
Revenue	**2,895**	2,595	
Net income (loss) from continuing operations	**235**	(450)	
PowerTrail [60%]			
Current assets	**1,103**	2,131	1,387
Non-current assets	**9,877**	10,176	10,052
Total assets	**10,980**	12,307	11,439
Current liabilities	**1,194**	2,279	1,189
Non-current liabilities	**3,819**	4,679	5,380
Total liabilities	**5,013**	6,958	6,569
Revenue	**3,787**	3,508	
Net income from continuing operations	**618**	481	

(c) Joint operations

The Corporation's investment in CWPI is considered to be a joint operation and it has included its 66.7% contractual share of assets, liabilities and expenses in the accounts of the Corporation. The Corporation has recognized $10 [2014 – $15] in net income, and a loss of $29 [2014 – income of $3] in OCI as at December 31, 2015 with respect to this joint operation.

(d) Credit facilities

PowerTrail maintains a credit facility for $200 [2014 – $200] in standby letters of credit to the IESO. The facility contains customary covenants and events of default, including a covenant to maintain a tangible net worth of $1,000. As at December 31, 2015, PowerTrail had drawn an amount of $133 [December 31, 2014 – $133 and January 1, 2014 – $133] in standby letters of credit against this facility.

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11. INVESTMENTS IN JOINT ARRANGEMENTS [CONTINUED]

(d) Credit facilities [continued]

CWPI maintains a credit facility consisting of a $500 [2014 – $500] operating line secured by the three principals of CWPI. The operating credit line is repayable on demand, bears interest at the Bank of Canada's prime lending rate with interest payable monthly. The facility also contains customary covenants and events of default. CWPI has not drawn any funds against this line as at December 31, 2015 [December 31, 2014 – $nil and January 1, 2014 – $nil].

12. NOTES RECEIVABLE FROM JOINT VENTURES

	December 31, 2015 $	December 31, 2014 $	January 1, 2014 $
Moose Creek LP credit agreement, 9.0%, due October 1, 2016	**-**	12,102	12,352
Moose Creek LP promissory note, 6.0%, due January 1, 2025	**3,121**	3,307	-
PowerTrail promissory notes, 7.7% imputed interest, due on demand	**1,646**	2,813	2,784
	4,767	18,222	15,136
Less: current portion	**(732)**	(13,222)	(563)
	4,035	5,000	14,573

(a) Moose Creek LP

On August 31, 2011, the Corporation entered into a credit agreement with Moose Creek Energy Inc. [on behalf of Moose Creek LP]. Under the credit agreement, the Corporation advanced $12,500 to Moose Creek LP by means of drawdown payments to complete its gas collection and generation plant in Moose Creek, Ontario. The term of the loan was 5 years from the date of initial drawdown [November 1, 2011] with an amortization of 20 years and an interest rate of 9.0%. In accordance with the credit agreement, Moose Creek LP had the option to prepay all or part of the outstanding principal and accrued interest at any point after November 1, 2013.

On December 9, 2014, the Corporation and Moose Creek LP mutually agreed to close the credit agreement and reissue a new promissory note under new terms. As a result, the Corporation advanced a new 10-year unsecured promissory note to Moose Creek LP on December 31, 2014 in the amount of $3,307 with an interest rate of 6.0%. The full amount of principal and accrued interest from the original credit agreement was repaid on January 2, 2015.

Future principal repayments on the notes receivable are as follows: 2016 – $261, 2017 – $277, 2018 – $294, 2019 – $312, 2020 and thereafter – $1,977.

(b) PowerTrail

Between 2005 and 2007, the Corporation and a third party provided a series of unsecured, non-interest bearing promissory notes to PowerTrail for the purposes of funding the construction of its gas and generation plant at the Trail Road landfill site. As the loans have no set terms of repayment, the initial fair values of the notes were determined by discounting the expected future cash flows of the notes until such time they would be fully repaid. During the year, PowerTrail made $1,380 [2014 – $240] in cash repayments to the Corporation. Imputed interest revenue totalling $212 [2014 – $269] was recognized during the year on these notes.

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12. NOTES RECEIVABLE FROM JOINT VENTURES [CONTINUED]

(b) PowerTrail [continued]

PowerTrail intends to repay $576 of cash on these notes to the Corporation during 2016, effectively incurring imputed interest expense of $104 to the Corporation. Future cash repayments on this loan are estimated to be as follows: 2017 – $nil, 2018 – $870 and 2019 – $474, less imputed interest to be earned of $170 between 2017 and 2019. The Corporation does not intend to call, in 2016, the amounts classified as long-term on the consolidated balance sheets with respect to these notes.

13. CREDIT FACILITY

During the year, the Corporation renewed its credit facility for a revised amount of $340,750 [2014 – $336,000] and $200 USD [2014 – $nil USD]. The facility is now structured into five types of credit availability and continues to consist of a $75,000 [2014 – $75,000] revolving operating line and a $100,000 [2014 – $100,000] revolving line to fund capital expenditures and growth opportunities, both of which mature on August 1, 2018. In addition, the Corporation has a $15,000 [2014 – $10,000] line to fund letters of credit and other guarantees, a $150,000 [2014 – $150,000] 364-day revolving operation term line which may be used to assist with operations and supporting the on-going construction of the Chaudiere generating station, and a $750 and $200 USD [2014 – $1,000 and $nil USD] commercial card facility – all of which mature on August 1, 2016. The revolving operating lines can be used by way of direct advances, bankers' acceptances and/or by way of letters of credit and other guarantees. This credit facility contains customary covenants and events of default including a covenant to maintain the consolidated tangible net worth in excess of $175,000 at all times. It also requires the debt to capitalization ratio to be at or below 75% on a consolidated basis.

As at December 31, 2015, the Corporation has drawn $nil in direct advances against its operating lines [December 31, 2014 – $37,000 in bankers acceptances against its operating lines and January 1, 2014 – $4,950 in direct advances]. As at December 31, 2015, the Corporation has also drawn $11,698 [December 31, 2014 – $8,150 and January 1, 2014 – $16,000] against its facilities in standby letters of credit.

As at December 31, 2015, Chaudiere Hydro L.P. has a standby letter of credit to the Receiver General of Canada on behalf of Fisheries and Oceans Canada in the amount of $538 [December 31, 2014 – $538 and January 1, 2014 – $538], expiring on October 23, 2016 in connection with the Chaudiere Expansion, and two standby letters of credit to the IESO in the amount of $587 [December 31, 2014 – $587 and January 1, 2014 – $587] and $294 [December 31, 2014 – $nil and January 1, 2014 – $nil], expiring on February 23, 2016 and October 20, 2016 respectively in connection with the 40 year HESOP contract.

14. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	December 31, 2015 $	December 31, 2014 $	January 1, 2014 $
Purchased power payable	**72,685**	89,682	67,033
Trade accounts payable and accrued liabilities	**61,506**	48,002	42,222
Customer deposits	**13,843**	13,844	14,307
Customer credit balances	**8,277**	6,563	7,359
Capital contribution obligations	**-**	15,700	-
Acquisition-related payables [Note 5]	**2,400**	-	-
Due to related parties [Note 26]	**228**	53	626
	158,939	173,844	131,547

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14. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES [CONTINUED]

In accordance with the SPA described in Note 5, the Corporation agreed to pay [or receive] a "working capital adjustment" to [or from] Fortis Inc. based on the net change in working capital [current assets less current liabilities] of the acquired entities between the date of initial signing of the SPA, and the applicable closing dates. As a result of an increase in the working capital in both EONY and EOGen during this time, the Corporation has recorded amounts payable to Fortis Inc. which was settled subsequent to year-end. The acquisition-related payables have been excluded from the change in accounts payable and accrued liabilities in the consolidated statements of cash flows as they did not arise from normal operations.

15. EMPLOYEE FUTURE BENEFITS

(a) Pension plans

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

The Corporation's participating employer contributions under OMERS for the year ended December 31, 2015 amounted to $6,163 [2014 – $6,058].

