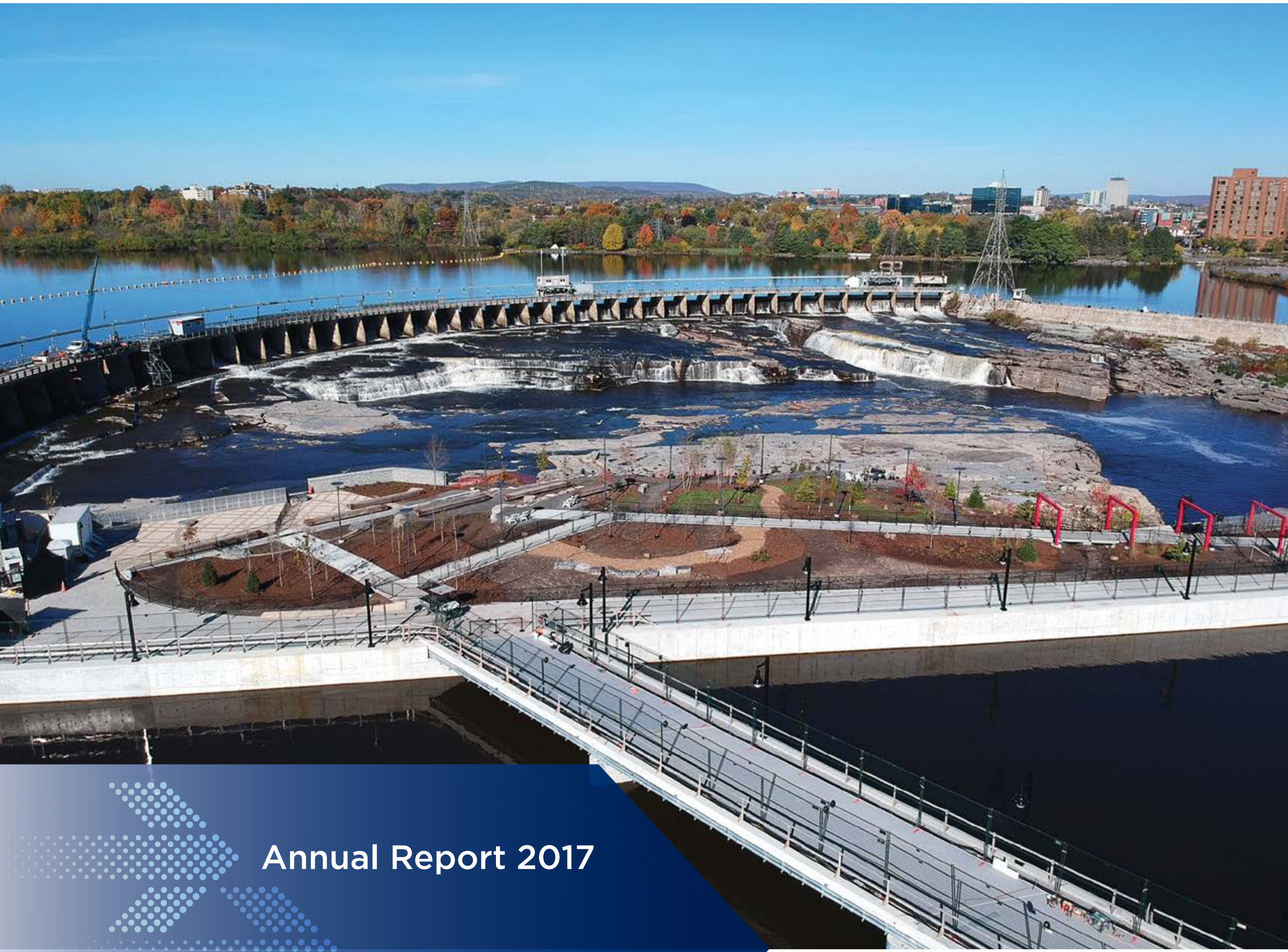
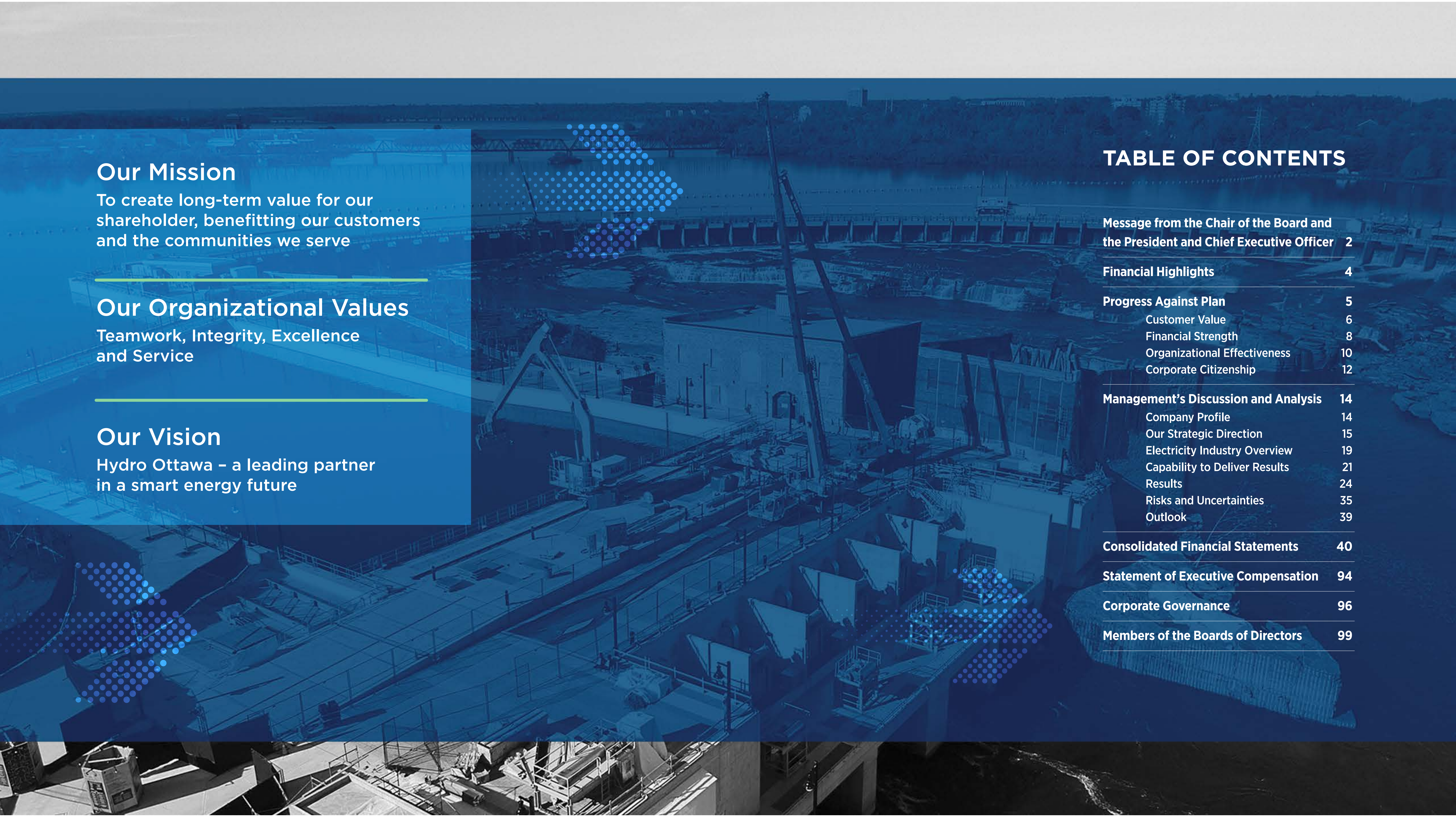
Hydro Ottawa
Holding Inc.



Annual Report 2017



Our Mission

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

Our Organizational Values

Teamwork, Integrity, Excellence and Service

Our Vision

Hydro Ottawa – a leading partner in a smart energy future

TABLE OF CONTENTS

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

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

Bryce Conrad
President and Chief Executive Officer

On behalf of the Board of Directors of Hydro Ottawa Holding Inc., our management and employees, we're pleased to provide this 2017 Annual Report – our second report on progress towards the vision and commitments laid out in our 2016–2020 Strategic Direction. We set and achieved highly ambitious goals during the year, and faced some significant challenges due to severe weather events. We're proud that Hydro Ottawa's approximately 700 employees once again rose to the occasion.

The completion of the Chaudière Expansion project, the largest capital project in Hydro Ottawa's history, was an important milestone. While transformative for this historic part of our community, ending more than a century when the beauty of the falls was hidden from view, it has increased our green power generation capacity to 128 megawatts – by far the most of any municipal utility in Ontario. When at full production, the new facility will generate enough clean, renewable energy to power 20,000 homes, and will reduce greenhouse gas emissions by 115,000 metric tons of carbon dioxide per year. In total, we will produce enough renewable energy to power 107,000 homes – equivalent to more than a third of Hydro Ottawa's residential customers.

While rushing waters contribute to our revenues, they can also create serious operational challenges, as we were reminded in 2017. The spring thaw brought massive flooding that affected a number of Ottawa residents and damaged some of our hydro-electric facilities at Chaudière Falls and elsewhere. While the impact on electricity service to our customers was thankfully minimal, the effects on our generating stations were substantial. However, through quick action and around-the-clock efforts, our employees mounted a remarkably successful effort to protect our assets and operations, bringing most stations back online within a week. Two stations required extensive repairs and only returned to normal operation in October and November.

Notwithstanding unforeseen events such as the flooding, financial results remained strong. Both consolidated net income and the dividend paid to our shareholder, the City of Ottawa, increased from what were already record levels in 2016, hitting $36 million and $21.9 million respectively in 2017. Our consolidated return on equity remained at 8.4 percent. As projects such as the streetlight conversion demonstrate, our contribution to the City is also multifaceted. Not only a source of important dividend revenues, Hydro Ottawa is also a trusted business partner when energy efficiency expertise is needed.

We measure all of our activities and outcomes against the customer value they provide, and we know that reliability of power is a foundational customer expectation. Although we saw significant storm and other weather events in 2017, we focused on quick power restoration and kept customer impacts to a minimum. As a result, Hydro Ottawa's service reliability remained among the best in Ontario, with 0.8 average customer outages per year. While outages rose slightly in 2017 due to severe weather, the five-year trend is extremely positive, with the frequency of outages down by 41 percent and the duration of outages down by 27 percent compared to 2013. We continue to invest in the reliability of our system in order to see this positive trend continue.

Throughout our restoration efforts, and all other facets of our operations, we maintained a sharp focus on both public and employee safety – our number one priority.

We also continued to be mindful of our commitment to enhance service while containing costs. To this end, through contract negotiations we were able to strengthen our customer engagement and service offerings without adding costs. This included expanded service hours, enhanced self-service options, and the launch of a new mobile app that increases customer convenience and control. It allows customers to view and manage their energy consumption and receive real-time outage information on the go.

As part of our commitment to act at all times as a responsible and engaged corporate citizen, in 2017 we continued to support a number of community events, including those held in celebration of the 150th anniversary of Confederation. This included the Mìwàte Illumination of the Chaudière Falls, one of the Ottawa area's most spectacular natural features. Our employee driven charitable campaign also raised over $370,000 with funds directed to support both the Breast Health Centre at The Ottawa Hospital and United Way's Mental Health Programs in Ottawa.

We also once again stepped up for neighbours who were impacted by even more severe weather conditions than our own, this time helping with power restoration in Georgia in the wake of two hurricanes.

We are proud of the company's achievements in 2017, a year in which we responded well to immediate operational challenges, and strengthened Hydro Ottawa's long-term revenue and financial position. This is a testament to the hard work and dedication of our employees – the cornerstone of our success. We ended the year on track to achieve the outcomes set out in our five-year Strategic Direction, and confident in the value we are providing to our customers, shareholder and community.

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

Bryce Conrad
President and Chief Executive Officer

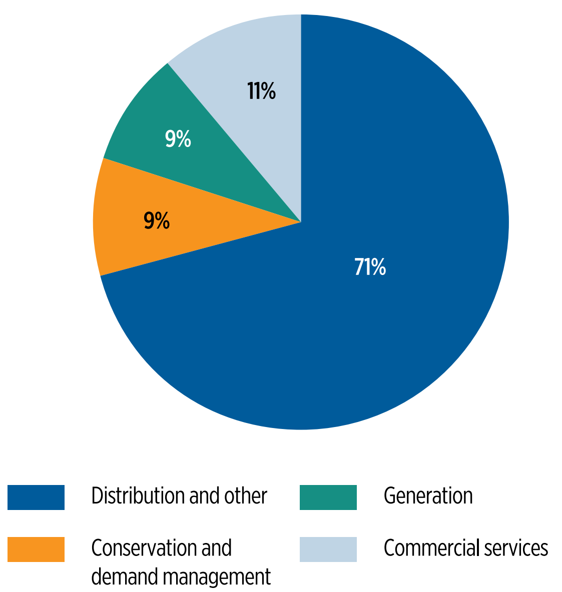
Financial Highlights

[in thousands of Canadian dollars]

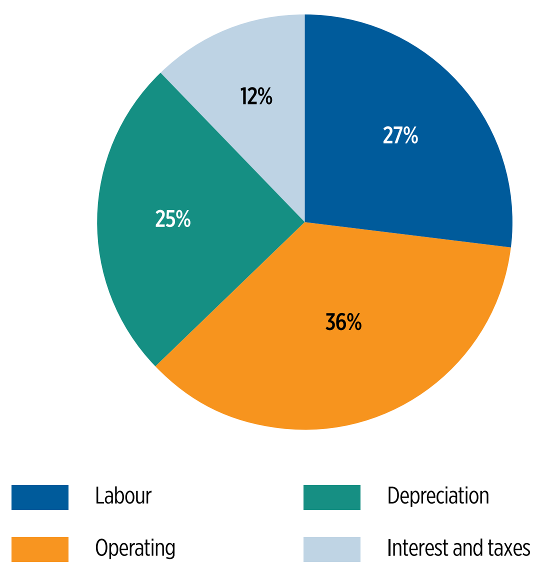
	2017	2016
Operations		
Total revenue [1]	**$ 1,140,187**	$ 1,189,360
Distribution revenue [1]	**$ 170,982**	$ 166,715
Generation revenue	**$ 22,898**	$ 17,489
Commercial services revenue	**$ 26,960**	$ 18,294
Conservation and demand management income	**$ 23,976**	$ 19,643
EBITDA [1]	**$ 118,271**	$ 104,400
Net income	**$ 35,975**	$ 34,836
Dividends	**$ (21,900)**	$ (20,600)
Balance Sheet		
Total assets and regulatory balances	**$ 1,719,697**	$ 1,630,578
Capital assets	**$ 1,391,356**	$ 1,267,838
Debentures	**$ 773,168**	$ 772,960
Shareholder's equity	**$ 438,141**	$ 426,775
Cash Flows		
Operating	**$ 91,962**	$ 96,317
Investing	**$ (148,074)**	$ (349,777)
Financing	**$ (20,600)**	$ 181,686

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

Revenue by Type [1,2]



Expenses by Type [1,2]



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

Progress Against Plan

Hydro Ottawa's 2017 Annual Report is the second to report against the Company's *2016–2020 Strategic Direction* that outlines our business strategy and financial projections for this five year period. This strategy retains the core elements of the previous strategic plan [2012–2016 Strategic Direction], while responding to an altered strategic context and reflecting important changes to the Company itself – including the scale of its renewable generation business. It also outlines a new vision for Hydro Ottawa – to be *a leading partner in a smart energy future*.