On November 20, 2012, the Corporation, through its subsidiary Chaudiere Hydro L.P., completed an acquisition of generation assets from Domtar Inc. through an Agreement of Purchase and Sale ['Purchase Agreement']. On this date, the Corporation began providing retirement benefits to certain employees who transferred to the Corporation through the creation of the Chaudiere Hydro Pension Plan. In accordance with the Purchase Agreement, Domtar Inc. agreed to fund the actuarial plan obligations relating to the transferred employees as at November 20, 2012. On October 17, 2014, after review and approval by the Financial Services Commission of Ontario, the CHPP received a cash transfer of $4,640 for such funding. As an estimate of the fair value of plan assets to be received was made prior to the transfer, there was no impact to the Corporation's results.

(i) Accrued benefit obligation

	2015 **$**	2014 $
Balance, beginning of year	**3,933**	3,121
Current service cost	**122**	90
Interest cost	**157**	150
Benefit paid	**(9)**	(12)
Employee contributions	**90**	83
Actuarial loss	**209**	501
Balance, end of year	**4,502**	3,933

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15. EMPLOYEE FUTURE BENEFITS [CONTINUED]

(a) Pension plans [continued]

(ii) Plan assets

	2015 **$**	2014 $
Fair value, beginning of year	**4,630**	3,698
Interest credit	**188**	181
Employer contributions	**170**	173
Benefits paid	**(9)**	(12)
Non-investment expenses	**(33)**	(33)
Employee contributions	**90**	83
Actuarial gain (loss)	**(147)**	540
Fair value, end of year	**4,889**	4,630

(iii) Funded status

	2015 **$**	2014 $
Retirement benefit asset, beginning of year	**697**	577
Change in retirement benefit asset	**(310)**	120
Retirement benefit asset, end of year	**387**	697

The assets of the Chaudiere Hydro Pension Plan are held and managed by an independent custodian and accounted for separately in the Corporation's pension funds. The asset allocation structure is subject to diversification requirements and constraints which reduce risk by limiting exposure to individual equity investments, credit rating categories and foreign currency exposures. Based on the fair value of assets held as at December 31, 2015, the CHPP's assets were comprised of 89.5% [2014 – 90.0%] fixed income Canadian bonds, 6.8% [2014 – 6.5%] Canadian and international equities and 3.7% [2014 – 3.5%] in alternative investments. As the transfer of funds from Domtar Inc. only occurred in 2014, comparative percentages are not presented as at January 1, 2014.

Employee future benefits under the CHPP are calculated using an annual compensation rate of 2.0% [2014 – 2.0%], an expected return on plan assets of 4.0% [2014 – 4.0%], an inflation rate of 2.0% [2014 – 2.0%] and a discount rate of 4.0% [2014 – 4.0%]. The valuations also include several other economic and demographic assumptions including mortality rates. The mortality assumption is based on the Canadian Pensioners' Mortality report published by the Canadian Institute of Actuaries in February 2014.

An actuarial valuation was performed as at December 31, 2015. As a result of this exercise, the Company decreased the retirement benefit by $310 [December 31, 2014 and January 1, 2014 – increased by $119 and by $196 respectively, based on actuarial extrapolations].

No valuation allowance has been recorded by the Corporation as at December 31, 2015, December 31, 2014 and January 1, 2014 with respect to the retirement benefit asset.

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15. EMPLOYEE FUTURE BENEFITS [CONTINUED]

(b) Other post-employment benefits

The Corporation provides life, health and dental benefits to certain employees. Employee future benefits are calculated using a discount rate of 3.6% [2014 – 4.0%]. Cost trends for prescription drugs and dental are estimated to increase at a declining rate from 9.0% to 4.0% and 5.0% to 4.0% over twenty years, respectively. The valuations also include several other economic and demographic assumptions including mortality rates. The mortality assumption is based on the Canadian Pensioners' Mortality report published by the Canadian Institute of Actuaries in February 2014.

Information about the Corporation's employee future benefits other than pension plans is as follows:

	2015	2014
	$	$
Accrued benefit obligation, beginning of year	**11,046**	9,654
Current service costs	**247**	197
Interest on accrued benefit obligation	**437**	456
Benefits paid	**(407)**	(571)
Actuarial loss	**9**	1,310
Accrued benefit obligation, end of year	**11,332**	11,046

An actuarial valuation was performed as at December 31, 2015. As a result of this exercise, the Corporation increased the accrued benefit obligation by $285 [December 31, 2014 – $1,393 and January 1, 2014 – $1,397 based on actuarial extrapolations].

16. DEBENTURES

	December 31, 2015	December 31, 2014	January 1, 2014
	$	$	$
Senior unsecured debentures			
Series 2005-1, 4.930%, due February 9, 2015	**-**	200,000	200,000
Series 2006-1, 4.968%, due December 19, 2036	**50,000**	50,000	50,000
Series 2013-1, 3.991%, due May 14, 2043	**150,000**	150,000	150,000
Series 2015-1, 2.614% due February 3, 2025	**200,000**	-	-
Series 2015-2, 3.639%, due on February 2, 2045	**175,000**	-	-
	575,000	400,000	400,000
Less: current portion	**-**	(200,000)	-
Less: unamortized debt-issuance costs	**(3,481)**	(1,362)	(1,607)
	571,519	198,638	398,393

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16. DEBENTURES [CONTINUED]

On February 2, 2015, the Company successfully completed a dual tranche bond offering of senior unsecured debentures consisting of Series 2015-1, $200,000 at 2.614% due February 3, 2025 and Series 2015-2, $175,000 at 3.639% due February 2, 2045. The Company has used $200,000 of the $375,000 total offering to repay Series 2005-1, which became due on February 9, 2015.

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

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 senior unsecured debentures; and
- Align Hydro Ottawa Limited's capital structure with the debt to equity structure recommended by the OEB.

The Corporation’s capital consists of the following:

	December 31, 2015 $	December 31, 2014 $	January 1, 2014 $
Bank indebtedness	**-**	30,927	11,209
Debentures	**571,519**	398,638	398,393
Total debt	**571,519**	429,565	409,602
Shareholder's equity	**413,397**	392,589	381,715
Total capital	**984,916**	822,154	791,317
Debt capitalization ratio	**58.03 %**	52.25 %	51.76 %

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

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

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

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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

	December 31, 2015 $	December 31, 2014 $	January 1, 2014 $
214,901,003 Class A common shares	**228,453**	228,453	228,453

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

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

On April 23, 2015, the Board of Directors declared a $18,200 dividend to the City of Ottawa, which was paid on April 30, 2015 [2014 – on April 3, 2014, the Board of Directors declared a $19,300 dividend to the City of Ottawa, which was paid on April 10, 2014].

19. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

(a) Fair value disclosures

The only financial instrument recorded at fair value is cash, and it is classified as Level 1 in the fair value hierarchy. The carrying values of the Corporation's remaining financial instruments, except for the senior unsecured debentures and the long-term notes receivable from joint ventures, approximates fair value because of the short maturity and nature of the instruments.

The Corporation has estimated the fair value of the long-term portion of notes receivable from joint ventures as at December 31, 2015 as amounting to $4,891 [December 31, 2014 – $18,361 and January 1, 2014 – $16,132]. The fair value has been determined by discounting all estimated future repayments of principal and imputed interest required to fully repay the loan at the estimated interest rate of 5.5% [December 31, 2014 – 5.5% and January 1, 2014 – 6.0%] that would be available to PowerTrail and Moose Creek LP on December 31, 2015.

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19. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT [CONTINUED]

(a) Fair value disclosures [continued]

The Corporation has estimated the fair value of the senior unsecured debentures as at December 31, 2015 as amounting to $600,398 [December 31, 2014 – $429,666 and January 1, 2014 – $414,176]. The fair value has been determined based on discounting all future repayments of principal and interest between February 3, 2025 and May 14, 2043 at the estimated interest rate of 3.5% [December 31, 2014 – 3.5% and January 1, 2014 – 4.0%] that would be available to the Corporation on December 31, 2015.

(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.

(i) Interest rate risk

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

(ii) Foreign exchange risk

The Corporation's earnings from, and net investment in, its foreign operating subsidiary EONY are exposed to fluctuations in the U.S. dollar to Canadian dollar exchange rate. Also, the Corporation purchases a small proportion of goods and services that are denominated in foreign currencies, predominately the U.S. dollar. The Corporation monitors its exposure to foreign currency fluctuations on a regular basis, and has not used derivative instruments to hedge against these exposures to date. On an annual basis, it is estimated that a 5% increase or decrease in the U.S. dollar relative to the Canadian dollar exchange rate of U.S. $1 = CDN $0.72 as at December 31, 2015 would increase or decrease the equity of the Corporation by approximately $3,139.

(iii) Commodity price risk

The Corporation, through its U.S. subsidiary EONY, is exposed to commodity price risk associated with green energy produced and sold in the U.S. wholesale market. The Corporation has not used derivative instruments to hedge against this exposure to date. As all green energy produced and sold in Canada is at rates specified by their respective power purchase agreements, the remainder of the Corporation's generation revenue is not exposed to significant commodity price risk. A 10% increase or decrease in the price of electricity in the U.S. through December 31, 2015 would have increased or decreased net income by $66.

(c) Credit risk

Credit risk is the risk that a counterparty will default on its obligations, causing a financial loss to the Corporation. Concentration of credit risk associated with accounts receivable is limited due to the large number of customers the Corporation services. Hydro Ottawa Limited has approximately 324,000 customers, the majority of which are residential. As a result, the Corporation did not earn a significant amount of revenue and does not have a significant receivable from any individual customer.

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19. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT [CONTINUED]

(c) Credit risk [continued]

Hydro Ottawa Limited performs ongoing credit evaluations of its customers and requires collateral to support non-residential customer accounts receivable on specific accounts to mitigate significant losses in accordance with OEB legislation. As at December 31, 2015, the Corporation held security deposits related to power recovery and distribution sales in the amount of $13,724 [December 31, 2014 – $14,176 and January 1, 2014 – $14,514] with respect to these customers.

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

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

The carrying amount of accounts receivable is reduced by an allowance for doubtful accounts based on the credit risk applicable to particular customers, historical, and other information. The Corporation records an allowance for doubtful accounts when the recoverability of an amount becomes doubtful. When the receivable amount is deemed to be uncollectible, it is written off and the allowance for doubtful accounts is adjusted accordingly. Subsequent recoveries of receivables previously provisioned or written off result in a reduction of operating costs in the consolidated statements of income. As at December 31, 2015, the allowance for doubtful accounts was $1,927 [December 31, 2014 – $3,828 and January 1, 2014 – $1,642].

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

As at December 31, 2015, there were no significant concentrations of credit risk with respect to any class of financial assets or counterparties and approximately 12% [December 31, 2014 – 24% and January 1, 2014 – 11%] of the Corporation's accounts receivable [excluding unbilled revenue] were aged more than 30 days. The Corporation's maximum exposure to credit risk is equal to the carrying value of accounts receivable less customer deposits held.

(d) Liquidity risk

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

Liquidity risks associated with financial commitments are as follows:

	2015		
	Due within one year $	**Due between one and five years $**	**Due after five years $**
Accounts payable and accrued liabilities	**158,939**	-	-
Senior unsecured debentures			
Series 2006-1, 4.968%, due December 19, 2036	-	-	**50,000**
Series 2013-1, 3.991%, due May 14, 2043	-	-	**150,000**
Series 2015-1, 2.614% due February 3, 2025	-	-	**200,000**
Series 2015-2, 3.639%, due on February 2, 2045	-	-	**175,000**
	158,939	-	**575,000**

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20. OPERATING COSTS

	2015 $	2014 $
Salaries and benefits	**78,479**	79,000
Outside services	**35,354**	33,386
Operating and maintenance	**8,415**	7,971
General and administrative	**33,747**	29,619
Less: capitalized salaries and benefits	**(29,857)**	(28,858)
	126,138	121,118

21. FINANCING COSTS

	2015 $	2014 $
Interest on debentures	**20,193**	18,619
Short-term interest and fees	**564**	737
Less: capitalized borrowing costs	**(1,715)**	(1,857)
	19,042	17,499

22. INCOME TAXES

Income tax expense recognized in net income comprises the following:

	2015 $	2014 $
Current tax expense		
Current income tax expense	**1,640**	1,433
Deferred tax expense		
Origination and reversal of temporary differences	**13,832**	9,121
Income tax expense recognized in net income	**15,472**	10,554

Income tax expense recognized in OCI comprises the following:

	2015 $	2014 $
Income tax effect on exchange differences on translation of foreign subsidiary	**2,480**	(467)

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22. INCOME TAXES [CONTINUED]

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

	2015 **$**	2014 $
Federal and Ontario statutory income tax rate	**26.50 %**	26.50 %
Income before income taxes	**47,842**	40,691
Income taxes at statutory rate	**12,678**	10,783
Increase (decrease) in income taxes resulting from:		
Permanent differences	**(10)**	(36)
Impact on foreign exchange translation on subsidiary	**589**	-
Acquisition-related costs capitalized for tax purposes	**898**	-
Foreign tax rate differential	**(515)**	-
Prior year adjustments	**-**	(84)
Unrecognized tax benefit	**1,899**	(48)
Tax impact on joint venture	**(135)**	-
Other	**68**	(61)
	15,472	10,554
Effective income tax rate	**32.34 %**	25.94 %

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

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

	December 31, 2015 $	December 31, 2014 $	January 1, 2014 $
Property, plant and equipment and intangible assets	**(4,435)**	6,574	16,816
Employee future benefits	**3,919**	3,837	3,357
Other temporary differences	**2,766**	1,707	592
	2,250	12,118	20,765

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22. INCOME TAXES [CONTINUED]

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

	December 31, 2015 $	December 31, 2014 $	January 1, 2014 $
Property, plant and equipment and intangible assets	**(10,266)**	(5,097)	(5,084)
Tax recognized in OCI related to foreign subsidiary translation	**(2,480)**	-	-
Exchange differences and other	**(949)**	(262)	(268)
	(13,695)	(5,359)	(5,352)

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

	2015 $	2014 $
Deferred tax asset, beginning of year	**12,118**	20,765
Acquired via business combination	**2,079**	-
Recognized in net income	**(12,171)**	(9,121)
Recognized in OCI	**-**	474
Foreign exchange differences	**224**	-
Deferred tax asset, end of year	**2,250**	12,118

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

	2015 $	2014 $
Deferred tax liability, beginning of year	**(5,359)**	(5,352)
Acquired via business combination	**(4,286)**	-
Recognized in net income	**(1,570)**	(7)
Recognized in OCI	**(2,480)**	-
Deferred tax liability, end of year	**(13,695)**	(5,359)

The Corporation's regulatory deferral account credit balance for the amounts of deferred income taxes expected to be refunded to customers in future electricity rates is $513 [2014 – $12,070].

As at December 31, 2015, the Corporation had capital losses of $700 [December 31, 2014 – $700 and January 1, 2014 – $700] which have not been recognized in the consolidated financial statements.

As at December 31, 2015, Hydro Ottawa Limited and PowerTrail had corporate minimum tax credit carryforwards of $1,454 and $161 respectively [December 31, 2014 – $690 and $135 and January 1, 2014 – $nil and $100 respectively], which expire between

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22. INCOME TAXES [CONTINUED]

2027 and 2035.

As at December 31, 2015, PowerTrail had non-capital tax loss carryforwards of $95 [December 31, 2014 – $1,462 and January 1, 2014 – $2,627] which expire in 2030.

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

A deferred tax asset has not been recognized for the $3,460 [$2,500 USD] net tax loss carryforward, which expires in 2035 as it is not probable that the Company will have sufficient taxable profits to realize the benefit.

A deferred tax asset of $1,600 has been recognized for the deductible temporary differences relating to property, plant and equipment as it is probable that EONY will have sufficient taxable income to realize the benefit of the deductible temporary differences on the basis of future projected profits as analyzed upon the acquisition of EONY.

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

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

	2015 **$**	2014 $
Accounts receivable	**(16,654)**	23,377
Prepaid expenses	**(1,700)**	2,047
Other	**(15)**	(10)
Accounts payable and accrued liabilities	**(17,092)**	44,709
Net change in accruals related to property, plant and equipment	**(10,025)**	(1,700)
Net change in accruals related to intangible assets	**15,685**	(16,453)
	(29,801)	51,970

24. CONTINGENT LIABILITIES

Purchasers of electricity in Ontario including Hydro Ottawa Limited, through the IESO, are required to provide security to mitigate the risk of their default based on their expected activity in the market. The IESO could draw on these guarantees if the Corporation fails to make a payment required by a default notice issued by the IESO. A prudential support obligation is calculated based upon a default protection amount and the distributor's trading limit less a reduction for the distributor's credit rating. As at December 31, 2015, the Corporation had drawn standby letters of credit in the amount of $10,000 [December 31, 2014 – $8,150 and January 1, 2014 – $16,000] 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.