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

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

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

FOUR KEY AREAS OF FOCUS

Customer Value

STRATEGIC OBJECTIVE

- We will deliver value across the entire customer experience
- By providing reliable, responsive and innovative services at competitive rates

Financial Strength

STRATEGIC OBJECTIVE

- We will create sustainable growth in our business and our earnings
- By improving productivity and pursuing business growth opportunities that leverage our strengths – our core capabilities, our assets and our people

Organizational Effectiveness

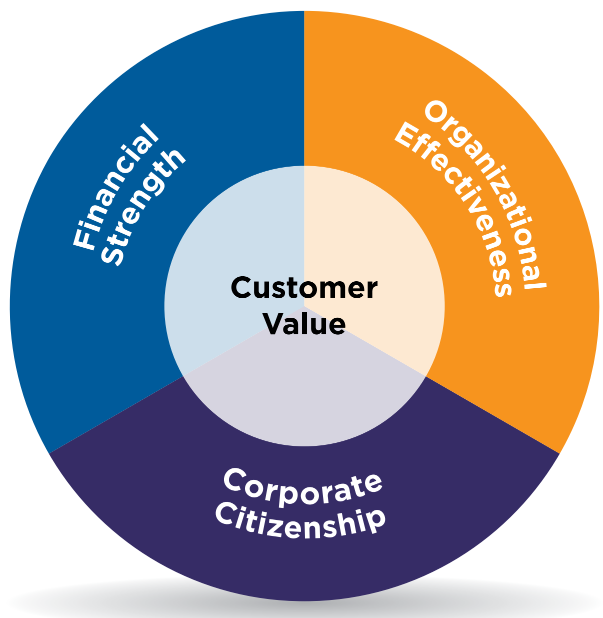
STRATEGIC OBJECTIVE

- We will achieve performance excellence
- By cultivating a culture of innovation and continuous improvement

Corporate Citizenship

STRATEGIC OBJECTIVE

- We will contribute to the well-being of the community
- By acting at all times as a responsible and engaged corporate citizen



Customer Value

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

90% customer satisfaction rate

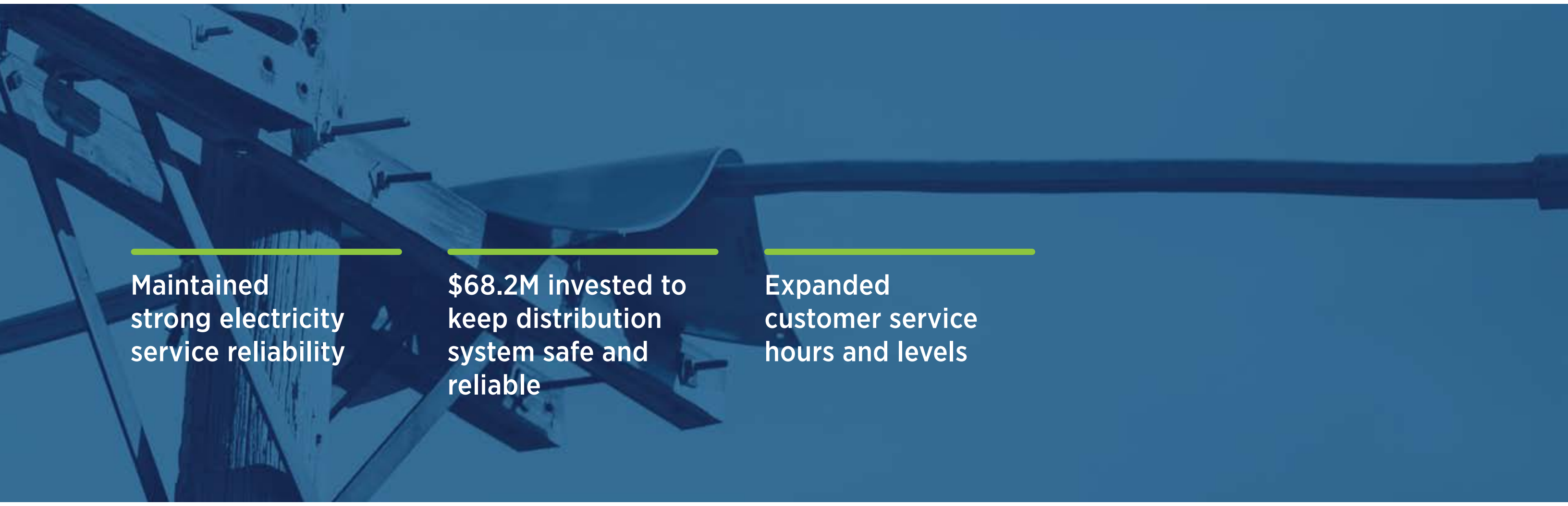
Launched Hydro Ottawa mobile app

The essence of Hydro Ottawa's business strategy is to put the customer at the centre of everything we do. In 2017, we provided highly reliable electricity service, made significant investments to maintain that standard of service, and enhanced our interaction and communication with customers, while also keeping distribution rates as affordable as possible. In fact, Hydro Ottawa Limited kept operating costs[1] on par with 2016, through operational savings and productivity improvements, despite inflationary and labour increases.

While we continued to extend the range of services we offer customers, most fundamentally they want electricity to be there when they need it. In 2017, our reliability performance dipped slightly from the previous year, due in part to high winds and multiple major weather events. Outage frequency rose slightly (by 0.1 outages per year for an average customer), as did average outage duration (by 11 minutes). Still, Hydro Ottawa's service reliability remained among the best in Ontario, with 0.8 average customer outages per year. We have improved our performance in this area significantly over the past 5 years, with the frequency of outages down by 41 percent and the duration of outages down by 27 percent compared to 2013. We continue to invest in the reliability of our system in order to see this positive trend continue.

Like most utilities in Ontario, Hydro Ottawa needs to replace aging distribution system equipment at an accelerated pace. To further improve reliability, we continued to replace infrastructure consistent with our OEB-approved five-year plan.

1 Operating costs exclude conservation and demand management



Maintained strong electricity service reliability

$68.2M invested to keep distribution system safe and reliable

Expanded customer service hours and levels

We invested $68.2 million in 2017, targeting older infrastructure, localized reliability issues, and station capacity limitations. A further $30.9 million was invested to expand the system to meet growing customer needs.

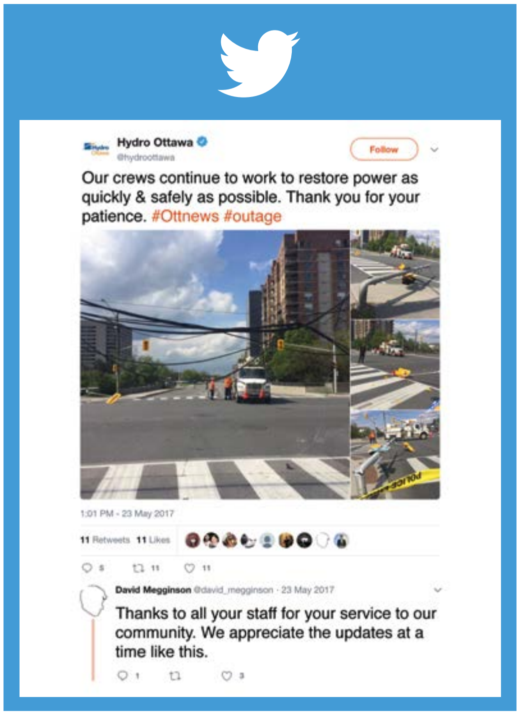
Our customer satisfaction rate was 90 percent in 2017, up from 81 percent in 2016 and five percentage points higher than the average for local electrical utilities in Ontario. In addition to our own initiatives to improve customer service, we believe the province-wide electricity cost reductions implemented through the Ontario Fair Hydro Plan (OFHP) were likely a significant driver of the increased satisfaction rate.

We continued to reach notable customer-service milestones in 2017. This included launching an industry-leading mobile app that allows customers to view and manage their energy consumption, access their billing details, and receive real-time outage information and alerts.

We also increased service levels and extended contact centre hours in 2017, and now offer live support in 120 different languages. Our self-serve phone features were enhanced with voice recognition technology, and our web/mobile self-serve options can now be linked to social media accounts for speed and simplicity of access. These service improvements were all provided at a reduced cost through a contract with a new service provider. Communication and interaction through social media also remained a priority, and we used more video and drone footage to provide frontline and behind-the-scenes insights and information. Social media has become a primary contact point for many customers, especially during storms and outages when real-time information is vital.

We maintained the highest e-billing participation rate of any utility in Ontario, increasing customer convenience while decreasing costs. Now at 40 percent, e-billing participation saves $1.4 million annually. Our 2017 “go paperless” e-billing incentive campaign generated an $88,465 donation to the CHEO Foundation, enabling the purchase of a new portable echocardiography machine for the smallest patients in the neonatal intensive care unit.

We also continued to help customers manage their energy consumption and costs through conservation and demand management (CDM) programs. At the mid-point of our current six-year CDM plan (2015–2020) we are tracking well towards an overall goal of saving 395 gigawatt hours of electricity. Among our major initiatives are six institutional Combined Heat and Power projects, with one at the Royal Ottawa Hospital now fully operational.



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.

$36.0M in net income

$21.9M dividend to shareholder

In 2017, Hydro Ottawa continued to achieve excellent financial results, while successfully completing the Chaudière Falls expansion – the company's largest-ever capital project – overcoming severe weather and unplanned events, and continuing to develop new business lines.

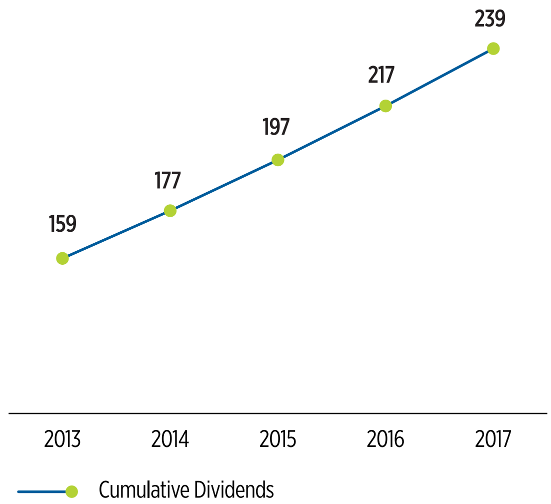
Our consolidated net income rose by $1.2 million to $36 million. This record amount achieved the projection in our 2016–2020 Strategic Direction, despite the financial impact of unforeseeable events such as severe spring flooding. The Chaudière Falls expansion was completed on time and on budget and, once at full production it will generate enough clean, renewable energy to power 20,000 homes.

With a consolidated return on equity of 8.4 percent – consistent with 2016 – Hydro Ottawa continued to create value for its sole shareholder, the City of Ottawa. Our 2017 performance generated a dividend payment of $21.9 million, surpassing the floor of $20 million, and bringing cumulative dividends paid to $239 million since 2005.

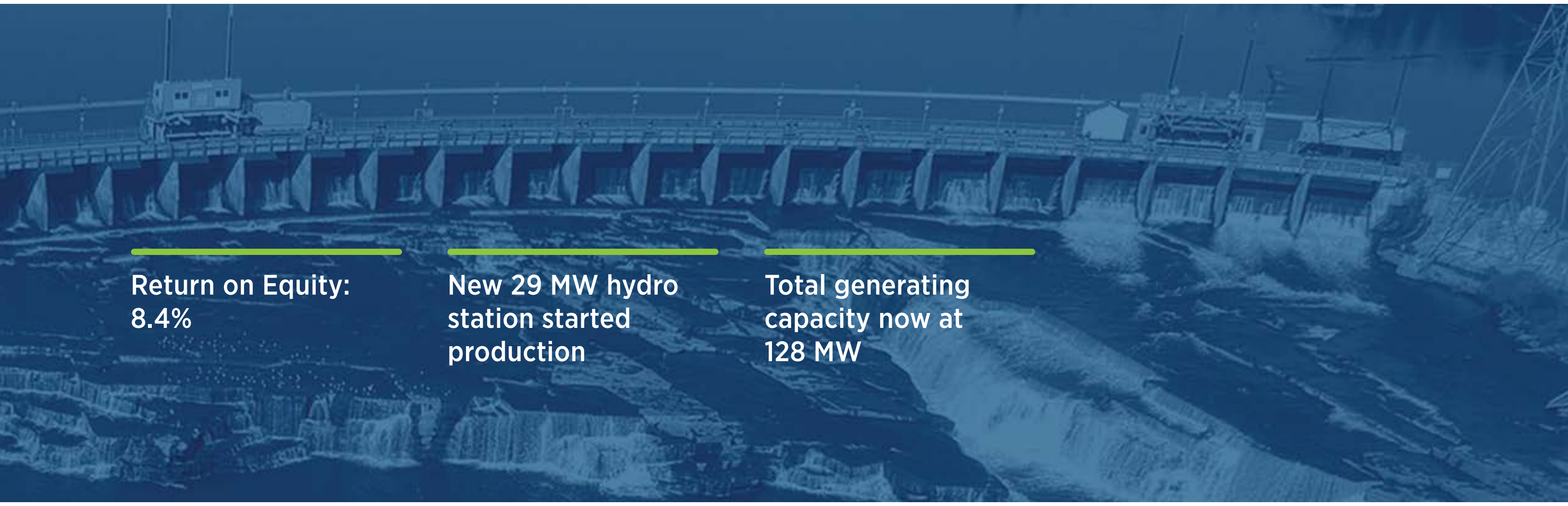
While our regulated local distribution company continued to be the largest contributor to our net income, revenue growth under the current regulatory model is expected to be modest. This, coupled with investments needed to successfully manage the challenges of aging infrastructure and grid modernization, requires a focus on cost containment and productivity. In 2017, we were able to keep our operating cost[1] on par with 2016, despite inflationary and labour pressures.

Net Income [$ millions]

Cumulative Dividends [$ millions]



1 Operating costs exclude conservation and demand management



Return on Equity: 8.4%

New 29 MW hydro station started production

Total generating capacity now at 128 MW

The completion of the Chaudière Falls expansion project boosted our renewable generation capacity to 128 megawatts, an increase of more than 500 percent since 2012. This represents enough renewable energy power – 107,000 homes – equivalent to more than a third of Hydro Ottawa's residential customers, and by far the most of any municipal utility in Ontario. The expansion was in commercial operation as of August 18, and the official public opening of the spectacular falls and surrounding historic site followed on October 16.

A once-in-a-century spring flood event impacted 11 of our generating stations along the Ottawa and Rideau Rivers in 2017. Most stations were restored within the first week, minimising the financial impact, but two stations required extensive repairs and only returned to normal operation in October and November.

In keeping with our 2016–2020 Strategic Direction, we continued to expand and develop Energy and Utility Services – the third driver of our financial strength alongside our distribution and generation operations. The largest current project is the City of Ottawa streetlight conversion, with a total of 21,527 streetlights converted to LED as of the end of 2017. With the project more than one-third completed, Ottawa has begun to see earlier and higher energy savings than originally projected. We also continued to develop and market other new services, and are encouraged by the strong interest in our cable testing offering, which launched in 2016.

Organizational Effectiveness

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

Safety remained our top priority

Contained operating costs through productivity

Achieving the objectives set out in our 2016–2020 Strategic Direction requires an effective and constantly learning organization, with the right skills and organizational capacity to deliver on existing and new business lines. For this reason, we sustained our focus on three main outcomes in 2017: a safe and healthy work environment; an engaged, aligned and prepared workforce; and efficient and effective operations that enhance the customer experience.

Maintaining a safe and healthy work environment remained our top priority, with a heightened focus in 2017 on our contractor Occupational Health, Safety and Environment (OHSE) management program, including detailed reviews of field-level performance. Internally, we increased our already extensive training on safe work practices, averaging 28 hours per employee, and more than 55 hours among employees in higher-risk trades roles. Our OHSE management system continued to be certified to the internationally recognized OHSAS 18001 and ISO 14001 standards, and the head of our safety group was recognized by the Canadian Society of Safety Engineering as Safety Professional of the Year – Eastern Ontario and Canada.

We continued to implement our proactive and multifaceted Talent Management Strategy to ensure a well-prepared and sustainable workforce over the next five to ten years. Similar to many companies in our sector, Hydro Ottawa faces challenging demographics, with 35 percent of employees eligible to retire in the next ten years including 38 percent of trades and technical employees. In 2017, attracting and retaining staff remained a major priority for the organization as a whole. There was growth in our powerline technician partnership with Algonquin College and in our hiring of apprentices, who now represent more than 19 percent of our trades workforce.

Our summer and co-op students, and retiree and older-worker engagement programs, continued to be vital; and we launched a refreshed diversity and inclusion plan, with both employee- and community-facing components.

Refreshed our diversity and inclusion plan

Leader among peers in use of cloud technology

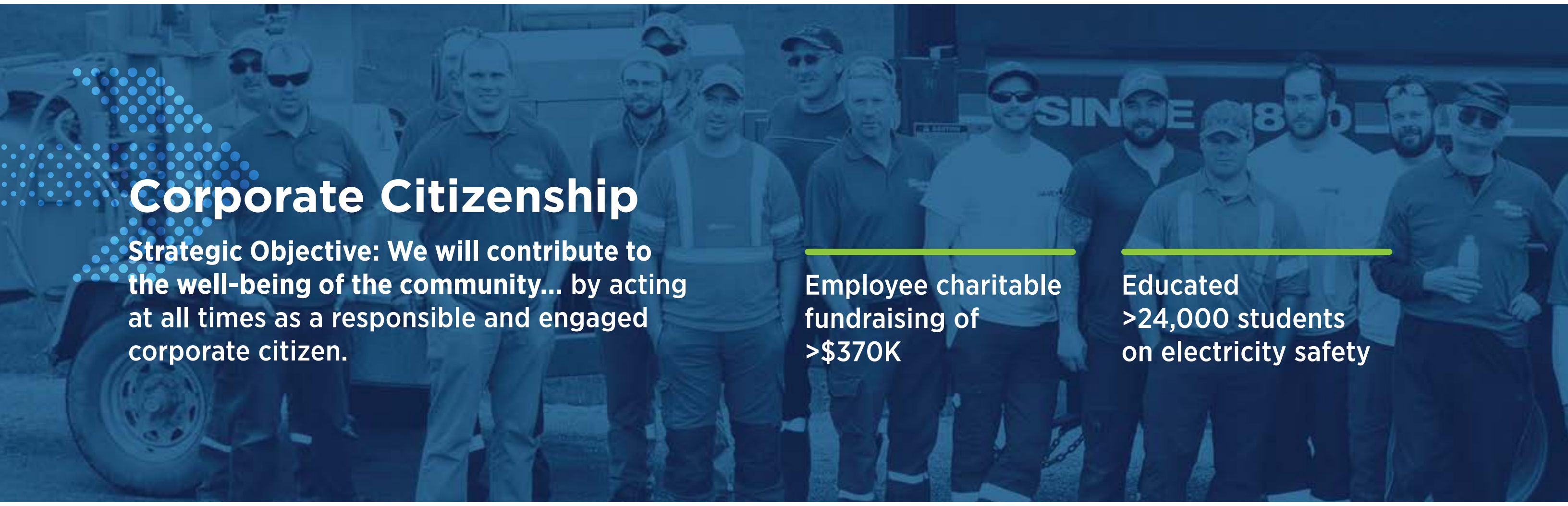
Facilities Renewal Program construction underway

Containing operating costs through performance and productivity improvement also remained a broad and constant effort throughout the company, and continued to deliver operating savings in 2017. We further increased the productivity of the labour we deploy, as well as the efficiency of key assets such as generating facilities and technology infrastructure; and we succeeded in minimizing increases in operating, maintenance and administration spending.

Technology continued to play a key role in our efforts to enhance performance and productivity, as well as customer service. In 2017, we invested almost $17 million in next-generation technology systems to support customer service, operational efficiency, grid modernization, and cybersecurity. Hydro Ottawa became one of the first utilities to migrate major software systems to the cloud, thereby improving our capacity for innovation and new-technology implementation.

As providers of electricity to the nation's capital, our critical infrastructure is increasingly at risk from cybersecurity threats. In response, we are investing in our cybersecurity program with a greater emphasis on proactive controls. Hydro Ottawa was also a key contributor to the new Ontario Energy Board cybersecurity framework for all utilities and our interconnected grid.

The construction phase of our Facilities Renewal Program also got underway in 2017. This is a key modernization and operational efficiency initiative that will see the company relocate from obsolete, end-of-life facilities in 2019 (specifically, our south and east operations centres and administrative office). When fully implemented, the plan is expected to improve productivity, enhance service through more strategically located and better-equipped facilities, and help reduce environmental impacts.



Corporate Citizenship

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

Employee charitable fundraising of >$370K

Educated >24,000 students on electricity safety

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

We remained visible and accessible to our stakeholders in 2017, participating in more than 465 community events – a 32 percent increase over 2016. This participation centered on: energy-related educational programs in schools; Conservation Team involvement in a wide spectrum of community, corporate and retail events; and a range of other presentations and open houses. We also continued to grow our online community presence – with a 92 percent increase in overall engagement from 2016 – in part through our video social media strategy and our new Hydro Ottawa App.

We continued to enhance our communications with community associations and business improvement areas, maintaining newsletters tailored to these specific audiences. We hosted a second annual Community Forum to provide information on our CDM programs, tree trimming efforts, and low-income assistance programs; and hosted 14 community meetings to provide information and answer questions on upcoming infrastructure projects for 2018.

Environmental leadership continued to be a high priority for Hydro Ottawa. In 2017, we diverted more than 90 percent of non-hazardous wastes (liquid and solid) away from landfill, while further cutting our use of paper and physical servers. We revitalized our Environmental Sustainability Strategy, and set a goal to achieve the Canadian Electricity Association's Sustainable Electricity Company™ designation by 2020. We also played a leading role in the City of Ottawa's Energy Evolution initiative.

Assisted with post-hurricane Irma and Harvey power restoration

Earned 10 performance excellence awards

Diverted >90% of non-hazardous wastes from landfill

We continued to make diverse and carefully chosen community investments. Our annual employee charitable campaign raised over $370,000. Led by our employees' resolve to "give where they live", funds were provided to the Breast Health Centre at the Ottawa Hospital and to United Way Ottawa's mental health programs. Our employees also contributed to the community with their time, with many doing so at the Special Needs Day at the Capital Fair – an annual highlight for many Hydro Ottawa employees. We continued our long-standing corporate support for Christie Lake Kids, which provides recreation and skills and leadership training for economically disadvantaged youth, and we partnered with Ottawa 2017 in support of several elements of the Canada's 150 celebrations, including Red Bull Crashed Ice, Inspiration Village, Kontinuum, La Machine, and the Mìwàte – Illumination of Chaudière Falls.

While we put our community donations to work here at home, we also answered the call-to-help from four other utilities during the year including one from a distant neighbour – sending 26 employees to assist with power restoration in Georgia after Hurricanes Irma and Harvey hit the United States. Hydro Ottawa has a long history of participating in such efforts on both sides of the border through membership in the North Atlantic Mutual Assistance Group (NAMAG) – a partnership enabling utilities to deliver and access not-for-profit assistance.

We were honored again in 2017 to have our efforts recognized with third-party awards and rankings in the areas of best employer, human resources and safety innovation, customer programs, and corporate social responsibility.

Management's Discussion and Analysis

INTRODUCTION

The Management's Discussion and Analysis ['MD&A'] reviews Hydro Ottawa Holding Inc.'s operational performance and financial results, and should be read in conjunction with the audited consolidated financial statements and accompanying notes for the year ended December 31, 2017. On January 1, 2015, Hydro Ottawa Holding Inc. adopted International Financial Reporting Standards ['IFRS'] including early adoption of IFRS 14 Regulatory Deferral Accounts ['IFRS 14']. The accompanying consolidated financial statements are prepared in accordance with IFRS, as issued by the International Accounting Standards Board ['IASB'], and are expressed in thousands of Canadian dollars.

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

CORE BUSINESS AND STRATEGY

Company Profile

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

Hydro Ottawa Limited, the first of these two subsidiaries, is a regulated electricity local distribution company ['LDC'] operating in the City of Ottawa and the Village of Casselman. As the third-largest municipally owned electrical utility in Ontario, Hydro Ottawa Limited maintains one of the safest, most reliable and cost-effective electricity distribution systems in the province, serving approximately 332,000 residential and commercial customers across 1,116 square kilometres. As a condition of its distribution licence, the Company is required to meet conservation and demand management ['CDM'] targets established by the Ontario Energy Board ['OEB']. The Company's customer base grows by an average of one percent per year.

Energy Ottawa Inc. ['Energy Ottawa'], the second of these two subsidiaries, is the largest Ontario-based municipally owned producer of green power, and provides commercial energy and infrastructure management services to large energy-consuming organizations. These include turnkey energy efficiency solutions (e.g., lighting and building retrofits), non-destructive cable testing and smart data monitoring systems. Energy Ottawa also owns and operates six run-of-the-river hydroelectric generation plants at Chaudière Falls near Ottawa's core, along with the historic Ottawa River Ring Dam, and 10 other run-of-the-river facilities in Ontario and New York. It also holds majority

interests in two gas-to-energy joint ventures, which produce clean, renewable energy from landfill gas at the Trail Road and Laflèche landfill sites in Ottawa and in Moose Creek, Ontario; and has 14 solar installations across the City of Ottawa. In total, Energy Ottawa has 128 megawatts of installed green generation capacity – enough to power 107,000 homes.

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

Our Strategic Direction

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

Strategy

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

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

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

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

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

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

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

Mission, Vision & Guiding Principles

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

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

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

OUR GUIDING PRINCIPLES

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

OUR ORGANIZATIONAL VALUES

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

OUR COMMITMENTS TO OUR STAKEHOLDERS

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

Employees

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

Customers

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

Suppliers and Contractors

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

Community and the Environment

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

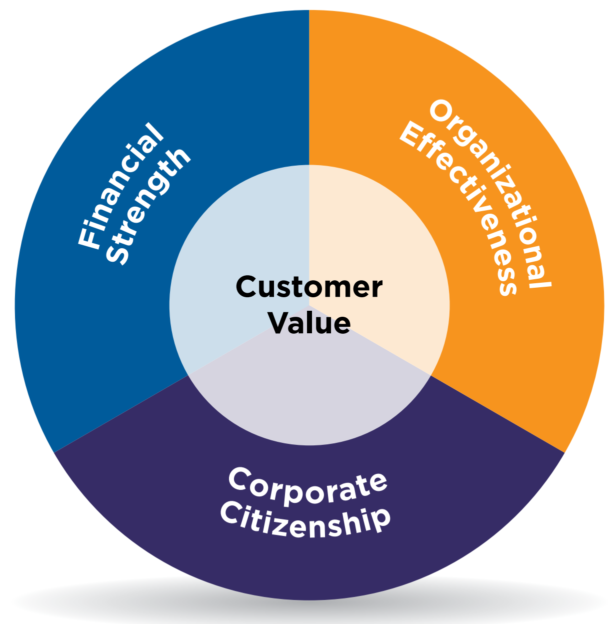
Shareholder and Other Suppliers of Finance

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

Four Key Areas of Focus

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

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



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

Electricity Industry Overview

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

Electricity Generation

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

Electricity Transmission

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

Electricity Distribution

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

Hydro Ottawa Limited is a municipally owned LDC that operates in the City of Ottawa and the Village of Casselman.

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

System Operators

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

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

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

Regulatory Framework

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

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

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

Rates

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

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

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

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

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

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

CAPABILITY TO DELIVER RESULTS

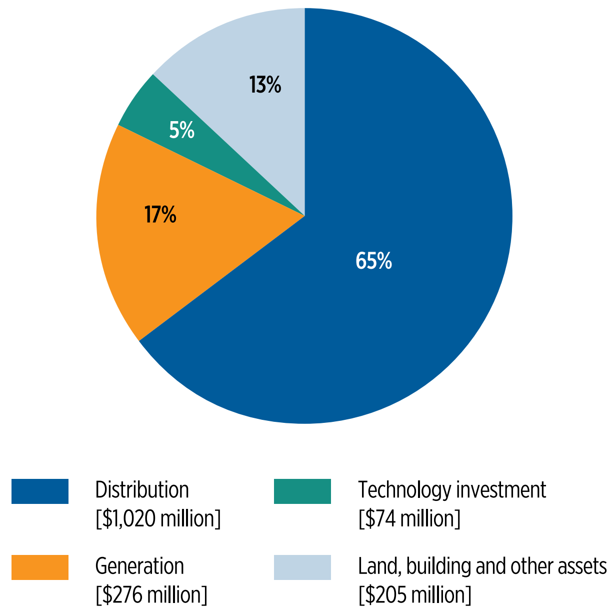
Hydro Ottawa's capability to achieve the objectives set out in its strategic direction is a function of its tangible and intangible assets, expertise, systems, and capital resources across the following areas.

Assets

Hydro Ottawa's gross asset base is $1.58 billion, with significant ongoing investments in distribution and generation infrastructure and technology systems. Like all utilities, Hydro Ottawa is affected by the reality of aging infrastructure, and continues to manage this through increased infrastructure investments and a detailed Distribution System Plan to target spending where it will have the most benefit. In 2017, the Corporation invested $68 million to maintain its distribution system and a further $31 million to expand the system to meet customer needs [see 'Investing Activities' for more details]. These investments are having the desired impact, with electricity service reliability remaining strong system-wide despite the occurrence of major-weather-event days in 2017. Hydro Ottawa has also recognized the need to replace core work and operational centres that are at the end of their useful life. In 2017, work progressed on its facilities renewal project, including construction and preparations for the move in 2019. Hydro Ottawa also continues to grow its renewable generation infrastructure with $51 million invested in 2017.

- ***Electricity Distribution Assets*** – For more than 100 years, Hydro Ottawa and its predecessor companies have delivered a reliable supply of electricity to homes and businesses.
  - Service Area – 1,116 square kilometres
  - Circuitry – 5,711 kilometres
  - Substations – 88
  - Transformers – 45,701
  - Poles – 49,484
- ***Renewable Generation Assets*** – Largest Ontario-based municipally owned producer of green power with 128 megawatts of installed generation capacity, enough to power 107,000 homes.
  - Run-of-the-River Hydroelectric Generating Stations – 16
  - Landfill Gas-to-Energy Plants – 2
  - Solar Installations – 14

Gross Tangible and Intangible Assets



Workforce

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

Hydro Ottawa employed approximately 730 people at the end of 2017 across the enterprise, with Hydro Ottawa Limited accounting for 88 percent of this workforce.

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

- ***Training:*** Our in-house apprenticeship and engineering internship programs continued to grow in 2017 with seven new apprentices hired [bringing the total to 34, or 19 percent of our trades workforce]. Eleven apprentices reached journeyperson status in 2017.

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

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

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

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

Systems and Processes

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

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

Examples of initiatives undertaken in 2017 include:

- implemented live GPS tracking of vehicles to optimize dispatching of crews;
- installed 7,000 [for a total of 9,500] remote disconnect meters eliminating the need to dispatch vehicles and helping to reduce our carbon footprint;
- rolled out new customer telephone system providing self-serve features for account information, billing inquiries, and outage management – all leveraging voice recognition technology;
- launched industry leading mobile application that enables our customers to manage their energy consumption, monitor usage, view bills and conservation tips, and track outages;
- enhanced website functionality improving customer sign-in, site navigation and registration process for Pre-authorized Payment and Equal Monthly Payment Plans;
- implemented a new Enterprise Resource Planning [ERP] system with streamlined and automated Human Resources, Finance and Supply Chain processes company-wide; and
- migrated major systems to the Cloud on a large scale, thereby modernizing how we implement future technology.

Capital Resources

Liquidity and Capital Resources

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

On July 20, 2017, the Corporation renewed its credit facility for $340 million. The Corporation may use up to $190 million of the facility for general operating requirements and annual capital expenditures. To ensure appropriate liquidity, an additional $150 million, two-year revolving term credit line was also placed to provide short-term bridge financing for large capital projects and acquisitions.

Capital expenditure requirements in excess of the credit facility, if any, will be funded through future bond issuances. The utility sector continues to be a very attractive investment in the capital markets with strong demand across all bond tenures. This provides the Corporation access to significant market capacity to support its ongoing investment requirements. The Corporation's existing corporate bond profile is very strong with a weighted average maturity of 19 years at an average weighted cost of 3.49 percent. The $204 million, 40-year non-recourse project bond issued in 2016 for the expansion at Chaudière Falls remains in place at a rate of 4.08 percent. For additional details regarding the Corporation's sources of liquidity and capital resources, see Notes 13, 16 and 17 to the consolidated financial statements.

Credit Ratings

On July 27, 2017, Dominion Bond Rating Service Inc. ['DBRS'] reaffirmed Hydro Ottawa's rating at 'A' with a stable trend during the year. While Hydro Ottawa's portfolio of generation assets have long-term power purchase agreements with creditworthy counterparties, DBRS noted that Hydro Ottawa's business risk profile may be negatively affected if earnings from the non-regulated segment exceed 20 percent. On November 1, 2017, Standard & Poor's ['S&P'] confirmed its rating at 'BBB+' with a stable outlook. S&P noted that Hydro Ottawa continues to have an excellent business risk profile due to: its operation under a transparent, consistent, and predictable regulatory framework for electricity distribution; its large and diverse customer base; and the quality of its government-backed power purchase agreements for the majority of the generation assets, which provide steady, predictable and stable cash flows.

RESULTS – PROGRESS AGAINST PLAN

To ensure Hydro Ottawa makes steady progress towards achieving the corporate strategy set out in our 2016–2020 Strategic Direction, the Company has set enterprise-wise strategic objectives in each of its four key areas of focus, and established Board-approved performance goals. The table below summarizes performance in relation to its goals for 2017.

KEY AREAS OF FOCUS	ENTERPRISE STRATEGIC OBJECTIVES	2017 PERFORMANCE GOALS	2017 PERFORMANCE HIGHLIGHTS
CUSTOMER VALUE	We will deliver value across the entire customer experience *by providing reliable, responsive and innovative services at competitive rates*	Assist customers in managing their energy consumption and electricity costs Deliver on customer expectations for service quality and responsiveness Maintain overall distribution system reliability	• Continued to achieve strong reliability results despite several major-weather-event days, and invested $68.2M to keep our distribution system safe and reliable • Extended the hours and increased the service levels of our customer service contact centre – including Saturday hours, translation support for 120 languages, voice recognition technology ["My Voice is My Password"] • Ranked 2nd in terms of lowest operating costs per customer amongst large distributors in Ontario • Achieved 90% customer satisfaction rate • Achieved highest e-billing participation rate among Ontario LDCs [40% of customers], saving $1.4M per year • Launched industry-leading Mobile App providing customer billing, energy consumption, conservation tips, and outage information • Continued to use social media and drone footage to relay real-time information during storms and outages
FINANCIAL STRENGTH	We will create sustainable growth in our business and our earnings *by improving productivity and pursuing business growth opportunities that leverage our strengths – our core capabilities, our assets and our people*	Grow revenues from new sources Enhance / protect revenues from existing business lines	• Achieved consolidated net income of $36M, as per 2016–2020 Strategic Direction commitment • Completed Chaudière Falls expansion project on schedule and budget › Largest project in the company's history › Brings total generation capacity to 128 MWs [500% growth since 2012] – enough to power 107,000 homes › Solidifies status as largest Ontario-based municipally owned producer of green power • Maintained generating revenue stability with over 80% of our 128 MW capacity contracted through long-term power purchase agreement rates • Continued to diversify our revenue streams › 21,527 City of Ottawa street lights converted to LED – over 60% savings in kWh › Completed LED retrofit projects at the Robert O. Pickard Environmental Centre, Ottawa Airport, Village of Casselman and Ottawa Community Housing

KEY AREAS OF FOCUS	ENTERPRISE STRATEGIC OBJECTIVES	2017 PERFORMANCE GOALS	2017 PERFORMANCE HIGHLIGHTS
ORGANIZATIONAL EFFECTIVENESS	We will achieve performance excellence *by cultivating a culture of innovation and continuous improvement*	Continue to enhance operational performance and productivity Maintain leading health and safety record Enhance organizational and employee capability	• Maintained safety as our top priority, providing an average of 28 hours of safe work practices training for all employees • Continued our heavy focus on productivity • Invested $16.6M in next-generation technology systems to support customer service, operational efficiency, grid modernization, and cybersecurity • Maintained certifications for our Occupational Health, Safety and Environment Management System to internationally recognized standards • Advanced facilities renewal project construction and initiated preparations for the move in 2019 • Continued our workforce renewal through apprentice and journeyperson hiring [without increasing position complement], and through implementation of comprehensive talent management programs
CORPORATE CITIZENSHIP	We will contribute to the well-being of the community *by acting at all times as a responsible and engaged corporate citizen*	Enhance our brand image in the community and the industry Continue to improve our environmental performance and reduce our impact on the environment	• Provided support through our Community Investment Program, employee volunteer efforts, and local delivery of provincial financial assistance programs • Raised over $370K as part of our 2017 Employee Charitable Fundraising campaign • Increased our engagement with the community › Attended more than 465 community events › Educated over 24,000 students about electricity safety, conservation and renewable energy › Hosted our annual Community Forum and 14 Open Houses for planned work › Increased online engagement by 92% [Twitter followers rose by 21%, Facebook by 51% and LinkedIn by 40%] • Answered the call for aid by assisting with power restoration in Georgia after Hurricanes Irma and Harvey devastated many communities • Diverted more than 90% of our non-hazardous solid and liquid waste away from landfill • Received 10 awards for performance excellence, including recognition as one of Canada's Top Employer's [4th year] and as one of the National Capital Region's Top Employers [9th year]

FINANCIAL RESULTS

The selected consolidated financial results of the Corporation presented below should be viewed in conjunction with the audited consolidated financial statements and accompanying notes for the year ended December 31, 2017.