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24. CONTINGENT LIABILITIES [CONTINUED]

In December 2012, the Corporation was charged with five offenses under Ontario's *Occupational Health and Safety Act* in respect of an incident occurring on March 22, 2012, which resulted in the fatality of an employee of a third-party sub-contractor. In July 2015, the Corporation was found guilty on three of the five offenses. On March 29, 2016, the Justice of the Peace imposed a fine of $225 plus a 25% Victim Fine Surcharge totalling $281 as required by the *Provincial Offences Act*. The Corporation has recorded a provision for the full amount of the imposed fine in these consolidated financial statements. The Corporation has 30 days to appeal the verdict, the penalty, or both.

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

25. COMMITMENTS

Hydro Ottawa Limited has $61,386 in total open commitments for 2016 to 2022. This includes commitments relating to a customer information system services agreement, construction projects, spare parts and standby equipment and overhead and underground services.

Energy Ottawa plans to continue its significant investment in the Chaudiere Expansion over the next two years as described in Note 8 of these consolidated financial statements. As at December 31, 2015, Energy Ottawa has committed $104,447 in funds with respect to this project.

Energy Ottawa maintains leases with various government and municipal entities for the right to certain lands, buildings and other generating assets at its generating stations in Ontario and New York. These leases are in place through various dates, ranging between August 19, 2019 and December 31, 2040. Certain leases have annual payments which have a fixed and contingent portion, the latter of which is based on the annual gross revenue produced by the applicable generating station [ranging from 3% to 9.25%]. During the 2015 fiscal year, the Corporation expensed lease payments of $251 [2014 – $139], which included $119 [2014 – $78] of contingent lease payments. The Corporation's future minimum lease payments are as follows: 2016 – $174, 2017 to 2020 – $746 and $2,034 thereafter.

26. RELATED PARTY TRANSACTIONS

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

(a) Transactions with shareholder

During the year, the Corporation earned revenue from the sale of electricity to the City of Ottawa and its subsidiaries, which is billed at prices and terms approved by the OEB. In addition, the Corporation earned other revenue and deferred revenue totalling $3,689 [2014 – $7,499] via Hydro Ottawa Limited and commercial energy services totalling $3,657 [2014 – $5,420] via Energy Ottawa, from the City of Ottawa and its subsidiaries. The Corporation also incurred $2,165 [2014 – $2,165] in property tax expenses during the year to the City of Ottawa which is included in operating costs. As at December 31, 2015, the Corporation's accounts receivable include $5,595 [December 31, 2014 – $8,397 and January 1, 2014 – $7,897] due in respect of the transactions above while the Corporation's accounts payable and accrued liabilities include $131 [December 31, 2014 – $53 and January 1, 2014 – $222] due to the City of Ottawa and its subsidiaries.

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26. RELATED PARTY TRANSACTIONS [CONTINUED]

(b) Transactions with joint arrangements

(i) Moose Creek LP

During the year, the Corporation earned interest income in the amount of $195 [2014 – $1,086] on its notes receivable from Moose Creek LP, as well as $20 [2014 – $18] in other revenue for the provision of administrative services. As at December 31, 2015, the Corporation's accounts receivable include $49 [December 31, 2014 – $269 and January 1, 2014 – $276] due in respect of the transactions described.

In 2014, the Corporation made a capital investment in Moose Creek LP as described in Note 11 of these consolidated financial statements. The Corporation's notes receivable from Moose Creek LP are disclosed in Note 12 of these consolidated financial statements.

(ii) PowerTrail

During the year, the Corporation earned imputed interest income in the amount of $213 [2014 – $269] on its notes receivable from PowerTrail, as well as $23 [2014 – $22] in other revenue for the provision of administrative services. As at December 31, 2015, the Corporation's accounts receivable include $2 [December 31, 2014 – $2 and January 1, 2014 – $2] due in respect of the transactions described.

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

(iii) CWPI

During the year, the Corporation incurred $1,054 [2014 – $1,082] of operating expenses with CWPI in relation to the management and operation of the Chaudière Dam at Chaudière Falls. The Corporation also capitalized $292 [2014 – $233] of generating assets. Finally, the Corporation earned $75 [2014 – $73] in other revenue for the provision of administrative services. As at December 31, 2015, the Corporation's accounts payable and accrued liabilities include $97 [December 31, 2014 – $nil and January 1, 2014 – $404] due in respect of the transactions described.

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26. RELATED PARTY TRANSACTIONS [CONTINUED]

(c) Compensation of key management personnel

The key management personnel of the Corporation have been defined as the officers of the Corporation.

	2015 **$**	2014 $
Salaries and other short-term benefits	**1,269**	1,193
Employee future benefits	**12**	12
Other long-term benefits	**171**	165
	1,452	1,370

27. SUBSEQUENT EVENT

On November 17, 2015, the Corporation entered into an asset purchase agreement for generation assets. The agreement includes numerous closing conditions which can have a material impact on the value of the transaction. Hence, the value of the purchase commitment is not determinable at this time. The closing of this transaction is expected to occur in mid-2016.

28. FIRST TIME ADOPTION OF IFRS

These consolidated financial statements represent the first annual financial statements of the Corporation and its subsidiaries prepared in accordance with IFRS. The Corporation's consolidated financial statements were previously prepared in accordance with Part V of the Chartered Professional Accountants of Canada Handbook for publicly accountable entities ['pre-changeover CGAAP']. Although there are many similarities between pre-changeover CGAAP and IFRS, there were some significant differences that had an impact on the Corporation's consolidated financial statements.

The Corporation adopted IFRS in accordance with IFRS 1 *First-time Adoption of International Financial Reporting Standards*. The first date at which IFRS was applied was January 1, 2014, the date of transition to IFRS. In accordance with IFRS, the Corporation has provided comparative financial statements and note disclosures, and applied the same accounting policies throughout all periods presented and applied certain optional and mandatory exemptions from and to IFRS, as applicable to first-time IFRS adopters.

Hindsight is not used to revise estimates. The estimates as at January 1, 2014 and December 31, 2014 are consistent with those made for the same dates in accordance with pre-changeover CGAAP, except where necessary to reflect any difference in accounting policies.

IFRS 1 allows first-time adopters certain exemptions from the retrospective application of certain IFRS. The Corporation has applied the following optional exemptions:

– IFRS 3 *Business Combinations* has not been applied to business combinations that occurred before January 1, 2014. Accordingly, the Corporation has not restated business combinations that took place prior to the date of transition to IFRS.

– Most of the Corporation's property, plant and equipment, intangible assets and investment properties are, or were, used in operations subject to rate regulation. The pre-changeover CGAAP carrying amounts of these assets are deemed to be their cost under IFRS at the date of transition. The pre-changeover CGAAP carrying amounts were measured at cost

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28. FIRST TIME ADOPTION OF IFRS [CONTINUED]

plus various overhead costs [as allowed by regulation], less accumulated depreciation and less the unamortized portion of customer contributions. At the date of transition to IFRS, the Corporation tested for impairment each item for which this exemption was used.

- Borrowing costs capitalized under pre-changeover CGAAP, up to the date of transition to IFRS, remain capitalized. From the date of transition to IFRS, borrowing costs are capitalized to qualifying assets, including qualifying assets under construction at the date of transition to IFRS.

- Under pre-changeover CGAAP, the Corporation was required to determine whether arrangements that were agreed to or modified on or after January 1, 2005 contained a lease. Previous arrangements were grandfathered. Those determinations made under pre-changeover CGAAP are not reassessed on adoption of IFRS. Instead, the Corporation was required to assess only the previously grandfathered arrangements, on the basis of the facts and circumstances existing at the date of transition to IFRS.

In preparing its opening IFRS consolidated balance sheet, the Corporation has adjusted amounts previously reported in accordance with pre-changeover CGAAP. IFRS 1 requires an entity to explain how the transition to IFRS affected its reported consolidated balance sheet, statement of income and OCI and cash flows by providing the following reconciliations for prior periods.