Consolidated Statement of Income [Summary]

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

[in thousands of Canadian dollars]

	2017	IFRS 14 Impact	2017 (Pre-IFRS 14)(1)	2016	IFRS 14 Impact	2016 (Pre-IFRS 14)(1)	Change (Pre-IFRS 14)(1)
Revenue and other income							
Power recovery	**896,528**	**(10,849)**	**885,679**	974,207	(14,021)	960,186	(74,507)
Distribution sales	**171,400**	**(418)**	**170,982**	165,729	986	166,715	4,267
Generation	**22,898**	**–**	**22,898**	17,489	–	17,489	5,409
Commercial services	**26,960**	**–**	**26,960**	18,294	–	18,294	8,666
Conservation and demand management	**23,976**	**–**	**23,976**	19,643	–	19,643	4,333
Net gain from insurance proceeds	**2,939**	**–**	**2,939**	–	–	–	2,939
Other	**6,753**	**–**	**6,753**	7,033	–	7,033	(280)
	1,151,454	**(11,267)**	**1,140,187**	1,202,395	(13,035)	1,189,360	(49,173)
Expenses							
Purchased power	**908,649**	**(25,131)**	**883,518**	966,072	(7,883)	958,189	(74,671)
Operating costs	**139,797**	**(307)**	**139,490**	128,072	(242)	127,830	11,660
	1,048,446	**(25,438)**	**1,023,008**	1,094,144	(8,125)	1,086,019	(63,011)
Income before the undernoted items	**103,008**	**14,171**	**117,179**	108,251	(4,910)	103,341	13,838
Depreciation and amortization	**54,800**	**–**	**54,800**	49,642	–	49,642	5,158
Financing costs, interest income and taxes	**36,838**	**(9,342)**	**27,496**	28,172	(8,250)	19,922	7,574
Share of profit from joint ventures	**(1,092)**	**–**	**(1,092)**	(1,059)	–	(1,059)	(33)
	90,546	**(9,342)**	**81,204**	76,755	(8,250)	68,505	12,699
Net income	**12,462**	**23,513**	**35,975**	31,496	3,340	34,836	1,139
Net movements in regulatory balances, net of tax	**23,513**	**(23,513)**	**–**	3,340	(3,340)	–	–
Net income after net movements in regulatory balances	**35,975**	**–**	**35,975**	34,836	–	34,836	1,139

(1) Non-GAAP financial measure

Net Income

Net income increased by approximately $1.1 million or three percent in 2017. This increase was primarily due to a $4.3 million increase in distribution sales, a $14.1 million increase in generation and commercial services revenue, and a $2.9 million net gain from insurance proceeds. These positive variances were partially offset by increases in operating costs excluding conservation and demand management costs of $7.4 million and in depreciation and amortization of $5.2 million, and by a $7.6 million increase in financing costs [net of interest income] and taxes.

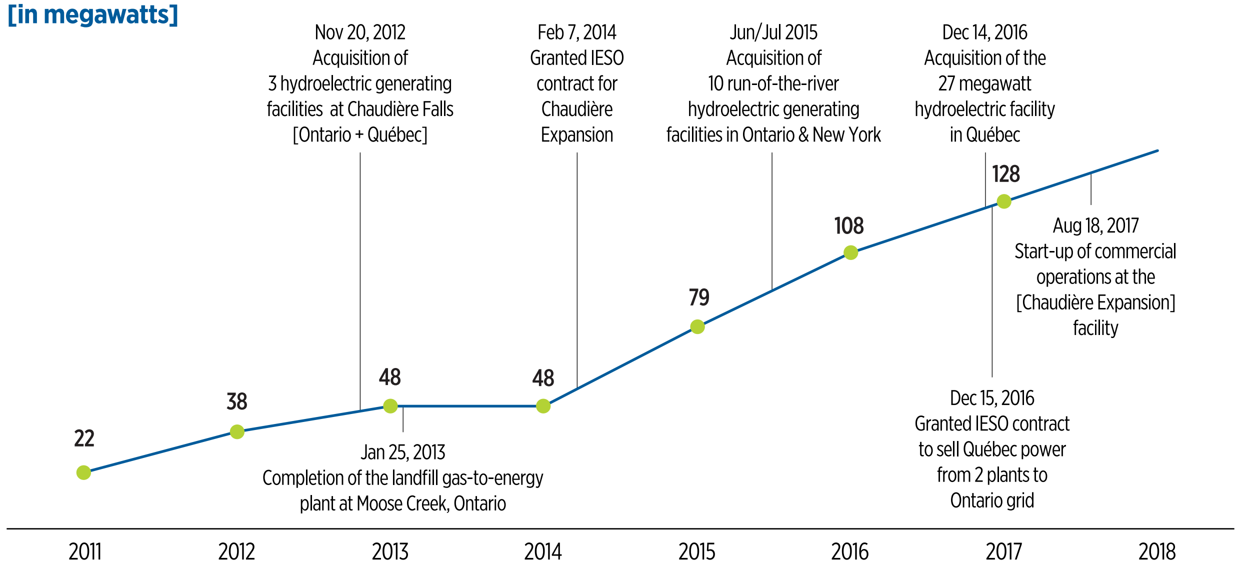
Revenue and Other Income

Revenue and other income are earned from electricity distribution, renewable energy generation, energy management and utility services, as well as from CDM programs and sundry activities. In 2017, Hydro Ottawa's total revenue amounted to approximately $1.1 billion, a slight decrease from 2016.

The largest component of Hydro Ottawa's total revenue is the cost of power recovered from customers through provincially established rates. The cost of power is a flow-through amount, which poses limited risk to Hydro Ottawa's financial performance. However, variances arise between the cost of power purchased and the cost of power recovered, due to timing differences in invoicing from the IESO for the former, and receipt of payment from customers for the latter. This difference is recorded as a settlement variance. Hydro Ottawa Limited's power recovery revenue decreased by $74.5 million, mainly due to lower electricity consumption and lower flow-through electricity costs as a result of the Ontario Fair Hydro Plan. The Ontario Fair Hydro Plan, introduced by the Government of Ontario on March 2, 2017, provides eligible customers with financial assistance through various changes to commodity pricing, and through elimination or reduction of certain provincial charges on the electricity bill. As a result, the total electricity bill for eligible customers is reduced by an average of 25 percent and consequently so is Hydro Ottawa's power recovery revenue offset by a similar decrease in power purchased as described below.

Distribution sales are recorded based on OEB-approved distribution rates, set at a level intended to recover the costs incurred by Hydro Ottawa Limited in delivering electricity to customers, and they include revenue related to the collection of OEB-approved rate riders. 2017 marks the second year of rates approved under Hydro Ottawa Limited's 2016–2020 custom incentive rate-application. Distribution sales revenue increased $4.3 million or three percent from 2016 largely due to this application and the associated recovery of large investments in capital infrastructure. The Ontario Fair Hydro Plan does not have any effect on Hydro Ottawa's distribution sales.

Generation Capacity Growth [in megawatts]



Energy Ottawa's generation revenues continued to grow. The subsidiary significantly increased its generation capacity in the past few years as detailed in the chart above. The most notable addition in 2017 was the start-up of commercial operations at the expanded Chaudière facility on August 18, 2017, which was the largest project in the Corporation's history.

Leading up to the official start-up, we experienced a once-in-one-hundred-year flood event on the Ottawa River system in May 2017 forcing the shutdown of our generation facilities at Chaudière Falls, Rideau Falls and Kingston Mills. The majority of the generation at Chaudière Falls was fully restored within the first week. Following the flood, some facilities or portions thereof required more significant repairs and were out of service for a longer period. All stations were back to their normal operating state as of November 2017. In addition, on August 19, 2017, one of the units experienced a mechanical failure due to a manufacturer defect and sustained significant damage. This unit is expected to be back in service in 2018. The Corporation is seeking compensation for lost revenues from its contractor and its insurers. Despite these setbacks, the Corporation was able to increase generation revenues by $5.4 million, due to revenue from the 27-megawatt hydroelectric generating station on the Québec side of Chaudière Falls acquired in late 2016 and the revenue from the expansion at Chaudière Falls in the second half of the year.

Commercial services revenue increased by $8.7 million largely due to the streetlight maintenance and conversion projects. The largest of these is in the City of Ottawa, where a cumulative total of 21,527 LED streetlights have been installed since the project began in 2016. New endeavors such as cable testing and power quality testing continue to gain momentum. CDM was $4.3 million higher than in 2016 due to an increase in the number of customer projects completed during 2017. Funding for these projects is provided by the IESO, which compensates Hydro Ottawa for all eligible CDM expenditures incurred during the year.

In 2017, the Corporation recognized a net gain of $2.9 million from insurance proceeds [net of insurance deductibles]. This includes $1.6 million in lost revenue compensation resulting from the mechanical failure of a unit at the expanded Chaudière facility and $1.3 million in business interruption and property damages arising from the shutdown of the facilities at Chaudière Falls, Rideau Falls and Kingston Mills due to a once-in-one-hundred-year flood event.

Expenses

Purchased Power and Operating Costs

Purchased power represents the cost of electricity delivered to customers within Hydro Ottawa Limited's distribution service territory. These costs consist of the commodity, wholesale market service charges, transmission charges and the global adjustment. The cost of purchased power decreased by $74.7 million in 2017, mainly due to lower electricity consumption and lower flow-through electricity costs resulting from the Ontario Fair Hydro Plan.

Operating costs in 2017 of $139.5 million were up by $11.7 million due in part to an increase in CDM and business development [such as non-destructive cable testing] expenditures, along with operating expenses associated with generation assets acquired from Hydro Québec in December of 2016, and technology costs. Bad debt expenses also increased as a result of the Decision and Order banning licensed electricity distributors from disconnecting homes for non-payment during the winter. This order was issued by the OEB on February 22, 2017 [and lifted on April 30, 2017] and again on November 15, 2017 [lifting in April 2018].

Depreciation and Amortization

Depreciation and amortization on Hydro Ottawa's property, plant and equipment, and intangible assets increased in 2017 by $5.2 million primarily due to the ongoing investment in the Corporation's electricity distribution infrastructure and the expansion of its generation assets.

Share of Profit from Joint Ventures

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

Financing Costs [net of Interest Income] and Taxes

Financing costs [net of interest income] increased by $2.9 million due to borrowings to finance general operating requirements and annual capital expenditures, and the recognition of interest costs related to the Chaudière Falls expansion project, which had been capitalized during the construction phase.

The Corporation's effective tax rate increased from 20.61 percent in 2016, to 29.15 percent in 2017, as a result of permanent and temporary differences between the accounting treatment and tax basis of assets and liabilities that arose during the year. The $5.8 million increase in income tax expense is largely the result of an increase in pre-tax income and taxable income, and a change in the U.S. corporate tax rate. For more information regarding income taxes, see Note 22 to the consolidated financial statements.

Net Movement in Regulatory Balances [Net of Tax]

In accordance with IFRS 14, the Corporation has separately presented the net movement in regulatory balances in the consolidated statement of income. The changes in the regulatory debit and credit balances for the year on the consolidated balance sheet [$11.7 million and $12.2 million respectively], equal the net movement in regulatory balances, net of tax, on the consolidated statement of income [increase of $23.5 million, along with $0.4 million in comprehensive income]. The net movement in regulatory balances was primarily due to an increase in regulatory debit balances due to deferred taxes and operating costs to be recovered through future rates [$9.7 million and $0.3 million, respectively], and to a decrease in settlement variance credit balances of $14.3 million arising from timing differences between purchased power and cost recovery. These were offset by the recovery of regulatory debit balances through distribution sales rate riders of $0.4 million. As Hydro Ottawa Limited passes on the benefit of deferred income taxes through annual distribution rate adjustments approved by the OEB, it records a regulatory deferral account credit [or debit] balance for the amounts of deferred taxes expected to be refunded to [or recovered from] customers in future rates.

Consolidated Balance Sheet [Summary]

[in thousands of Canadian dollars]

	2017	2016	Change
Current assets	**271,368**	283,446	(12,078)
Non-current assets	**1,422,863**	1,333,388	89,475
Total assets	**1,694,231**	1,616,834	77,397
Regulatory account balances	**25,466**	13,744	11,722
Total assets and regulatory account balances	**1,719,697**	1,630,578	89,119
Current liabilities	**315,825**	267,524	48,301
Non-current liabilities	**941,222**	899,574	41,648
Total liabilities	**1,257,047**	1,167,098	89,949
Shareholder's equity	**438,141**	426,775	11,366
Total liabilities and shareholder's equity	**1,695,188**	1,593,873	101,315
Regulatory account balances	**24,509**	36,705	(12,196)
Total liabilities, shareholder's equity and regulatory account balances	**1,719,697**	1,630,578	89,119

Assets

Total assets increased by approximately $77 million in 2017. This increase is largely attributable to property, plant and equipment, and to intangible assets – which have collectively increased by $123 million – and to a $6 million increase in other long-term assets. The increase in property, plant and equipment and in intangible assets is a result of the Chaudière Falls expansion, the facilities renewal project, and continuing investments in electrical distribution and generation infrastructure. In addition, on December 13, 2017, the Corporation acquired the primary distribution assets at the Public Services and Procurement Canada campuses located at Tunney's Pasture, Confederation Heights and the Central Experimental Farm with a fair value of $1.4 million. The increase in assets was partially offset by a $58 million decrease in restricted cash arising out of the project financing arrangement for the Chaudière Falls expansion project. In 2016, $124 million of the $204 million project financing was placed in restricted accounts from which withdrawals may only be made with trustee authorization. At December 31, 2017, $66 million in restricted cash remained, while $44 million was held in a distributions reserve account which is expected to be available in 2018 upon final completion as per the terms of the trust indenture.

Liabilities

Total liabilities increased by $90 million in 2017. The Corporation's current liabilities increased $48 million largely because of an increase in bank indebtedness of $77 million offset by a decrease in accounts payable and accrued liabilities of $26 million. The Corporation also saw a $17 million increase in deferred revenue due to capital contributions received in 2017, net of amortization, and an increase of $13 million and $9 million in customer deposits and deferred income taxes, respectively. The increase in customer deposits stems from the asset transfer with Public Services and Procurement Canada of $14.6 million as described above for the funding of future expenditures related to the assets.

Regulatory Account Balances

IFRS 14 defines a regulatory account balance as the balance of any expense or [income] account that would not be recognized as an asset or liability in accordance with other IFRS standards, but that qualifies for deferral because it is included, or is expected to be included, by the regulator in establishing the rate[s] that can be charged to customers. As at December 31, 2017, Hydro Ottawa Limited has recognized $25.5 million in regulatory account debit balances [assets] and 24.5 million in regulatory account credit balances [liabilities].

The $11.7 million increase in regulatory account debit balances is largely due to a $9.1 million increase in the regulatory asset for deferred income taxes and a $1.1 million increase in the Lost Revenue Adjustment Mechanism, which tracks and disposes of lost revenues that result from approved CDM programs.

The $12.2 million decrease in regulatory account credit balances is largely due to a $15.4 million decrease in the settlement of electricity and global adjustment pass-through-cost credit balances. Offsetting this decrease is a $1.4 million increase in the Earnings Sharing Mechanism variance account, which captures 50 percent of any regulated earnings above Hydro Ottawa's approved return on equity for years 2016 to 2020, and an increase of $0.7 million in other variances and deferred costs.

Consolidated Statement of Cash Flows [Summary]

[in thousands of Canadian dollars]

	2017	2016	Change
Cash (bank indebtedness), beginning of year	**(67,769)**	4,002	**(71,771)**
Cash provided by Operating Activities	**91,962**	96,317	**(4,355)**
Cash used in Investing Activities	**(148,074)**	(349,777)	**201,703**
Cash (used in) provided by Financing Activities	**(20,600)**	181,696	**(202,296)**
Foreign exchange impact on cash held in US dollars	**(9)**	(7)	**(2)**
Cash (bank indebtedness), end of year	**(144,490)**	(67,769)	**(76,721)**

Cash (bank indebtedness) consists of:			
Cash	**933**	982	**(49)**
Bank indebtedness	**(145,423)**	(68,751)	**(76,672)**
	(144,490)	(67,769)	**(76,721)**

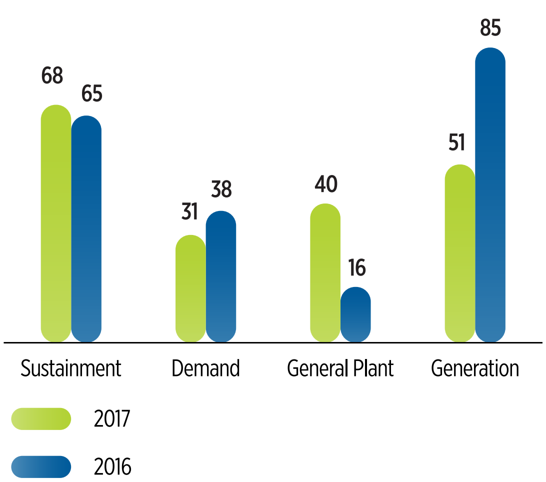
Operating Activities

Cash generated by operating activities decreased by $4.4 million in 2017. The majority of this decrease relates to the net movement in regulatory balances, which is primarily due to changes impacting settlement variance balances. This was offset by improved working capital cash flows mainly related to timing of settlement of accounts receivable and accounts payable and accrued liabilities.

Investing Activities

Cash used in investing activities decreased by $201.7 million in 2017. The decrease is partially due to the additional spending in 2016, in connection with the acquisition of the 27-megawatt Centrale Hull-2 hydroelectric generating station from Hydro-Québec. The release of restricted cash held in-trust to Hydro Ottawa, in accordance with the Chaudière expansion project financing trust indenture, further offset the impact of the ongoing construction at Chaudière Falls and our continuing investment in electrical distribution and generation infrastructure. Total investment in property, plant and equipment and in intangible assets was $190.1 million in 2017. The chart below shows Hydro Ottawa's capital investments by category for both 2017 and 2016.

Gross Capital Expenditures [$ millions]



Capital investments in 2017 included: $68 million on sustainment capital to replace aging infrastructure and to modify the existing distribution system; $31 million on demand projects, including third-party-driven growth projects such as new residential or commercial installations, and municipal improvement projects such as the City of Ottawa's Light Rail Transit project; $40 million on general plant, including the facilities renewal program, information technology infrastructure, fleet, and other sundry items; and $51 million on generating plants, of which 77 percent relates to the expansion at Chaudière Falls.

Some of the major capital projects completed in 2017 include the extension of the West 44kV line, which will provide backup supply to the communities of Stittsville, Richmond and Munster; and phase 1 of the Woodroffe switchgear and Leitrim transformer replacements, which will help to improve the reliability of the distribution system. On the generation side, the Chaudiere Hydro North L.P. and Hull Energy L.P. generating station refurbishment projects are both proceeding on schedule and on budget. Significant progress was made on engineering and procurement, with construction to commence in 2018.

Financing Activities

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

Dividends were paid to the shareholder in 2017 in accordance with the approved dividend policy. The 2017 payment totalled $20.6 million based on 2016 results, and the 2016 payment totalled $19.4 million based on 2015 results. Revisions to the dividend policy were approved by the City of Ottawa on June 22, 2016. The amended policy sets dividends at the greater of 60 percent of Hydro Ottawa Limited's net income, or $20 million. This positions the Corporation to reinvest in its growth and help strengthen its key credit metrics.

In 2016, the Corporation completed the offering of senior secured amortizing bonds representing a cash inflow of $204 million.

Accounting Matters

Significant Accounting Estimates

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

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

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

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

New Accounting Pronouncements

A number of new standards, amendments and interpretations have either been adopted for the year ended December 31, 2017, or, have been issued but are not yet effective and have therefore not been applied in preparing the accompanying consolidated financial statements.

Recently adopted accounting standards

- **Disclosure to reconcile liabilities related to financing activities in the statement of cash flows:** The IASB issued amendments to IAS 7 requiring entities to disclose changes in their financing liabilities to assist readers in evaluating changes in liabilities arising from financing activities, including changes from cash flows and non-cash changes [such as foreign exchange gains or losses]. IAS 7 is effective for annual periods beginning on or after January 1, 2017. Although there was no financial impact to the Corporation's consolidated financial statements as a result of this change, a reconciliation of liabilities arising from financing activities has been added [refer to Note 24 in the consolidated financial statements].

Recently issued accounting guidance not yet adopted

- **Revenue from contracts with customers:** In May 2014, the IASB published a new standard, Revenue from Contracts with Customers ['IFRS 15'], which replaces most of the detailed guidance on revenue recognition that currently exists under IFRS. IFRS 15 provides a standardized five-step model to recognize all types of revenue earned from customer contracts, while previously significant room was allowed for judgment in devising and applying revenue recognition policies and practices. IFRS 15 is more prescriptive in many areas, such as the combination of related contracts for revenue recognition purposes, unbundling of multiple performance obligations within a single contract, and the capitalization of costs of obtaining or fulfilling a contract. IFRS 15 also contains additional disclosure requirements. IFRS 15 is effective for annual periods beginning on or after January 1, 2018. As the majority of the Corporation's revenue is recognized on a usage basis at regulated prices [power recovery and distribution revenue] or on a per unit basis at contracted or market prices [generation revenue], and does not carry significant bundled contracts of combined products and services, IFRS 15 will not have a material impact on the accounting for these revenue streams. However, IFRS 15 will impact the Corporation's revenue-related disclosures.

- **Financial instruments:** In July 2014, the IASB issued the final version of IFRS 9 - Financial Instruments ['IFRS 9'], which replaces International Accounting Standard 39 Financial Instruments: Recognition and Measurement ['IAS 39']. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including basing the classification of financial instruments on their contractual cash-flow characteristics and on the entity's business model for managing financial assets, whereas IAS 39 bases the classifications on specific definitions for each category. Moreover, IFRS 9 simplifies the current IAS 39 classifications into three main categories [amortized cost, fair value through other comprehensive income, and fair value through profit or loss], and introduces a new expected credit loss model for measuring impairment on financial assets. The standard is effective for annual periods beginning on or after January 1, 2018. As the Corporation does not currently have complex financial instruments, IFRS 9 will not have a material impact on its consolidated financial statements. Management is currently evaluating the impact of adopting the new expected credit loss model for measuring impairment.
- **Leases:** In January 2016, the IASB issued a new standard, IFRS 16 - Leases ['IFRS 16'], which 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. IFRS 16 removes the current requirement for lessees to account for leases as either operating or finance leases – under complex rules and tests – which may result in all-or-nothing being recognised on the balance sheet. Under IFRS 16, all leases from the lessee's perspective will have to be recognized on the balance sheet, except for exempted short-term [< 1 year] and low-value leases. The new standard becomes effective for reporting periods beginning on or after January 1, 2019 and early adoption is permitted if IFRS 15 is also adopted. The Corporation is currently evaluating the IFRS 16 impact on its consolidated financial statements and related disclosures.

- **Uncertain tax positions:** On June 7, 2017, the IASB, through the International Financial Reporting Interpretations Committee, issued Interpretation 23 Uncertainty over Income Tax Treatments ['IFRIC 23']. The interpretation provides guidance on the accounting for current and deferred tax liabilities and assets in circumstances in which there is uncertainty over income tax treatments. IFRIC 23 requires an entity to contemplate whether uncertain tax treatments should be considered separately or together as a group, to determine if it is probable that the tax authorities will accept the uncertain tax treatment, and to measure the tax uncertainty based on the most likely amount or expected value. IFRIC 23 is applicable for annual periods beginning on or after January 1, 2019 and early adoption is permitted. The Corporation is currently evaluating the IFRIC 23 impact on its consolidated financial statements and related disclosures.

RISKS AND UNCERTAINTIES

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

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

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

Policy and Regulatory Environment

Actual performance versus forecasts in electricity distribution

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

Long-term impact of Government policies and incentives for LDCs

Over the long term, the Ontario Government's policies on the production, procurement, pricing and sale of renewable energy – coupled with financial and other incentives directed at consumers as part of the Province's CDM, climate change action and net metering programs – could result in significant changes in the business environment for rate-regulated LDCs such as Hydro Ottawa Limited. The proposals included in the Government's Long Term Energy Plan, released in late 2017, appear to reinforce and might even accelerate these changes.

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

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

On a separate but related front, uncertainty exists around the short- and long-term impacts on LDCs from the government's rate mitigation program known as the Ontario Fair Hydro Plan.

In addition, early experience with the province's new prohibition on winter disconnection of residential customers suggests a risk of higher levels of bad debt going forward.

LDC Consolidation in Ontario

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

Long-term policy direction for the electricity sector

The results of the 2018 provincial elections in Ontario could have a significant impact upon long-term policy direction for the electricity sector. The outcome of this election might affect a variety of areas, including the continuation of the Climate Change Action Plan, ongoing support for CDM programs, the content of the Long Term Energy Plan, support for renewable energy generation, and priorities for rate regulation. The impact could range from a complete reversal of the policy initiatives of the last fifteen years to increased momentum on those very initiatives.

Market Prices for Electricity

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

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

Major Project Execution

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

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

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.

Equipment failure could also have an adverse impact on the generation of electricity at any of the Company's various facilities.

Exchange Rate Fluctuations

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

Economy

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

Credit Ratings and Interest Rates

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

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

Technology Infrastructure

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

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

There is growing convergence of core operational systems with enterprise information systems, increasing automation, and extensive use of common technology in facilitating such integration and connectivity. This has the potential to heighten existing risks and to create new ones.

Cybersecurity

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

Customer and Media Perceptions

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

Pension Plans

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

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

Labour Force Demographics

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

Consolidation of Labour Bargaining Power

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

Weather, Hydrology and Gas Quality

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

Weather is also of potential direct relevance to Energy Ottawa's renewables generation portfolio. Hydroelectric generation depends on weather-sensitive water flows, which have both seasonal and annual variations, and which may be further impacted by either natural disaster or government policy and controls. Weather is also directly relevant to solar generation, while landfill gas availability and quality also fluctuates.

OUTLOOK

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

Hydro Ottawa Limited has an approved rate structure and capital investment plan for 2016–2020. The application was made using a rate-setting model designed to account for the LDC's significant capital requirements. Approved rates are expected to be sufficient to provide an appropriate return, while also supporting: prioritized replacement of aging infrastructure and other investments in system reliability; major infrastructure development and growth within the service territory; and introduction of new customer services. Hydro Ottawa customers, meanwhile, will continue to benefit from stable, moderate, and predictable rate impacts. In the interests of moderating future rate increases as fully as possible, the Company remains committed to ongoing innovation, productivity and cost containment.

The successful completion of the Chaudière expansion project represents a further and particularly significant milestone in the buildout of Energy Ottawa's renewable generation portfolio – bringing total capacity to 128 megawatts. In addition, the commencement of the refurbishment of generation infrastructure acquired from Hydro Québec in 2016 and Domtar in 2012, coupled with the three associated 40-year fixed price power purchase agreements for the plants in question, provides long-term generation revenue stability.

Hydro Ottawa also continues to pursue expansion in other non-regulated areas, including energy and utility services. Both business lines will leverage existing assets and expertise, and may include: advisory, project-management and design-build services; partnerships and licensing arrangements with third parties; commercialization of Hydro Ottawa technologies; asset-renewal arrangements with municipalities; and outsourced service provision to other utilities. Hydro Ottawa is encouraged by the strong interest received in 2017 in its cable testing technology service offering. These new business lines are expected to represent a third driver of financial strength in future years, supplementing the core distribution business and renewable generation.

Hydro Ottawa Holding Inc.

Consolidated Financial Statements

December 31, 2017

TABLE OF CONTENTS

Report of Management

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

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

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

On behalf of Management,

Bryce Conrad President and Chief Executive Officer	Geoff Simpson Chief Financial Officer

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

INDEPENDENT AUDITORS' REPORT

To the Shareholder of Hydro Ottawa Holding Inc.

We have audited the accompanying consolidated financial statements of Hydro Ottawa Holding Inc., which comprise the consolidated balance sheet as at December 31, 2017, the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Hydro Ottawa Holding Inc. as at December 31, 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Ottawa, Canada

April 19, 2018

Hydro Ottawa Holding Inc.

Consolidated Statement of Income
Year ended December 31, 2017
[in thousands of Canadian dollars]

	2017 $	2016 $
Revenue and other income		
Power recovery revenue	**896,528**	974,207
Distribution revenue	**171,400**	165,729
Generation revenue	**22,898**	17,489
Commercial services revenue	**26,960**	18,294
Conservation and demand management income	**23,976**	19,643
Net gain from insurance proceeds [Note 8]	**2,939**	-
Other revenue	**6,753**	7,033
	1,151,454	1,202,395
Expenses		
Purchased power	**908,649**	966,072
Operating costs [Note 20]	**139,797**	128,072
Depreciation [Notes 7 and 10]	**45,234**	37,502
Amortization [Note 9]	**9,566**	12,140
	1,103,246	1,143,786
Income before the undernoted items	**48,208**	58,609
Financing costs [Note 21]	**22,683**	19,398
Interest income	**(648)**	(267)
Share of profit from joint ventures [Note 11(a)]	**(1,063)**	(1,039)
Income before income taxes	**27,236**	40,517
Income tax expense [Note 22]	**14,803**	9,041
Net income	**12,433**	31,476
Net movements in regulatory balances, net of tax [Note 6]	**23,513**	3,340
Net income after net movements in regulatory balances	**35,946**	34,816
Attributable to non-controlling interest	**(29)**	(20)
Net income after net movements in regulatory balances attributable to equity shareholder	**35,975**	34,836

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

Hydro Ottawa Holding Inc.

Consolidated Statement of Comprehensive Income
Year ended December 31, 2017
[in thousands of Canadian dollars]

	2017	2016
	$	$
Net income after net movements in regulatory balances attributable to equity shareholder	**35,975**	34,836
Other comprehensive income		
Items that may be subsequently reclassified to net income		
Exchange differences on translation of foreign operations, net of tax	**(3,722)**	(1,852)
Items that will not be subsequently reclassified to net income		
Actuarial loss on post-employment benefits, net of tax	**(663)**	(280)
Net movement in regulatory deferral account balances related to other comprehensive income, net of tax	**405**	94
Total comprehensive income	**31,995**	32,798

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

Hydro Ottawa Holding Inc.

Consolidated Balance Sheet
As at December 31, 2017
[in thousands of Canadian dollars]

	2017	2016
	$	$
Assets		
Current assets		
Cash	**933**	982
Accounts receivable [Note 5]	**192,696**	192,670
Restricted cash [Note 16]	**65,798**	79,975
Income taxes receivable	**1,448**	1,762
Prepaid expenses	**3,690**	4,431
Inventory [Note 12(c)]	**2,162**	1,577
Current portion of notes receivable from related parties [Note 12]	**4,641**	2,049
	271,368	283,446
Non-current assets		
Restricted cash [Note 16]	**-**	44,110
Property, plant and equipment [Note 7]	**1,261,191**	1,146,170
Intangible assets [Note 9]	**130,165**	121,668
Investment properties [Note 10]	**2,602**	2,297
Deferred income tax asset [Note 22]	**5,498**	5,645
Notes receivable from related parties [Note 12]	**8,767**	5,462
Investments in joint ventures [Note 11(a)]	**8,869**	7,875
Other long-term asset [Note 8(a)]	**5,771**	-
Retirement benefit asset [Note 15(a)]	**-**	161
Total assets	**1,694,231**	1,616,834
Regulatory balances [Note 6]	**25,466**	13,744
Total assets and regulatory balances	**1,719,697**	1,630,578
Liabilities and shareholder's equity		
Current liabilities		
Bank indebtedness [Note 13]	**145,423**	68,751
Accounts payable and accrued liabilities [Note 14]	**170,286**	196,251
Income taxes payable	**116**	2,522
	315,825	267,524
Non-current liabilities		
Deferred revenue	**88,570**	71,208
Employee future benefits [Note 15]	**14,439**	13,335
Customer deposits	**31,423**	18,402
Long-term debt [Notes 16 and 24]	**773,168**	772,960
Deferred income tax liability [Note 22]	**30,133**	20,936
Other liabilities	**3,489**	2,733
Total liabilities	**1,257,047**	1,167,098
Shareholder's equity		
Share capital [Note 18]	**228,453**	228,453
Accumulated other comprehensive income	**657**	4,637
Retained earnings	**209,080**	193,705
Non-controlling interest	**(49)**	(20)
Total liabilities and shareholder's equity	**1,695,188**	1,593,873
Regulatory balances [Note 6]	**24,509**	36,705
Total liabilities, shareholder's equity and regulatory balances	**1,719,697**	1,630,578

Contingent liabilities and commitments [Notes 25 and 26]

On behalf of the Board:

Director

Director

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

Hydro Ottawa Holding Inc.