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28. FIRST TIME ADOPTION OF IFRS [CONTINUED]

(a) Reconciliation of consolidated opening balance sheet as at January 1, 2014

	Pre-changeover CGAAP $	IFRS adjustments $	IFRS reclassifications $	IFRS $
Assets				
Current assets				
Accounts receivable [Note (g)(i)]	177,377	(542)	-	**176,835**
Income taxes receivable	2,372	-	-	**2,372**
Prepaid expenses [Note (g)(i)]	3,099	(34)	-	**3,065**
Notes receivable from joint ventures [Notes (g)(i) and (g)(ii)]	-	563	-	**563**
Regulatory assets [Note (h)(v)]	31	-	(31)	**-**
Deferred income taxes [Note (h)(iii)]	818	-	(818)	**-**
	183,697	(13)	(849)	**182,835**
Non-current assets				
Property, plant and equipment [Notes (g)(i), (g)(iii), (h)(i) and (h((ii)]	725,493	(21,790)	8,589	**712,292**
Intangible assets [Note (g)(i)]	66,289	(812)	-	**65,477**
Investment properties [Note (h)(ii)]	-	-	2,189	**2,189**
Deferred income taxes [Note (h)(iii)]	19,947	-	818	**20,765**
Notes receivable from joint ventures [Notes (g)(i) and (g)(ii)]	-	14,573	-	**14,573**
Investments in joint ventures [Notes (g)(i) and (g)(ii)]	-	3,535	-	**3,535**
Retirement benefit asset [Note (g)(i)]	689	(112)	-	**577**
Regulatory assets [Note (h)(v)]	12,441	-	(12,441)	**-**
Total assets	1,008,556	(4,619)	(1,694)	**1,002,243**
Regulatory deferral account debit balances [Note (h)(v)]	-	-	12,472	**12,472**
Total assets and regulatory deferral account debit balances	1,008,556	(4,619)	10,778	**1,014,715**
Liabilities and shareholder's equity				
Current liabilities				
Bank indebtedness [Note (g)(i)]	8,853	2,356	-	**11,209**
Accounts payable and accrued liabilities [Notes (g)(i) and (h)(iv)]	133,200	(1,027)	(626)	**131,547**
Income taxes payable [Note (g)(i)]	157	(1)	-	**156**
Debentures [Note (g)(i)]	340	(340)	-	**-**
Regulatory liabilities [Note (h)(v)]	19,173	-	(19,173)	**-**
Regulatory liability for deferred income taxes [Notes (h)(iii) and (h)(v)]	818	-	(818)	**-**
	162,541	988	(20,617)	**142,912**

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28. FIRST TIME ADOPTION OF IFRS [CONTINUED]

(a) Reconciliation of consolidated opening balance sheet as at January 1, 2014 [continued]

	Pre-changeover CGAAP $	IFRS adjustments $	IFRS reclassifications $	IFRS $
Non-current liabilities				
Deferred revenue [Note (h)(i)]	-	-	10,778	**10,778**
Employee future benefits [Notes (g)(i), (g)(iv) and (h)(iv)]	9,065	(37)	626	**9,654**
Customer deposits	13,085	-	-	**13,085**
Debentures [Note (g)(i)]	400,413	(2,020)	-	**398,393**
Deferred income taxes [Notes (g)(i) and (g)(v)]	6,464	(1,112)	-	**5,352**
Other liabilities	27	-	-	**27**
Regulatory liabilities [Note (h)(v)]	12,915	-	(12,915)	**-**
Regulatory liability for deferred income taxes [Note (h)(iii) and (h)(v)]	19,893	-	(19,893)	**-**
Total liabilities	624,403	(2,181)	(42,021)	**580,201**
Shareholder's equity				
Share capital	228,453	-	-	**228,453**
Retained earnings [Notes (g)(i), (g)(ii), (g)(iii) and (g)(v)]	153,273	(11)	-	**153,262**
Non-controlling interest [Note (g)(i)]	2,427	(2,427)	-	**-**
Total liabilities and shareholder's equity	1,008,556	(4,619)	(42,021)	**961,916**
Regulatory deferral account credit balances [Note (h)(v)]	-	-	52,799	**52,799**
Total liabilities, shareholder's equity and regulatory deferral credit balances	1,008,556	(4,619)	10,778	**1,014,715**

(b) Reconciliation of equity as at January 1, 2014

Equity under pre-changeover CGAAP	381,726
Differences increasing (decreasing) reported equity	
Joint arrangements [Note (g)(i)]	(1,319)
Related party transactions [Note (g)(ii)]	1,669
Property, plant and equipment [Note (g)(iii)]	(647)
Deferred income taxes [Note (g)(v)]	286
Equity under IFRS	381,715

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28. FIRST TIME ADOPTION OF IFRS [CONTINUED]

(c) Reconciliation of consolidated balance sheet as at December 31, 2014

	Pre-changeover CGAAP $	IFRS adjustments $	IFRS reclassifications $	IFRS $
Assets				
Current assets				
Accounts receivable [Note (g)(i)]	154,196	(738)	-	**153,458**
Income taxes receivable	4,298	-	-	**4,298**
Prepaid expenses [Note (g)(i)]	1,031	(13)	-	**1,018**
Notes receivable from joint ventures [Notes (g)(i) and (g)(ii)]	-	13,222	-	**13,222**
Regulatory assets [Note (h)(v)]	31	-	(31)	**-**
Deferred income taxes [Note (h)(iii)]	1,015	-	(1,015)	**-**
	160,571	12,471	(1,046)	**171,996**
Non-current assets				
Property, plant and equipment [Notes (g)(i), (g)(iii), (h)(i) and (h)(ii)]	780,397	(21,934)	31,169	**789,632**
Intangible assets [Note (g)(i)]	86,802	(721)	-	**86,081**
Investment properties [Note (h)(ii)]	-	-	2,216	**2,216**
Deferred income taxes [Note (h)(iii)]	11,103	-	1,015	**12,118**
Notes receivable from joint ventures [Notes (g)(i) and (g)(ii)]	-	5,000	-	**5,000**
Investments in joint ventures [Notes (g)(i) and (g)(ii)]	-	6,284	-	**6,284**
Retirement benefit asset [Note (g)(i)]	828	(131)	-	**697**
Regulatory assets [Note (h)(v)]	20,592	-	(20,592)	**-**
Total assets	1,060,293	969	12,762	**1,074,024**
Regulatory deferral account debit balances [Note (h)(v)]	-	-	20,623	**20,623**
Total assets and regulatory deferral account debit balances	1,060,293	969	33,385	**1,094,647**
Liabilities and shareholder's equity				
Current liabilities				
Bank indebtedness [Note (g)(i)]	15,955	14,972	-	**30,927**
Accounts payable and accrued liabilities [Notes (g)(i) and (h)(iv)]	176,055	(1,539)	(672)	**173,844**
Income taxes payable [Note (g)(i)]	1	(1)	-	**-**
Debentures [Notes (g)(i) and (h)(vi)]	925	(925)	200,000	**200,000**
Regulatory liability for deferred income taxes [Notes (h)(iii) and (h)(v)]	1,015	-	(1,015)	**-**
	193,951	12,507	198,313	**404,771**

Hydro Ottawa Holding Inc.

Notes to the Consolidated Financial Statements
Years ended December 31, 2015 and 2014
[in thousands of Canadian dollars]

28. FIRST TIME ADOPTION OF IFRS [CONTINUED]

(c) Reconciliation of consolidated balance sheet as at December 31, 2014 [continued]

	Pre-changeover CGAAP $	IFRS adjustments $	IFRS reclassifications $	IFRS $
Non-current liabilities				
Deferred revenue [Note (h)(i)]	-	-	33,385	**33,385**
Employee future benefits [Notes (g)(i) and (h)(iv)]	10,419	(45)	672	**11,046**
Customer deposits	12,459	-	-	**12,459**
Deferred income taxes [Note (g)(i)]	6,800	(1,441)	-	**5,359**
Debentures [Notes (g)(i) and (h)(vi)]	403,208	(4,570)	(200,000)	**198,638**
Other liabilities	2,189	-	-	**2,189**
Regulatory liabilities [Note (h)(v)]	22,141	-	(22,141)	**-**
Regulatory liability for deferred income taxes [Notes (h)(iii) and (h)(v)]	11,055	-	(11,055)	**-**
Total liabilities	662,222	6,451	(826)	**667,847**
Shareholder's equity				
Share capital	228,453	-	-	**228,453**
Accumulated other comprehensive income [Note (g)(iv)]	-	37	-	**37**
Retained earnings [Notes (g)(i), (g)(ii), (g)(iii) and (g)(iv)]	164,291	(192)	-	**164,099**
Non-controlling interest [Note (g)(i)]	5,327	(5,327)	-	**-**
Total liabilities and shareholder's equity	1,060,293	969	(826)	**1,060,436**
Regulatory deferral account credit balances [Note (h)(v)]	-	-	34,211	**34,211**
Total liabilities, shareholder's equity and regulatory deferral account credit balances	1,060,293	969	33,385	**1,094,647**

(d) Reconciliation of equity for the year ended December 31, 2014

Equity under pre-changeover CGAAP	392,744
Differences increasing (decreasing) reported equity	
Joint arrangements [Note (g)(i)]	(1,630)
Related party transactions [Note (g)(ii)]	1,938
Property, plant and equipment [Note (g)(iii)]	(759)
Deferred income taxes [Note (g)(v)]	296
Equity under IFRS	392,589

Hydro Ottawa Holding Inc.