Consolidated Statement of Changes in Equity
Year ended December 31, 2017
[in thousands of Canadian dollars]

	Share capital $	Accumulated other comprehensive income $	Non-controlling interest $	Retained earnings $	Total $
Balance at December 31, 2015	228,453	6,675	-	178,269	413,397
Net income after net movements in regulatory balances	-	-	(20)	34,836	34,816
Other comprehensive income	-	(2,038)	-	-	(2,038)
Dividends [Note 18(b)]	-	-	-	(19,400)	(19,400)
Balance at December 31, 2016	228,453	4,637	(20)	193,705	426,775
Net income after net movements in regulatory balances	-	-	(29)	35,975	35,946
Other comprehensive income	-	(3,980)	-	-	(3,980)
Dividends [Note 18(b)]	-	-	-	(20,600)	(20,600)
Balance at December 31, 2017	**228,453**	**657**	**(49)**	**209,080**	**438,141**

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

Hydro Ottawa Holding Inc.

Consolidated Statement of Cash Flows
Year ended December 31, 2017
[in thousands of Canadian dollars]

	2017	2016
	$	$
Net inflow (outflow) of cash related to the following activities:		
Operating		
Net income	**35,946**	34,816
Adjustments for:		
Depreciation	**45,234**	37,502
Amortization	**9,566**	12,140
Loss on disposal of non-financial assets	**581**	1,816
Amortization of debt-issuance costs	**165**	136
Share of profit from joint ventures	**(1,063)**	(1,039)
Amortization of deferred revenue	**(2,180)**	(1,628)
Employee future benefits	**280**	1,647
Financing costs, net of interest income	**22,035**	19,131
Income tax expense	**14,803**	9,041
Other	**(53)**	75
Changes in non-cash working capital and other operating balances [Note 23]	**(2,169)**	(13,362)
Income taxes paid, net of refunds received	**(6,045)**	(2,863)
Financing costs paid, net of interest income received	**(21,122)**	(18,720)
Additions to deferred revenue	**19,542**	20,160
Change in customer deposits	**(45)**	805
Net movements in regulatory balances	**(23,513)**	(3,340)
	91,962	96,317
Investing		
Acquisition of property, plant and equipment [Note 23]	**(167,992)**	(170,806)
Acquisition of intangible assets [Note 23]	**(19,830)**	(13,256)
Proceeds from disposal of property, plant and equipment	**1,183**	640
Acquisition of subsidiaries, net of cash acquired [Note 27]	**(10,000)**	(41,131)
Financing costs paid	**(10,109)**	(1,969)
Restricted cash held in-trust	**58,288**	(124,085)
Repayment of notes receivable from joint ventures	**386**	830
	(148,074)	(349,777)
Financing		
Proceeds from issuance of long-term debt, net of debt-issuance costs	**-**	201,096
Dividends paid [Note 18]	**(20,600)**	(19,400)
	(20,600)	181,696
Effects of exchange rate changes on cash held in U.S. dollars	**(9)**	(7)
Net change in cash	**(76,721)**	(71,771)
Bank indebtedness, net of cash, beginning of year	**(67,769)**	4,002
Bank indebtedness, net of cash, end of year	**(144,490)**	(67,769)

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

[in thousands of Canadian dollars]

1. DESCRIPTION OF BUSINESS AND CORPORATE INFORMATION

Hydro Ottawa Holding Inc. ['HOHI' or the 'Corporation''] is a holding company incorporated on October 3, 2000 whose sole shareholder is the City of Ottawa. The Corporation’s primary operations, as carried out by its subsidiaries and joint ventures below, are the distribution of electricity within the City of Ottawa, the generation of renewable energy throughout Ontario, Québec and New York state, and the provision of distribution and energy related commercial services. The Corporation is domiciled in Canada with its registered head office located at 3025 Albion Road North, Ottawa, Ontario, K1G 3S4. Significant subsidiaries, each of which is wholly-owned, either directly or indirectly, by the Corporation as at December 31, 2017, are as follows:

Subsidiary	Principal activity
Hydro Ottawa Limited	An electricity distribution company regulated by the Ontario Energy Board ['OEB'] that owns and operates electrical infrastructure in the City of Ottawa and the Village of Casselman. In additional to distribution services, Hydro Ottawa Limited invoices customers for amounts it is required to pay to other organizations in Ontario's electricity system for providing wholesale generation and transmission services.
Energy Ottawa Inc. ['Energy Ottawa']	Owns and operates three hydroelectric generating stations totalling 16MW located in Ontario at Chaudière Falls. In addition to providing streetlight installation and maintenance services to the City of Ottawa, the Company also provides expert energy management and procurement services to large energy-consuming organizations.
Chaudiere Hydro L.P. ['CHLP']	Owns and operates a 29MW generating station completed in 2017 via a major expansion of its Ontario facilities at Chaudière Falls [the 'Chaudière Expansion'].
Hull Energy L.P. ['Hull Energy LP']	Owns and operates a 27MW generating station located in Québec at Chaudière Falls.
EONY Generation Limited ['EONY']	Owns and operates four hydroelectric generation stations totalling 23MW located in New York state. EONY is a foreign operating subsidiary.
Chaudiere Hydro North L.P. ['CHLP North']	Owns and operates a 12MW generating station located in Québec at Chaudière Falls.
EO Generation Limited Partnership ['EO Gen']	Owns and operates six hydroelectric generation stations totalling 8MW located throughout eastern Ontario.

Joint ventures the Corporation is a party of as at December 31, 2017, are as follows:

Joint venture	Principal activity
PowerTrail Inc. [60% owned]	Owns and operates a 6MW landfill gas-to-energy plant at the Trail Road landfill site in Ottawa, Ontario.
Moose Creek Energy LP [50.05% owned]	Owns and operates a 4MW landfill gas-to-energy plant at the Laflèche landfill site in Moose Creek, Ontario.

Beginning in 2018 and over the next two years, the Corporation plans to refurbish its facilities held by Hull Energy LP and CHLP North [the 'refurbishment projects']. Both entities currently sell electricity to Hydro Québec. Upon completion of the refurbishment projects, these entities will sell electricity to the Province of Ontario under two separate forty-year Hydroelectric Standard Offer Program – Municipal Steam Contracts with the Independent Electrical System Operator ['IESO'].

2. BASIS OF PRESENTATION

(a) Statement of compliance

These consolidated financial statements have been prepared by management on a going-concern basis in accordance with International Financial Reporting Standards ['IFRS']. In the opinion of management, all adjustments necessary for fair presentation are reflected in these consolidated financial statements. These consolidated financial statements have been approved and authorized by the Corporation's Board of Directors for issue on April 19, 2018.

(b) Basis of measurement

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

(c) Functional and presentation currency

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

(d) Use of estimates

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

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

(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.

(ii) Regulatory balances

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

(iii) Revenue recognition

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

2. BASIS OF PRESENTATION [CONTINUED]

(d) Use of estimates [continued]

(iv) Useful lives of depreciable assets

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

(v) Impairment of non-financial assets

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

(vi) Employee future benefits

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

(vii) Fair value of assets and liabilities acquired

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

(viii) Deferred income taxes

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

(e) Key management judgments

(i) Evidence of asset impairment

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

2. BASIS OF PRESENTATION [CONTINUED]

(e) Key management judgments [continued]

(i) Evidence of asset impairment [continued]

Based on management's judgment, an indicator of impairment [under International Accounting Standards 36 Impairment of Assets ['IAS 36']] existed within EONY at December 31, 2017 pertaining to the energy market prices in New York State. However, management's discounted cash flow analysis under the value-in-use method [as prescribed by IAS 36] resulted in no impairment to be recognized in the 2017 fiscal year. Assumptions with respect to these cash flows are sensitive to the various inputs into the value-in-use calculation, and thus are subject to measurement uncertainty [Note 2(d)(v)].

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of consolidation

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

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

(b) Joint ventures

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

(c) 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.

3. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

(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

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, 2017, Hydro Ottawa Limited operated under an incentive rate-setting application ['Custom IR'] prescribed by the OEB. The Custom IR is one of the rate-setting options contained in the *Renewed Regulatory Framework for Electricity Distributors: A Performance-Based Approach* ['RRFE'] policy. The RRFE provides distributors three rate-setting methods: 4th Generation IR, Custom IR and Annual IR Index. Hydro Ottawa Limited filed a Custom IR application with the OEB on April 29, 2015 seeking approval to change the rates that Hydro Ottawa Limited charges for electricity delivery, retail services, allowances, loss factor and specific service charges for a period of five years, to be effective January 1, 2016 to December 31, 2020. This application requested a revenue requirement to recover costs, and to provide a rate of return on a deemed capital structure applied to rate base assets.

The key components of Hydro Ottawa Limited's Custom IR framework included the establishment of several regulatory accounts, namely: an asymmetrical earnings sharing mechanism variance account, revenue requirement differential variance account related to capital additions, new facilities deferral account, connection cost recovery agreement deferral account, and the efficiency adjustment mechanism deferral account. An annual IR application is required to set rates each year for 2017 to 2020. 2017 rates were set based on Hydro Ottawa Limited's Year 2 IR annual update.

On August 14, 2017, Hydro Ottawa Limited filed its Custom IR year 3 update application for distribution rates and other charges, effective January 1, 2018. This application was approved in December 2017 and included adjustments to base rates, low voltage, transmission, retailer services and specific services charges. As well it includes the approval for the disposition of certain deferral and variance accounts as at December 31, 2016 including interest projected to December 31, 2017. Hydro Ottawa Limited also applied to change the composition of certain distribution service rates. The fixed monthly charge for residential customers for 2018 is adjusted upward while the variable usage rate is lowered as stipulated in OEB's residential rate design policy. The distribution rates for residential classes will be fully fixed effective January 1, 2020.

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

3. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

(e) Regulation – Hydro Ottawa Limited [continued]

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

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

(i) Regulatory balances – Hydro Ottawa Limited

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

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

Regulatory balances principally comprise of the following:

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

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

- In its Guidelines released December 19, 2014 with an update on August 11, 2016, the OEB advised Distributors to continue to rely on the Lost Revenue Adjustment Mechanism to track and dispose of lost revenues ['LRAM'] that result 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. On May 19, 2016 the OEB released an updated policy for LRAM that clarified the inclusion of peak demand savings in the LRAM calculation.

- Earnings sharing mechanism ['ESM'] variance account captures 50% of any regulated earnings above Hydro Ottawa Limited's approved return on equity for years 2016 to 2020.

- Other Post-employment Benefits deferral account ['OPEB deferral account'] was authorized by the OEB in 2011 to record the adjustment to employee future benefits other than pension relating to the cumulative actuarial gains or losses. This account is adjusted annually to record any changes in the cumulative actuarial gains or losses. No interest charges are recorded on this account as instructed by the OEB.

3. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

(e) Regulation – Hydro Ottawa Limited [continued]

(ii) Other regulatory variances and deferred costs – Hydro Ottawa Limited

Other regulatory variances and deferred costs principally comprise 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 deferral accounts 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.

- 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. These accounts have been subsequently discontinued and future investments should be addressed in the local distribution company's consolidated distribution plan.

(iii) Income taxes – Hydro Ottawa Limited

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

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

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

(iv) Employee future benefits – Hydro Ottawa Limited

Hydro Ottawa Limited provides other post-employment benefits, the accounting treatment of which is described in Note 3(q)(ii). However, actuarial gains and losses recognized in OCI with respect to Hydro Ottawa Limited are reclassified to a regulatory debit balance as permitted by the OEB.

3. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

(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 the following revenue arrangements and therefore has presented them on a gross basis.

(i) Power recovery

Power recovery revenue represents the flow-through of the cost of power to the consumer as purchased by the Corporation and is recognized 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

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

(iii) Generation

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

(iv) Commercial services revenue

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

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

(v) Other

Other revenue consists primarily of investment property rentals, amortization of capital contributions and other revenue ancillary to electricity distribution such as account set-up charges and fees.

Capital contributions received from electricity customers to construct or acquire property, plant and equipment for the purpose of connecting a customer to the Corporation's distribution network are recorded to deferred revenue. 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.

3. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

(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 related parties.

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

(h) Government grant income

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

(i) Income taxes

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

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

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

(j) Restricted cash

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

(k) Bank indebtedness

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

(l) 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'], 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.

3. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

(l) Financial instruments [continued]

The Corporation classifies and measures its financial instruments as follows:

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

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

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

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

(m) Property, plant and equipment

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

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

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

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

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

[in thousands of Canadian dollars]

3. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

(m) Property, plant and equipment [continued]

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

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

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

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

(n) Intangible assets

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

Intangible assets with finite lives are measured at cost less accumulated amortization and accumulated impairment losses, if any. Intangible assets with finite lives are amortized on a straight-line basis over the estimated service lives of the related assets while those with indefinite lives are not amortized. Intangible assets 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
Water rights with a definite useful life	7 to 100 years
Computer software	5 to 10 years
Other contractual rights	
Capital contribution agreements	45 years
Power purchase agreements ['PPA']	15 years
Deferred contract costs	15 years

3. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

(o) Investment properties

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

(p) Impairment of non-financial assets

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

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

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

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

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

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

(q) 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.

3. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

(q) Employee future benefits [continued]

(i) Pension plans [continued]

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

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

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

(q) Employee future benefits [continued]

(ii) Other post-employment benefits

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

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

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

(iii) Short-term employee benefits

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

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

(r) Customer deposits

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

(s) Provisions and contingencies

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

3. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

(s) Provisions and contingencies [continued]

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

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

(t) Deferred revenue

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

(u) Debt-issuance costs

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

(v) Leases

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

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

(w) Inventory

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

4. NEW ACCOUNTING PRONOUNCEMENTS

A number of new standards, amendments and interpretations relevant to the Corporation have either been adopted for the year ended December 31, 2017, or, are not yet effective and have not been applied in preparing these consolidated financial statements.

4. NEW ACCOUNTING PRONOUNCEMENTS [CONTINUED]

(a) Recently adopted accounting standards

(i) Disclosure to reconcile liabilities related to financing activities in the statement of cash flows

The International Accounting Standards Board ['IASB'] issued amendments to IAS 7 requiring entities to disclose changes in their financing liabilities to assist readers in evaluating changes in liabilities arising from financing activities, including changes from cash flows and non-cash changes [such as foreign exchange gains or losses]. IAS 7 is applied prospectively for annual periods beginning on or after January 1, 2017. Although there was no change to the Corporation's consolidated financial statements, a reconciliation of liabilities arising from financing activities is disclosed in Note 24.

(b) Recently issued accounting guidance not yet adopted

(i) Revenue from contracts with customers

In May 2014, the IASB published a new standard, *Revenue from Contracts with Customers* ['IFRS 15'], which replaces most of the detailed guidance on revenue recognition that currently exists under IFRS. IFRS 15 provides a standardized five-step model to recognize all types of revenue earned from customer contracts, while previous IFRSs allowed significant room for judgment in devising and applying revenue recognition policies and practices. IFRS 15 is more prescriptive in many areas, such as the combination of related contracts for revenue recognition purposes, unbundling of multiple performance obligations within a single contract and the capitalization of costs of obtaining or fulfilling a contract. IFRS 15 also contains additional disclosure requirements. IFRS 15 is effective for annual periods beginning on or after January 1, 2018. As the majority of the Corporation's revenue is recognized on a usage basis at regulated prices [power recovery and distribution revenue] or per unit of output basis at contracted or market prices [generation revenue], and does not carry significant bundled contracts of combined products and services, IFRS 15 will not have a material impact on the accounting for these revenue streams. However, IFRS 15 will impact the Corporation's revenue-related disclosures.

(ii) Financial instruments

In July 2014, the IASB issued the final version of *IFRS 9 - Financial Instruments* ['IFRS 9'], which replaces International Accounting Standard 39 *Financial Instruments: Recognition and Measurement* ['IAS 39']. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including basing the classification of financial instruments on their contractual cash flow characteristics and the entity's business model for managing financial assets, whereas IAS 39 bases the classifications on specific definitions for each category. Moreover, IFRS 9 simplifies the current IAS 39 classifications into three main categories [amortized cost, fair value through other comprehensive income and fair value through profit or loss], and introduces a new expected credit loss model for measuring impairment of financial assets. The standard is effective for annual periods beginning on or after January 1, 2018. As the Corporation does not currently have complex financial instruments, IFRS 9 will not have a material impact on its consolidated financial statements. Management is currently evaluating the impact of adopting the new expected credit loss model for measuring impairment.

[in thousands of Canadian dollars]

4. NEW ACCOUNTING PRONOUNCEMENTS [CONTINUED]

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

(iii) Leases

In January 2016, the IASB issued a new standard, *IFRS 16 - Leases* ['IFRS 16'], which removes the current requirement for lessees to account for leases as either operating or finance leases – under complex rules and tests – which may result in all-or-nothing being recognised on the balance sheet. Under IFRS 16, all leases from the lessee's perspective will have to be recognized on the balance sheet, except for exempted short-term [< 1 year] and low value leases. The new standard becomes effective for reporting periods beginning on or after January 1, 2019 and early adoption is permitted if IFRS 15 is also adopted. The Corporation is currently evaluating the IFRS 16 impact on its consolidated financial statements and related disclosures.

(iv) Uncertain Tax Positions

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

5. ACCOUNTS RECEIVABLE

	2017 **$**	2016 $
Electricity receivables	**54,056**	70,370
Unbilled revenue	**84,963**	103,253
Trade and other receivables	**47,158**	11,579
Less: allowance for doubtful accounts [Note 19(c)]	**(2,512)**	(1,782)
	183,665	183,420
Amounts due from related parties [Note 28]	**9,031**	9,250
	192,696	192,670
Aging:		
Outstanding for 30 days or less	**97,229**	80,893
Outstanding for more than 30 days but not more than 120 days	**9,585**	8,018
Outstanding for more than 120 days	**3,431**	2,288
Unbilled revenue	**84,963**	103,253
Less: allowance for doubtful accounts	**(2,512)**	(1,782)
	192,696	192,670

[in thousands of Canadian dollars]

6. REGULATORY BALANCES

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

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

[in thousands of Canadian dollars]

6. REGULATORY BALANCES [CONTINUED]

	Remaining recovery/ reversal [years]	2015 $	Balances arising in the year $	Recovery/ reversal $	Other movements[1] $	2016 $
Regulatory debit balances						
RARA	1	205	68	1	-	274
Settlement variances	1 - 5	5,502	(3,006)	-	-	2,496
OPEB deferral account	1 - 5	4,432	(4,285)	-	-	147
LRAM	1 - 5	-	1,628	-	(159)	1,469
Regulatory asset for deferred income taxes	[2]	-	7,684	-	-	7,684
Other variances and deferred costs	1 - 5	4,291	(2,776)	-	159	1,674
		14,430	(687)	1	-	13,744
Regulatory credit balances						
RLRA	1	3,266	1,618	(4,475)	-	409
Settlement variances	1 - 5	29,919	6,218	-	-	36,137
Stranded meters	1	5,974	(5,974)	-	-	-
LRAM	1 - 5	159	-	-	(159)	-
Regulatory liability for deferred income taxes	[2]	513	(513)	-	-	-
Other variances and deferred costs	1 - 5	994	(994)	-	159	159
		40,825	355	(4,475)	-	36,705

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

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

– The RARA/RLRA includes accrued interest costs of $129 [2016 – $27].

– Settlement variances include accrued interest costs of $137 [2016 – $268].

– Other variance and deferred costs include accrued interest earned of $37 [2016 – $15].

[in thousands of Canadian dollars]

7. PROPERTY, PLANT AND EQUIPMENT

	Land, buildings and structures $	Distribution $	Generation and other $	Assets under construction $	Total $
Cost					
Balance as at December 31, 2015	115,796	714,764	122,748	77,605	1,030,913
Additions, net of transfers	855	90,696	10,340	85,461	187,352
Acquired via business combination [Note 27]	10,031	-	29,969	-	40,000
Disposals	(2)	(1,544)	(153)	-	(1,699)
Exchange differences	(553)	-	(1,145)	7	(1,691)
Balance as at December 31, 2016	126,127	803,916	161,759	163,073	1,254,875
Additions, net of transfers	71,053	97,518	85,471	(82,835)	171,207
Disposals [Note 8(a)]	-	(2,602)	(8,762)	-	(11,364)
Exchange differences	(1,186)	-	(2,443)	(102)	(3,731)
Balance as at December 31, 2017	**195,994**	**898,832**	**236,025**	**80,136**	**1,410,987**
Accumulated depreciation					
Balance as at December 31, 2015	(5,996)	(48,388)	(17,157)	-	(71,541)
Depreciation	(3,406)	(27,340)	(6,647)	-	(37,393)
Disposals	1	178	46	-	225
Exchange differences	(14)	-	18	-	4
Balance as at December 31, 2016	(9,415)	(75,550)	(23,740)	-	(108,705)
Depreciation	(3,962)	(30,277)	(10,883)	-	(45,122)
Disposals	-	1,206	2,619	-	3,825
Exchange differences	55	-	151	-	206
Balance as at December 31, 2017	**(13,322)**	**(104,621)**	**(31,853)**	**-**	**(149,796)**
Net book value					
As at December 31, 2016	116,712	728,366	138,019	163,073	1,146,170
As at December 31, 2017	**182,672**	**794,211**	**204,172**	**80,136**	**1,261,191**

[in thousands of Canadian dollars]

7. PROPERTY, PLANT AND EQUIPMENT [CONTINUED]

The Corporation substantially completed the Chaudière Expansion on October 20, 2017 which resulted in the componentization of significant assets previously under construction; the commencement of depreciation thereon; and the ceasing of borrowing cost capitalization. Amounts componentized to land, buildings and structures during the year include $56,514 in civil structures pertaining to the Chaudière Expansion.

On December 13, 2017, the Corporation acquired the primary distribution assets of the Public Services and Procurement Canada ['PSPC'] campuses of Tunney’s Pasture, Confederation Heights and the Central Experimental Farm for the sum of one dollar. PSPC agreed to pay the Corporation $14,586 to fund future expenditures related to the asset transfer and replacement, direct maintenance and administration, the supply and installation of meters, and the decommissioning and installation of PSPC’s equipment. The Corporation has determined that the acquisition of the group of assets does not constitute a business, and has recognized the individual identifiable assets acquired on the basis of their fair value of $1,436, at the date of purchase.

During the year, the Corporation capitalized borrowing costs of $6,676 [2016 – $4,055] to property, plant and equipment. The average annual interest rate for 2017 was 4.0% [2016 – 3.7%].

8. NET GAIN FROM INSURANCE PROCEEDS

	2017	2016
	$	$
Unit 1 Event	**1,600**	-
Flood Event	**1,339**	-
	2,939	-

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

On August 19, 2017, the Unit 1 turbine-generator [of 4 Units] of CHLP experienced a mechanical failure while in operation due to a manufacturer defect and sustained significant damage, requiring a complete overhaul [the 'Unit 1 Event']. Pursuant to the contractual warranty provisions, the subcontractor is responsible for, and has agreed to, reconstruct Unit 1. As a result, the various asset components relating to Unit 1, totalling $5,771, have been derecognized from property, plant and equipment and the Corporation has recognized an asset under warranty of the same amount on its consolidated balance sheet at December 31, 2017. No gain or loss on derecognition has been recorded with respect to this transaction.

In addition, the Corporation's contract with said subcontractor and its insurance policy relating to the Chaudière Expansion provides business interruption compensation in circumstances such as the Unit 1 Event. Accordingly, a $1,600 gain on insurance proceeds has been recognized which compensates the Corporation for lost revenues. The Corporation will continue to make claims for lost revenues going forward to the maximum allowable amount under this contract and its insurance policy until such time Unit 1 is back in service in 2018.

[in thousands of Canadian dollars]

8. NET GAIN FROM INSURANCE PROCEEDS [CONTINUED]

(b) Flood Event

In May 2017, spring melt and heavy rain led to a flooding of the Ottawa River system [the 'Flood Event'] – resulting in a shut-down of several of the Corporation's generating stations, predominately at Chaudière Falls. Remediation efforts commenced as soon as water levels permitted and the affected stations came back into operation between October and November 2017. At December 31, 2017, the Corporation has recorded insurance proceeds receivable totalling $3,660 which comprise reimbursements for remediation expenses incurred of $1,321 [net of a $1,000 deductible]; property, plant and equipment acquired of $204 as a result of the flood; and $2,135 [net of a $297 deductible] in business interruption proceeds to help compensate the Corporation for lost revenues during the shut-down period. As a result of the above, the Corporation has recorded a net gain on insurance proceeds of $1,339. The insurance proceeds have been received by the Corporation subsequent to year-end.

9. INTANGIBLE ASSETS

	Land rights and water rights $	Computer software $	Other contractual rights $	Assets under development $	Total $
Cost					
Balance as at December 31, 2015	52,364	50,345	21,027	4,052	127,788
Additions, net of transfers	473	2,118	3,811	5,857	12,259
Acquired via business combination [Note 27]	10,000	-	-	-	10,000
Exchange differences	(798)	(12)	-	-	(810)
Disposals	-	-	(2,610)	-	(2,610)
Balance as at December 31, 2016	62,039	52,451	22,228	9,909	146,627
Additions	11	14,202	2,218	3,102	19,533
Exchange differences	(1,704)	(26)	-	-	(1,730)
Disposals	-	(1,063)	-	-	(1,063)
Balance as at December 31, 2017	**60,346**	**65,564**	**24,446**	**13,011**	**163,367**
Accumulated amortization					
Balance as at December 31, 2015	(98)	(12,782)	(1,549)	-	(14,429)
Amortization	(3,314)	(7,871)	(955)	-	(12,140)
Exchange differences	(20)	3	-	-	(17)
Disposals	-	-	1,627	-	1,627
Balance as at December 31, 2016	(3,432)	(20,650)	(877)	-	(24,959)
Amortization	(2,258)	(6,763)	(545)	-	(9,566)
Exchange differences	250	10	-	-	260
Disposals	-	1,063	-	-	1,063
Balance as at December 31, 2017	**(5,440)**	**(26,340)**	**(1,422)**	**-**	**(33,202)**
Net book value					
As at December 31, 2016	58,607	31,801	21,351	9,909	121,668
As at December 31, 2017	**54,906**	**39,224**	**23,024**	**13,011**	**130,165**

[in thousands of Canadian dollars]

9. INTANGIBLE ASSETS [CONTINUED]

A significant portion of the Corporation's water rights with indefinite lives [68% or $16,941] stems from a historical 1889 lease agreement with PSPC. This contract provides rights to waters on the Ottawa River at Chaudière Falls for two of the Corporation's CGUs – the CHLP CGU [water rights carrying value of $9,575] and the CHLP North CGU [water rights carrying value of $7,366] – and effectively renews every 21 years into perpetuity. As a result of the deemed indefinite life, the Corporation does not amortize these water rights. In addition, the Corporation also carries water rights held by the Hull Energy LP CGU [water rights carrying value of $9,889 at December 31, 2017], which stem from a lease agreement with the Gatineau Power Company and are amortized over the 100-year life of the agreement.

The Corporation's annual impairment test with respect to the CHLP CGU is based on its most recent detailed calculations made in the preceding year, which exceeded the carrying value of the CHLP CGU. Based on an analysis of events and circumstances that have changed since the most recent VIU calculations, the likelihood that a current VIU amount determination would be less than the current carrying amount of the CHLP CGU is remote.

In light of the upcoming refurbishment projects as described in Note 1, the Corporation performed impairment tests with respect to the CHLP North CGU and Hull Energy LP CGU which resulted in no impairment for the 2017 fiscal year [2016 – $nil]. Management's VIU calculations were based on discounted future cash inflows to be earned under each CGUs' 40-year HESOP contract, while the cash outflows were based on management's industry experience and third party input; taking into account the estimated cost of the refurbishment projects. The key assumption in the VIU calculations were a weighted average cost of capital ['WACC'] of 4.6% [2016 – $4.6%]. A 10% increase or decrease in the WACC, while holding all other assumptions constant, would not impact management's position with respect to its water rights at December 31, 2017 or 2016.

Capital contribution agreements are connection and cost recovery agreements that govern the construction by HONI of new or modified transformer stations for the purpose of serving the Corporation's customers. Each of the Corporation's capital contribution agreements has a term of 25 years.

During the year, the Corporation capitalized borrowing costs of $900 [2016 – $81] to intangible assets. The average annual interest rate for 2017 was 3.9% [2016 – 3.7%].

10. INVESTMENT PROPERTIES

	2017 **$**	2016 $
Net book value, beginning of year	**2,297**	2,360
Additions	**417**	46
Depreciation	**(112)**	(109)
Net book value, end of year	**2,602**	2,297

The fair value of investment properties is $8,913, which is based on the latest Municipal Property Assessment Corporation valuation dated May 23, 2017.

[in thousands of Canadian dollars]

11. INVESTMENTS IN JOINT VENTURES

(a) Investment in joint ventures summary

	2017 $	2016 $
Moose Creek LP [50.05%]		
Investment in joint venture, beginning of year	**4,055**	3,488
Share of profit	**448**	567
Investment in joint venture, end of year	**4,503**	4,055
PowerTrail [60%]		
Investment in joint venture, beginning of year	**3,820**	3,306
Share of profit, net of tax	**594**	451
Other adjusting items related to profit	**21**	21
Non-cash (distribution) contribution	**(69)**	42
Investment in joint venture, end of year	**4,366**	3,820
Total investments in joint ventures	**8,869**	7,875

(b) Balance sheet and statement of income summary

	2017 $	2016 $
Moose Creek LP [50.05%]		
Current assets	**1,306**	1,276
Non-current assets	**13,269**	12,882
Total assets	**14,575**	14,158
Current liabilities	**2,016**	1,585
Non-current liabilities	**3,320**	4,229
Total liabilities	**5,336**	5,814
Revenue	**2,739**	3,679
Net income	**895**	1,134
PowerTrail [60%]		
Current assets	**1,182**	915
Non-current assets	**11,167**	10,761
Total assets	**12,349**	11,676
Current liabilities	**859**	938
Non-current liabilities	**3,826**	3,949
Total liabilities	**4,685**	4,887

[in thousands of Canadian dollars]

11. INVESTMENTS IN JOINT VENTURES [CONTINUED]

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

	2017 **$**	2016 $
Revenue	**3,682**	3,658
Net income	**990**	752

(c) Credit facility

During the 2017 year, PowerTrail entered into an operating revolving line of credit totalling $1,000 for general business purposes, that bears annual interest at the prime rate. PowerTrail continues to also maintain a credit facility of $200 [2016 – $200] to provide standby letters of credit to the IESO. As at December 31, 2017, PowerTrail had drawn an amount of $133 [December 31, 2016 – $133] in standby letters of credit and had no outstanding balances drawn against its operating revolving line of credit [December 31, 2016 – $nil]. Both facilities contain customary covenants and events of default, including a covenant to maintain a tangible net worth of $1,000.

12. NOTES RECEIVABLE FROM RELATED PARTIES

	2017 **$**	2016 $
Moose Creek LP promissory note, 6.0%, due January 1, 2025	**2,324**	2,710
PowerTrail promissory notes, non-interest bearing	**1,338**	1,179
City of Ottawa note, 3.0%	**9,746**	3,622
	13,408	7,511
Less: current portion	**(4,641)**	(2,049)
	8,767	5,462

(a) Moose Creek LP

The note receivable is an unsecured ten-year promissory note with quarterly blended repayments. As approved by the Board of Directors of Moose Creek LP in 2017, accelerated principal payments in the aggregate of $350 are to be made to the Corporation in addition to the regular quarterly blended payments in 2018. Future principal and interest payments on the notes receivable are therefore as follows: 2018 – $660, 2019 – $326, 2020 – $349, 2021 – $370, 2022 and thereafter – $619.

(b) PowerTrail

To fund the construction of its gas generation plant at the Trail Road landfill site, between 2005 and 2007, the Corporation provided unsecured, non-interest bearing grid promissory notes to PowerTrail totaling $4,860. Pursuant to the Shareholder Agreement, loans from the Corporation to PowerTrail are made on a pro rata basis – based upon its share of contributions of capital in the Corporation [60%]. Repayments on the grid promissory notes are made when possible as agreed to by the shareholders. The initial fair value of each advance was calculated using discount rates ranging between 7.6% and 8.0%. Future cash repayments on the notes receivable are estimated to be as follows: 2018 – $390, 2019 – $600 and 2020 – $510 while the remaining imputed interest to be earned by the Corporation over the next three years is $162.

12. NOTES RECEIVABLE FROM RELATED PARTIES [CONTINUED]

(c) City of Ottawa

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

While payment terms under the S/L maintenance contract are in accordance with the Corporation's usual credit terms, the Corporation and the City have negotiated a 3% interest bearing note, calculated on a quarterly basis with open repayment terms, for the S/L conversion contract. Under such terms, the City is to pay the Corporation on a quarterly basis an amount calculated based on the City's electricity, maintenance and capital expenditure savings resulting from the LED street light conversions. Of the total $9,746 outstanding at December 31, 2017, $937 represents accrued work performed to be billed in early 2018. The Corporation estimates that $3,591 will be repaid in 2018.

The Corporation carries inventory of $2,162 [December 31, 2016 – $1,577] relating to City of Ottawa street light conversion and maintenance endeavours at December 31, 2017. During the year, the Corporation expensed $4,826 of inventory as cost of goods sold which is included in operating and maintenance costs [2016 – $2,426].

13. CREDIT FACILITY

During the year, the Corporation renewed and restructured its credit facility for an amount of $340,750 and US$200 [December 31, 2016 – $340,750 and US$200]. The Corporation cancelled its revolving line of $100,000 in 2017 and the facility is now structured into four types of credit availability and consists of a $190,000 [2016 – $75,000] revolving operating line maturing on August 1, 2020, a $150,000 [2016 – $150,000] 364 day revolving operating term line which may be used to assist with refinancing debt and support day to day operations and a $750 and US$200 [2016 – $750 and US$200] commercial card facility – all of which matures on August 1, 2019. 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. Generally, the need to use these forms of credit is based on the Corporation's consolidated cash position and therefore any drawings outstanding may not necessarily coincide with the amount of bank indebtedness presented on the Corporation's consolidated balance sheet.

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

As at December 31, 2017, the Corporation had drawn $28,400 in direct advances against the revolving operating line of credit [2016 – $1,100] and $129,000 in bankers' acceptances against the $150,000 revolving operating term line [2016 – $76,000]. The Corporation has also drawn $24,771 [2016 – $24,451] against its facilities in standby letters of credit.

As at December 31, 2017, the Corporation 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, 2016 – $538] in connection with the Chaudière Expansion. Also, the Corporation has a standby letter of credit to BNY Trust Company of Canada in the amount of $12,900 [December 31, 2016 – $12,900] in connection with the Trust Indenture dated September 7, 2016 as described in Note 16. No amounts have been drawn on any of these letters of credit. Finally, during the year, two standby letters of credit that existed at December 31, 2016 in connection with CHLP's 40-year HESOP contract in the amount of $587 and $294 were cancelled.