Notes to the Consolidated Financial Statements
Years ended December 31, 2015 and 2014
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28. FIRST TIME ADOPTION OF IFRS [CONTINUED]

(e) Reconciliation of consolidated statement of income for the year ended December 31, 2014

	Pre-changeover CGAAP $	IFRS adjustments $	IFRS reclassifications $	IFRS $
Revenue				
Power recovery [Note (h)(v)]	799,272	-	(5,305)	**793,967**
Distribution sales [Note (h)(v)]	156,616	-	1,907	**158,523**
Generation revenue [Note (g)(i)]	19,617	(6,067)	-	**13,550**
Other revenue [Notes (g)(i) and (h)(i)]	36,844	114	324	**37,282**
	1,012,349	(5,953)	(3,074)	**1,003,322**
Expenses				
Purchased power [Note (h)(v)]	795,703	-	13,015	**808,718**
Operating costs [Notes (g)(i), (g)(iii) and (h)(v)]	123,258	(2,503)	363	**121,118**
Depreciation [Notes (g)(i), (g)(iii) and (h)(i)]	33,120	(1,303)	324	**32,141**
Amortization [Note (g)(i)]	6,509	(15)	-	**6,494**
	958,590	(3,821)	13,702	**968,471**
Operating income	53,759	(2,132)	(16,776)	**34,851**
Financing costs [Note (g)(i)]	17,469	30	-	**17,499**
Interest income [Notes (g)(i) and (g)(ii)]	(68)	(1,354)	-	**(1,422)**
Share of profit from joint ventures [Note (g)(i)]	-	(45)	-	**(45)**
Impairment charges	4,023	-	-	**4,023**
Non-controlling interest [Note (g)(i)]	205	(205)	-	**-**
Income before income taxes and the net movement in regulatory deferral account balances related to income	32,130	(558)	(16,776)	**14,796**
Income tax expense [Notes (g)(i), (g)(iv), (g)(v) and (h)(v)]	1,812	(26)	8,768	**10,554**
Income before the net movement in regulatory deferral account balances related to income	30,318	(532)	(25,544)	**4,242**
Net movement in regulatory deferral account balances related to income [Note (h)(v)]	-	-	25,895	**25,895**
Net income	30,318	(532)	351	**30,137**

Hydro Ottawa Holding Inc.

Notes to the Consolidated Financial Statements
Years ended December 31, 2015 and 2014
[in thousands of Canadian dollars]

28. FIRST TIME ADOPTION OF IFRS [CONTINUED]

(f) Reconciliation of consolidated statement of cash flows for the year ended December 31, 2014

	Pre-changeover CGAAP $	IFRS adjustments $	IFRS reclassifications $	IFRS $
Net inflow (outflow) of cash related to the following activities:				
Operating				
Net income	30,318	(181)	-	**30,137**
Adjustments for:				
Depreciation [Notes (g)(i), (g)(iii) and (h)(i)]	33,120	(1,303)	324	**32,141**
Amortization [Notes (g)(i) and (g)(iii)]	6,509	(15)	-	**6,494**
Loss on disposal of capital assets [Note (g)(i)]	2,108	(32)	-	**2,076**
Impairment charges	4,023	-	-	**4,023**
Amortization of deferred revenue [Note (h)(i)]	-	-	(324)	**(324)**
Amortization of debt-issuance costs	245	-	-	**245**
Share of profit from joint ventures [Note (g)(i)]	-	(45)	-	**(45)**
Employee future benefits [Notes (g)(i) and (g)(iv)]	(62)	51	-	**(11)**
Financing costs, net of interest income [Notes (g)(i)]	17,401	(1,324)	-	**16,077**
Income tax expense [Notes (g)(i), (g)(iv), (g)(v) and (h)(v)]	1,812	(25)	8,767	**10,554**
Financing costs paid, net of interest income received [Notes (g)(i) and (g)(ii)]	(18,640)	237	-	**(18,403)**
Income taxes paid [Note (g)(i)]	(1,202)	34	-	**(1,168)**
	75,632	(2,603)	8,767	**81,796**
Changes in non-cash working capital and other operating balances [Notes (g)(i), (g)(ii) and (h)(v)]	51,604	366	-	**51,970**
Net movements in regulatory deferral account balances [Note (h)(v)]	(16,775)	-	(9,120)	**(25,895)**
	110,461	(2,237)	(353)	**107,871**
Investing				
Acquisition of property, plant and equipment [Notes (g)(i) and (h)(i)]	(115,570)	1,490	693	**(113,387)**
Acquisition of intangible assets	(12,056)	-	-	**(12,056)**
Proceeds from disposal of property, plant and equipment [Note (g)(i)]	998	(164)	-	**834**
Additions to deferred revenue [Note (h)(i)]	23,625	-	(693)	**22,932**
Repayment of note receivable from joint ventures [Note (g)(i)]	-	490	-	**490**
Investment in joint venture [Note (g)(i)]	-	(2,705)	-	**(2,705)**
Loan to joint venture [Note (g)(i)]	-	(3,307)	-	**(3,307)**
	(103,003)	(4,196)	-	**(107,199)**

Hydro Ottawa Holding Inc.

Notes to the Consolidated Financial Statements
Years ended December 31, 2015 and 2014
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28. FIRST TIME ADOPTION OF IFRS [CONTINUED]

(f) Reconciliation of consolidated statement of cash flows for the year ended December 31, 2014 [continued]

	Pre-changeover CGAAP $	IFRS adjustments $	IFRS reclassifications $	IFRS $
Financing				
Change in customer deposits	(1,090)	-	-	**(1,090)**
Dividends paid	(19,300)	-	-	**(19,300)**
Issuance of notes payable [Note (g)(i)]	3,295	(3,295)	-	**-**
Repayment of notes payable [Note (g)(i)]	(160)	160	-	**-**
Contributed capital from non-controlling interest [Note (g)(i)]	2,694	(2,694)	-	**-**
	(14,561)	(5,829)	-	**(20,390)**
Net change in cash	(7,103)	(12,262)	(353)	**(19,718)**
Bank indebtedness, beginning of year	(8,853)	(2,356)	-	**(11,209)**
Bank indebtedness, end of year	(15,956)	(14,618)	(353)	**(30,927)**

(g) Explanatory notes – IFRS adjustments

(i) Joint arrangements – Under pre-changeover CGAAP, PowerTrail, Moose Creek LP and CWPI were each considered to be variable interest entities for which Energy Ottawa was the primary beneficiary. As a result, the assets, liabilities and results of activities of these entities were consolidated into the pre-changeover CGAAP financial statements of Energy Ottawa and ultimately HOHI. Under IFRS, Energy Ottawa determined that it does not control, but jointly controls PowerTrail, Moose Creek LP and CWPI and accounts for them as joint arrangements under IFRS 11. Specifically, Energy Ottawa has concluded that PowerTrail and Moose Creek LP are joint ventures to be accounted for via the equity method, while CWPI is a joint operation whereby Energy Ottawa records its contractual share of CWPI's assets, liabilities, revenue and expenses in accordance with the shareholders' agreement. As a result of the above, the assets, liabilities and results of activities of these joint arrangements are no longer consolidated with the accounts of the Corporation. The equity impacts as at January 1, 2014 and December 31, 2014 are decreases to retained earnings of $1,319 and $1,630 respectively. The impact for the year ended December 31, 2014 is a decrease in net income of $311.

(ii) Related party transactions – Under pre-changeover CGAAP, interest-free loans provided to PowerTrail by its venturers were recognized at the amount of cash lent, as pre-changeover CGAAP requires such related party transactions to be recognized at their carrying amount. Under IFRS, these loans are initially recognized at fair value, which is less than the amount of cash lent. The difference between the fair value of the loans received and the amount of cash lent is recognized as an investment in the joint venture, and the discount recognized on the loans is unwound to profit or loss over the life of the loan, using the effective interest method. The balance sheet impacts as at January 1, 2014 and December 31, 2014 are increases in retained earnings of $1,669 and $1,938 respectively. The impact for the year ended December 31, 2014 is an increase in net income of $269.

(iii) Property, plant and equipment – In accordance with IFRS, the Corporation has revised its accounting policy to address the component accounting requirements for property, plant and equipment, in that parts of items of property, plant and equipment with costs that are significant in relation to the total cost of the item are now depreciated separately. For certain property plant and equipment, such as generating plant and equipment, that are not used in rate-regulated operations, carrying values have been adjusted at the date of transition to IFRS to reflect the impact of this policy change retrospectively, as if IFRS had always been applied. The balance sheet impacts as at January 1, 2014 and December 31, 2014 are decreases in retained earnings of $647 and $759 respectively. The impact for the year ended December 31, 2014 is a decrease in net income of $112.

28. FIRST TIME ADOPTION OF IFRS [CONTINUED]

(g) Explanatory notes – IFRS adjustments [continued]

(iv) Employee future benefits – Under IFRS, actuarial gains and losses resulting from experience adjustments and changes in actuarial assumptions are recognized in OCI as they arise. With respect to the Corporation's regulated entity Hydro Ottawa Limited, for the year ended December 31, 2014, the remeasurement of post-employment benefits resulted in a decrease in OCI, net of tax, of $845 and an increase in the net movements in regulatory deferral accounts balances related to OCI, net of tax, of $845. With respect to its non-regulated entities, the remeasurement of post-employment benefits resulted in a decrease in net income of $37, net of tax of $13. The corresponding net actuarial gain of $37 is recognized in the Corporation's consolidated statements of comprehensive income for the year ended December 31, 2014.

(v) Deferred income taxes – Certain differences between pre-changeover CGAAP and IFRS give rise to deferred tax effects. The consolidated balance sheet impacts as at January 1, 2014 and December 31, 2014 are increases in retained earnings of $286 and $296 respectively. The impact for the year ended December 31, 2014 is an increase in net income of $10.

(h) Explanatory notes – IFRS reclassifications

(i) Property, plant and equipment – Under pre-changeover CGAAP, customer contributions were netted against the cost of property, plant and equipment and amortized to income, as an offset to depreciation expense, on the same basis as the assets for which the customer contributions were received. Under IFRIC 18 *Transfers of Assets from Customers*, contributions received in order to construct an item of property, plant and equipment are treated as deferred revenue and recognized as revenue over the useful lives of the related property, plant and equipment. Moreover, customer contributions related to assets under construction are reclassified to deferred revenue. The effect of the above is an increase in deferred revenue and property, plant and equipment of $10,778 and $33,385 as at January 1, 2014 and December 31, 2014, respectively. For the year ended December 31, 2014, $324 was reclassified from depreciation to other revenue.

(ii) Investment properties – Under pre-changeover CGAAP, there is no specific guidance on investment property. Consequently, the Corporation classified investment properties as part of property in property, plant and equipment. Since IFRS includes specific guidance on investment properties, the Corporation has reclassified $2,189 and $2,216 in items of property, plant and equipment to investment properties as at January 1, 2014 and December 31, 2014, respectively.

(iii) Deferred income taxes – Under pre-changeover CGAAP, deferred income taxes were classified as current and non-current based on the classification of the underlying assets and liabilities to which they relate or, if there was no underlying recognized asset or liability, based on the expected reversal of the temporary difference. Under IFRS, all deferred income taxes of $818 and $1,015 are classified as non-current as at January 1, 2014 and December 31, 2014, respectively.

(iv) Employee future benefits – Under IFRS, the estimated current portion of employee future benefits are not required to be shown as a current liability and are therefore reclassified to long-term future employee benefits.

Hydro Ottawa Holding Inc.

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28. FIRST TIME ADOPTION OF IFRS [CONTINUED]

(h) Explanatory notes – IFRS reclassifications [continued]

(v) Regulatory assets and liabilities – Upon early adoption of IFRS 14, the Corporation has followed the specific presentation requirements called for by the standard. This includes the separate presentation of regulatory deferral debit and credit balances and related deferred tax amounts, and the net movements in regulatory deferral account balances related to income. The interim standard requires that when an entity presents current and non-current assets, and current and non-current liabilities as separate classifications in its balance sheets, that it will not classify the totals of regulatory deferral account balances as current or non-current. Instead, the interim standard requires that regulatory deferral debit and credit balances be distinguished from the assets and liabilities that are presented in accordance with other standards by the use of sub-totals, which are drawn before the regulatory deferral account balances are presented. In addition, the net income effect of all changes in regulatory balances must be segregated in a separate section of the statement of income. For the year ended December 31, 2014, the impact was a decrease in power recovery of $5,305, an increase in distribution sales of $1,907, an increase in purchased power of $13,015, an increase in operating costs of $363 and an income tax expense increase of $8,641, all of which resulted in a net movement in regulatory deferral account balances, net of tax of $25,417.

(vi) Classification of long-term debt – Under IFRS, IAS 1 *Presentation of Financial Statements* requires an entity to classify a liability as current when it is due to be settled within twelve months after the reporting period, even if an agreement to refinance on a long-term basis is completed after the reporting period and before the financial statements are authorized for issue. As a result, the Corporation's debenture that was due on February 9, 2015 was reclassified to current as at December 31, 2014.

Statement of Executive Compensation

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

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

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

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

Total cash compensation for Executives consists of two components*: base salary and an at risk performance incentive. Total cash compensation is benchmarked to companies of comparable size and scope in both the Ontario and national markets, with the target for total cash compensation set at the 50th percentile, or midpoint, of the market.

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

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

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

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

SUMMARY OF COMPENSATION

Officers of the Corporation

NAME AND PRINCIPAL POSITION[1]	YEAR	BASE SALARY [$][2]	AT RISK PERFORMANCE INCENTIVE [$][3]	OTHER COMPENSATION [$][4]
Bryce Conrad President and Chief Executive Officer	2015	$384,163	N/A	$15,178
	2014	$363,468	N/A	$13,458
	2013	$354,579	N/A	$35,240
Geoff Simpson Chief Financial Officer	2015	$184,850	$57,254	$8,471
	2014	$174,968	$42,884[6]	$8,526
	2013	$63,301[5]	N/A	$3,362
Norm Fraser Chief Operating Officer – Distribution and Customer Service	2015	$231,553	$69,087	$8,590
	2014	$219,174	$66,121	$8,731
	2013	$216,082	$73,900	$8,894
Gregory Clarke Chief Operating Officer – Generation	2015	$187,654	$57,055	$8,482
	2014	$177,622	$53,586	$8,556
	2013	$175,116	$59,890	$8,687

1 Officers whose earnings are reported are those who occupied the position at December 31, 2015

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

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

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

5 Mr. Simpson assumed the position on August 6, 2013. Had Mr. Simpson been employed in this position for the entire year, his base salary would have been $172,500

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

Corporate Governance

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

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

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

Governance Structure

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

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

Key Governance Processes and Controls

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

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

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

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

Appointments to the Board of Directors

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

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

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

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

Committees

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

HYDRO OTTAWA HOLDING INC.

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

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

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

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

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

Board and Committee Meeting Attendance

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

HYDRO OTTAWA HOLDING INC.

DIRECTOR	BOARD MEETINGS	COMMITTEE MEETINGS
Jim Durrell [Chair]	5/5	16/16
Bryce Conrad [President and CEO]	5/5	N/A
Dale Craig	5/5	8/8
Jan Harder	4/5	3/4
Andrea Johnson**	3/3	2/2
Kalai Kalaichelvan	4/5	6/6
Douglas McLarty	5/5	8/9
Phil Murray	5/5	6/6
Lori O'Neill	5/5	5/5
Zaina Sovani	4/5	6/6
Ken Wigglesworth*	2/2	4/4
Marianne Wilkinson	5/5	5/5

HYDRO OTTAWA LIMITED

DIRECTOR	BOARD MEETINGS	COMMITTEE MEETINGS
Jim Durrell [Chair]	5/5	N/A
Bryce Conrad [President and CEO]	5/5	N/A
Norm Fraser	5/5	N/A

* Depicts outgoing Board member whose term ended on June 30, 2015
** Depicts incoming Board member whose term took effect July 1, 2015

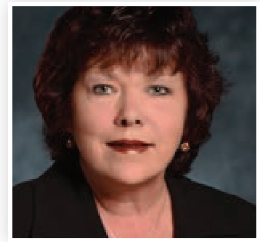
Members of the Boards of Directors

Hydro Ottawa Holding Inc. [HOHI]

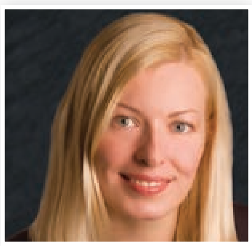
Jim Durrell, C.M. [Chair]

Bryce Conrad

Dale Craig

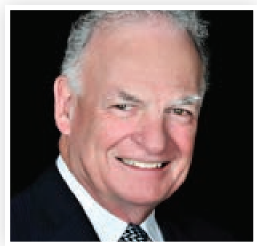


Councillor Jan Harder



Andrea Johnson

Kalai Kalaichelvan



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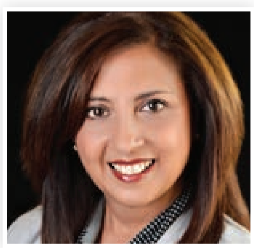
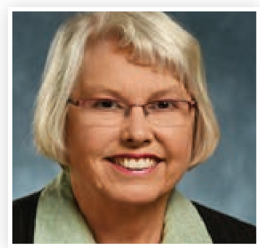
Douglas McLarty

Lori O'Neill



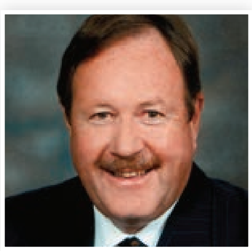
Zaina Sovani

Ken Wigglesworth

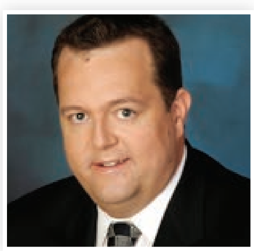


Councillor Marianne Wilkinson

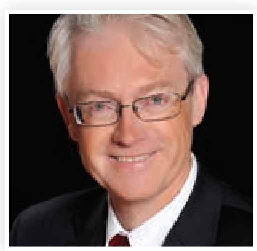
Hydro Ottawa Limited [HOL]



Jim Durrell, C.M. [Chair]



Bryce Conrad



Norm Fraser

Note: Ken Wigglesworth was first appointed to the Hydro Ottawa Holding Inc. Board of Directors in July 2006, and served on the Audit Committee until his departure on June 30, 2015. Mr. Wigglesworth also actively participated as a member of the Investment Review Committee and was instrumental in the review and pursuit of business development, acquisition and investment opportunities to maximize shareholder value. We wish to convey our sincere appreciation to Ken Wigglesworth for his dedicated service.

Andrea Johnson was appointed to the HOHI Board of Directors effective July 1, 2015.

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Glossary of Terms

Industry

IESO The Independent Electricity System Operator is responsible for day-to-day operation of Ontario's electrical system, planning for the province's medium and long-term energy needs, and fostering the development of a conservation culture. The IESO and the Ontario Power Authority [OPA] were merged under the name Independent Electricity System Operator on January 1, 2015.

OEB The Ontario Energy Board regulates the provincial electricity and natural gas industries in the public interest.

Smart Meters Smart Meters measure and store data about when customers use electricity as the foundation for Time-of-Use billing.

TOU A Time-of-Use rate structure charges customers higher rates for electricity used during peak times of the day and lower rates for off-peak usage.

Run-of-the-river Run-of-the-river is a type of hydroelectric generation plant whereby little or no water storage is provided.

Financial Reporting

Pre-changeover CGAAP Pre-changeover Canadian Generally Accepted Accounting Principles are the common set of accounting principles, standards and procedures companies used to prepare their financial statements in Canada before the introduction of IFRS.

IFRS International Financial Reporting Standards are standards and interpretations adopted by the International Accounting Standards Board [IASB]. Hydro Ottawa began reporting under IFRS on January 1, 2015.

IASB The International Accounting Standards Board is an independent standard-setting body that develops and approves IFRSs.

IAS International Accounting Standards were issued by the antecedent International Accounting Standards Council, and endorsed and amended by the IASB.

IFRS 14 IFRS 14 is an interim standard that permits Hydro Ottawa to continue recognizing regulatory deferral account balances in its consolidated financial statements, but requires a presentation format that provides the user greater insight into what the financial performance of the Corporation would be in absence of rate-regulated accounting.

Earnings

There are a number of different ways of looking at how much a company earns. The most common is "net income", but other measurements, such as EBITDA, can be useful in judging the company's ability to borrow and expand its business.

EBITDA Earnings Before Interest, Taxes, Depreciation and Amortization is a measure of financial health that helps to show how much money a company generates to pay for its obligations [such as interest on money borrowed and taxes] and fund its future growth [through depreciation and amortization].

Net Income Net income is a company's total earnings [or profit]. It is determined by subtracting expenses and losses from revenues and gains during the period.

Cash Sources and Uses

Operating Operating activities primarily measure the cash-generating abilities of Hydro Ottawa's core operations rather than its ability to raise capital or purchase assets.

Investing Investing activities relate to Hydro Ottawa's purchases or sales of capital assets [assets that appear on the balance sheet and have a useful life of more than one year]. Capital assets include property, plant and equipment, and intangible assets.

Financing Financing activities result in changes in the size and composition of the Company's equity capital and borrowings. A major source of cash from financing activities is the money received from long-term bond issuances.

Follow us @hydroottawa

Wayne Cuddington · Follow

@hydroottawa #specialneedsday #CapitalFair 15 years making sure folks with #specialneeds have some #fun

Elena Iacono · Follow

Thank you so much Kevin and Jack, Field Operations, for restoring our power #Ottawa @hydroottawa - professional, courteous and diligent

Ken Evraire · Follow

@Good_Companions celebrates collaboration with @hydroottawa & @Lightenco The future is "bright" at TGC! #thankyou

Christie Lake Kids · Follow

Our STARS hit the ice today for the first time! Thank you @hydroottawa for making this program possible! ow.ly/i/dpCwm

Shane Zurbrigg · Follow

Nice to see that others shared those thoughts - kudos to @hydroottawa for their proposal to use below grade turbines to enhance the site.

Katharine Cornfield · Follow

Great leadership! MT @UnitedWayOttawa We're proud to partner with @HydroOttawa on the Brighter Tomorrow's Fund #CSR

Make your charitable efforts count for more

As your team reflects on the year past and gets down to work for the year ahead, take time to consider your corporate social responsibility strategy.

obj.ca

jb Costanza · Follow

Bucket rides! Kudos to @hydroottawa and @UnitedWayOttawa for a great community event. #givewhereulive

Ottawa EcoDistrict · Follow

Thanks #EVCO and all of our drivers and sponsors for making this a great #ottevday @hydroottawa @vrtucar @PlugN_Drive

St. Gregory School · Follow

Ottawa Hydro was in for a great presentation to all grades to help keep our children safe. Ask your child about it!

Camp Quality Eastern · Follow

A BIG thank you to @HydroOttawa for helping us out yesterday. The kids had a blast - and we hope you did too!

Michael Allen · Follow

Grateful to Hydro Ottawa and their employees for their support of the work of UW in our community.Thank you!...

DennisVanStaalduinen · Follow

Woke up with no power today. Thanks for getting us back on the grid so fast hydroottawa! instagram.com/p/9a7-XIrx3_/

Sid Ridgley · Follow

Love the passion that @hydroottawa has for creating value for customers. They've created a highly effective organization

Mackenzie Johnson · Follow

@hydroottawa Huge thank you to those workers missing their Christmas Eve so that we can have our power hopefully restored

Chris Read · Follow

My boy overcame a fear of heights at the @hydroottawa BBQ in support of @UnitedWayOttawa today! Proud dad.

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