The Corporation has an operating revolving line of credit totaling $500 for general business purposes. This line of credit bears annual interest at the prime rate. As at December 31, 2017, the Corporation had drawn $129 against this line [December 31, 2016 – $76] and is netted against cash on the Corporation's consolidated balance sheet.

[in thousands of Canadian dollars]

14. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2017 **$**	2016 $
Purchased power payable	**79,120**	92,874
Trade accounts payable and accrued liabilities	**56,081**	63,039
Customer deposits	**16,017**	14,452
Customer credit balances	**11,203**	7,391
Acquisition-related payables	**-**	10,000
Accrued interest on long-term debt	**7,812**	8,359
Due to related parties [Note 28]	**53**	136
	170,286	196,251

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, 2017 amounted to $6,434 [2016 – $6,218].

The Corporation provides retirement benefits to certain employees through the Chaudiere Hydro Pension Plan. As at December 31, 2017, CWPI and Chaudiere Hydro North L.P. are the only two entities with employees who are part of the Chaudiere Hydro Pension Plan.

(i) Defined benefit obligation

	2017 **$**	2016 $
Balance, beginning of year	**5,753**	4,502
Current service cost	**196**	159
Interest cost	**221**	183
Benefits paid	**(111)**	(91)
Employee contributions	**75**	58
Actuarial loss	**415**	182
Acquired via business combination [Note 27]	**-**	760
Balance, end of year	**6,549**	5,753

[in thousands of Canadian dollars]

15. EMPLOYEE FUTURE BENEFITS [CONTINUED]

(a) Pension plans [continued]

(ii) Plan assets

	2017	2016
	$	$
Fair value, beginning of year	**5,914**	4,889
Interest credit	**231**	179
Employer contributions	**199**	147
Benefits paid	**(111)**	(91)
Non-investment expenses	**(40)**	(10)
Employee contributions	**75**	60
Actuarial loss (gain)	**164**	(110)
Acquired via business combination [Note 27]	**-**	850
Fair value, end of year	**6,432**	5,914

(iii) Funded status

	2017	2016
	$	$
Retirement benefit asset, beginning of year	**161**	387
Change in retirement benefit asset	**(278)**	(316)
Acquired via business combination [Note 27]	**-**	90
Retirement benefit (liability) asset, end of year	**(117)**	161

The assets of the Chaudiere Hydro Pension Plan are held and managed by an independent custodian and accounted for separately in the Corporation's pension plan. The asset allocation structure is subject to diversification requirements and constraints which reduce risk by limiting exposure to individual equity investments, credit rating categories and foreign currency exposures. Based on the fair value of assets held as at December 31, 2017, the Chaudiere Hydro Pension Plan's assets were comprised of 89.8% [2016 – 89.3%] fixed income Canadian bonds, 6.9% [2016 – 7.1%] Canadian and international equities and 3.3% [2016 – 3.6%] in alternative investments. The Chaudiere Hydro Pension Plan's investments are primarily held and managed in pooled funds, and thus do not have a quoted market price in an active market.

Employee future benefits under the Chaudiere Hydro Pension Plan are calculated using an annual compensation rate of 2.0% [2016 – 2.0%], an inflation rate of 2.0% [2016 – 2.0%] and a discount rate of 3.4% [2016 – 3.9%]. The valuations also include several other economic and demographic assumptions including mortality rates, which are based on the Canadian Pensioners' Mortality report published by the Canadian Institute of Actuaries in February 2014.

An actuarial extrapolation was performed as at December 31, 2017 and the last actuarial valuation was performed at January 1, 2015. No valuation allowance has been recorded by the Corporation as at December 31, 2017 and December 31, 2016 with respect to the retirement benefit asset.

Significant actuarial assumptions for defined benefit obligation measurement purposes are discount rate and salary scale. The following sensitivities are based on reasonably possible changes of the assumptions, in isolation of one another, occurring at the end of the reporting period. A 1.0% decrease in discount rate would increase the defined benefit obligation by $1,216 or 37.7% [2016 – $1,140 or 22.8%], while a 1.0% increase in salary scale would increase the defined benefit obligation by $172 or 5.7% [2016 – $162 or 3.2%].

[in thousands of Canadian dollars]

15. EMPLOYEE FUTURE BENEFITS [CONTINUED]

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

The Corporation provides life, health and dental benefits to certain employees. Employee future benefits are calculated using an annual compensation rate increase of 2.0% [2016 – 2.0%] and a discount rate of 3.4% [2016 – 3.9%]. Cost trends for health are estimated to increase [at a declining rate from 7.5% to 5.0%] and dental benefits are estimated to increase by 5.0% per annum. The valuations also include several other economic and demographic assumptions including mortality rates, which are based on the Canadian Pensioners' Mortality report published by the Canadian Institute of Actuaries in February 2014.

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

	2017	2016
	$	$
Defined benefit obligation, beginning of year	**13,335**	11,332
Current service costs	**341**	380
Past service costs	**-**	1,778
Interest on defined benefit obligation	**516**	521
Benefits paid	**(661)**	(607)
Actuarial loss (gain)	**791**	(105)
Acquired via business combination [Note 27]	**-**	36
Defined benefit obligation, end of year	**14,322**	13,335

An actuarial valuation was performed as at December 31, 2017 [December 31, 2016 – actuarial valuation].

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

16. LONG-TERM DEBT

	2017	2016
	$	$
Senior unsecured debentures		
Series 2006-1, 4.97%, due December 19, 2036	**50,000**	50,000
Series 2013-1, 3.99%, due May 14, 2043	**150,000**	150,000
Series 2015-1, 2.61%, due February 3, 2025	**200,000**	200,000
Series 2015-2, 3.64%, due February 2, 2045	**175,000**	175,000
Senior secured amortizing bonds		
Series 2016-1, 4.08%, due March 31, 2057	**203,802**	203,802
	778,802	778,802
Less: unamortized debt-issuance costs	**(5,634)**	(5,842)
	773,168	772,960

16. LONG-TERM DEBT [CONTINUED]

(a) Senior unsecured debentures

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

(b) Senior secured amortizing bonds

On September 7, 2016, the Corporation completed the offering of senior secured amortizing bonds [the 'bonds'] of $203,802 to fund the Chaudière Expansion. The bonds carry an interest rate of 4.08% and are due on March 31, 2057 [the 'maturity date']. Equal semi-annual interest-only payments are due and payable on March 31 and September 30 each year until and including March 31, 2022. Thereafter, semi-annual blended payments of principal and interest will be due and payable on March 31 and September 30 in each year commencing on September 30, 2022 until and including the maturity date. In addition, a balloon payment of $30,570 [15% of the principal] will be due and payable on the maturity date. The Corporation incurred debt issuance costs of $2,684 in 2016 with respect to this issuance which consisted of legal, broker and consulting fees.

The bonds are secured by a first-charge interest on the assets of the Chaudière Expansion, and the Corporation is required to maintain a minimum debt-coverage service ratio ['DCSR']. The DCSR divides the sum of the net operating and investing cash flows [as defined by the Trust Indenture] by the current interest and principal repayments due within the next calendar year. The Corporation was in compliance with all financial covenants associated with the bonds at December 31, 2017 and 2016.

Cash proceeds from the bonds are restricted and held in-trust prior to release to the Corporation, as periodic submissions of qualifying costs are required in accordance with the Trust Indenture. Of the total bond proceeds, $44,110 is held in a distributions reserve account which is expected to be available to the Corporation upon "Final Completion" of the Chaudière Expansion. Final Completion requires, among other items, approval of final construction costs for the remaining non-generation components of the Chaudière Expansion and the expiration of all holdback periods under the *Lien Act* relating to construction; both of which have been achieved subsequent to year-end. As required by the Trust Indenture, the Corporation must maintain, in a reserve account, an amount equal to the next six months of interest and principal; and in a major maintenance account, a three year look-forward reserve that covers 100%, 67% and 33% of the projected major maintenance expenses in the coming three years. As the Corporation plans to obtain new standby letters of credit to ensure these obligations are met, these requirements will not restrict the use of the Corporation's cash after its initial release from trust.

Annual interest payments on the bonds are expected to be $8,315 over the next five years.

17. CAPITAL DISCLOSURES

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

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

[in thousands of Canadian dollars]

17. CAPITAL DISCLOSURES [CONTINUED]

The Corporation's capital consists of the following:

	2017 **$**	2016 $
Bank indebtedness	**145,423**	68,751
Long-term debt	**773,168**	772,960
Total debt	**918,591**	841,711
Shareholder's equity	**438,141**	426,775
Total capital	**1,356,732**	1,268,486
Debt capitalization ratio	**67.71 %**	66.34 %

A subsidiary of the Corporation, 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 is in compliance with all financial covenants and limitations associated with its credit facilities and its long-term debt.

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

18. SHARE CAPITAL

(a) Authorized

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

The above shares are without nominal or par value.

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

(b) Issued

	2017 **$**	2016 $
214,901,003 Class A common shares	**228,453**	228,453

18. SHARE CAPITAL [CONTINUED]

(b) Issued [continued]

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

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

On April 20, 2017, the Board of Directors declared a $20,600 dividend to the City of Ottawa, which was paid on April 28, 2017 [April 21, 2016 the Board of Directors declared a $19,400 dividend to the City of Ottawa, which was paid on April 29, 2016].

19. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

(a) Fair value disclosures

The carrying value of the Corporation's financial instruments, except for the instruments described below, approximate fair value because of the short maturity and nature of the instruments.

The Corporation has estimated the fair value of notes receivable from joint ventures as at December 31, 2017 as amounting to $4,662 [December 31, 2016 – $3,878]. The fair value has been determined by discounting all estimated future repayments of principal and imputed interest required to fully repay the loan at the estimated interest rate of 5.7% [December 31, 2016 – 5.7%] that would be available to PowerTrail and Moose Creek LP on December 31, 2017.

The Corporation has estimated the fair value of the senior unsecured debentures as at December 31, 2017 as amounting to $574,693 [December 31, 2016 – $573,518]. The fair value has been determined based on discounting all future repayments of principal and interest between February 3, 2025 and March 31, 2057 at the estimated interest rate of 3.7% [December 31, 2016 – 3.7%] that would be available to the Corporation on December 31, 2017.

The Corporation has estimated the fair value of its senior secured amortizing bonds as at December 31, 2017 as amounting to $203,802 [December 31, 2016 – $203,802]. The fair value has been determined by discounting all estimated future repayments of principal and interest required to fully repay the loan at the estimated interest rate of 4.0% [December 31, 2016 – 4.0%] that would be available to the Corporation at December 31, 2017.

(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.

19. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT [CONTINUED]

(b) Market risk [continued]

(i) Interest rate risk

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

(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 $0.80 as at December 31, 2017 would increase or decrease the equity of the Corporation by approximately $2,755.

(iii) Commodity price risk

The Corporation, through its foreign operating subsidiary EONY, is exposed to commodity price risk associated with renewable 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 renewable 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, 2017 would have increased or decreased net income by $280.

(c) Credit risk

Credit risk is the risk that a counterpart will default on its obligations, causing a financial loss to the Corporation. Concentration of credit risk associated with accounts receivable is limited due to the large number of customers the Corporation services. The Corporation has approximately 332,000 customers served by Hydro Ottawa Limited, the majority of which are residential. As a result, the Corporation does not earn a significant amount of revenue and does not have a significant receivable from any individual customer in the ordinary course of business.

The Corporation performs ongoing credit evaluations of customers serviced by Hydro Ottawa Limited 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, 2017, the Corporation held customer deposits related to power recovery and distribution revenue in the amount of $15,121 [December 31, 2016 – $14,600] with respect to these customers.

The Corporation's other subsidiaries limit credit risk by dealing with customers that are considered to be of high credit quality. These customers include government agencies, utilities, municipalities, universities, school boards, hospitals, and customers with investment grade credit ratings. The Corporation monitors and limits its exposure to credit risk on a continuous basis.

[in thousands of Canadian dollars]

19. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT [CONTINUED]

(c) Credit risk [continued]

The carrying amount of accounts receivable is reduced by an allowance for doubtful accounts based on the credit risk applicable to particular customers given their applicable payment history 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 results in a reduction of operating costs in the consolidated statements of income. As at December 31, 2017, the allowance for doubtful accounts was $2,512 [December 31, 2016 – $1,782]. For details of accounts receivable and the aging of the accounts, refer to Note 5.

As at December 31, 2017, there were no significant concentrations of credit risk with respect to any class of financial assets or counterpart and approximately 12% [December 31, 2016 – 12%] of the Corporation's accounts receivable [excluding unbilled revenue] were aged more than 30 days. The Corporation's maximum exposure to credit risk is equal to the carrying value of accounts receivable less customer deposits held.

(d) Liquidity risk

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

Liquidity risks associated with financial commitments are as follows:

		2017	
	Due within one year $	**Due between one and five years $**	**Due after five years $**
Accounts payable and accrued liabilities	**162,474**	**-**	**-**
Senior unsecured debentures			
Series 2006-1, 4.968%, due December 19, 2036	**-**	**-**	**50,000**
Series 2013-1, 3.991%, due May 14, 2043	**-**	**-**	**150,000**
Series 2015-1, 2.614% due February 3, 2025	**-**	**-**	**200,000**
Series 2015-2, 3.639%, due on February 2, 2045	**-**	**-**	**175,000**
Senior secured amortizing bonds			
Series 2016-1, 4.080%, due March 31, 2057	**-**	**-**	**203,802**
Interest to be paid on long-term debt	**28,382**	**113,529**	**499,803**
	190,856	**113,529**	**1,278,605**

Accounts payable and accrued liabilities in the above table exclude $7,812 of accrued interest which is included in interest to be paid on long-term debt.

[in thousands of Canadian dollars]

20. OPERATING COSTS

	2017	2016
	$	$
Salaries, wages and benefits	**84,993**	84,545
Maintenance and other	**13,197**	11,196
Outside services	**41,719**	32,356
General and administrative	**32,896**	32,033
Less: capitalized salaries, wages and benefits	**(33,008)**	(32,058)
	139,797	128,072

21. FINANCING COSTS

	2017	2016
	$	$
Interest on debentures and bonds payable	**27,725**	22,537
Short-term interest and fees relating to credit facility	**2,534**	997
Less: capitalized borrowing costs	**(7,576)**	(4,136)
	22,683	19,398

22. INCOME TAXES

Income tax expense recognized in net income comprises the following:

	2017	2016
	$	$
Current tax expense		
Current income tax expense	**4,120**	4,457
Deferred tax expense		
Origination and reversal of temporary differences	**10,683**	4,584
Income tax expense recognized in net income	**14,803**	9,041

Income tax recovery recognized in OCI comprises the following:

	2017	2016
	$	$
Income tax effect on exchange differences on translation of foreign subsidiary	**(1,536)**	(552)

[in thousands of Canadian dollars]

22. INCOME TAXES [CONTINUED]

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

	2017 **$**	2016 $
Federal and Ontario statutory income tax rate	**26.50 %**	26.50 %
Income attributable to equity shareholder before income taxes	**50,778**	43,877
Income taxes at statutory rate	**13,457**	11,627
Increase (decrease) in income taxes resulting from:		
Permanent differences	**30**	49
Impact on foreign exchange translation on subsidiary	**(407)**	(180)
Impact from change in future U.S. tax rate	**1,676**	-
Foreign tax rate differential	**14**	(762)
Corporate minimum tax, net of tax credit	**79**	-
Unrecognized tax benefit	**189**	(1,255)
Tax impact on joint venture	**(282)**	(275)
Adjustment	**(126)**	265
Other	**173**	(428)
	14,803	9,041
Effective income tax rate	**29.15 %**	20.61 %

The Corporation's subsidiary Hydro Ottawa Limited, 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:

	2017 **$**	2016 $
Property, plant and equipment and intangible assets	**(812)**	1,106
Non-capital loss carryforwards	**6,620**	4,492
Other temporary differences	**(310)**	47
	5,498	5,645

[in thousands of Canadian dollars]

22. INCOME TAXES [CONTINUED]

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

	2017	2016
	$	$
Property, plant and equipment and intangible assets	**(34,988)**	(24,244)
Tax recognized in OCI related to foreign subsidiary translation	**(479)**	(1,821)
Exchange differences and other	**63**	(448)
Non-capital loss carryforwards	**-**	268
Employee future benefits	**4,934**	4,648
Other	**337**	661
	(30,133)	(20,936)

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

	2017	2016
	$	$
Deferred tax asset, beginning of year	**5,645**	2,250
Impact of foreign exchange rate change on opening deferred tax asset balance	**(321)**	19
Recognized in net income	**260**	3,370
Recognized in OCI	**11**	6
Other	**(97)**	-
Deferred tax asset, end of year	**5,498**	5,645

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

	2017	2016
	$	$
Deferred tax liability, beginning of year	**(20,936)**	(13,695)
Recognized in net income	**(10,819)**	(7,793)
Recognized in OCI	**1,525**	552
Other	**97**	-
Deferred tax liability, end of year	**(30,133)**	(20,936)

The Corporation's regulatory deferral account credit balance for the amounts of deferred income taxes expected to be collected/refunded to customers in future electricity rates is $16,798 [2016 – $7,694].

[in thousands of Canadian dollars]

22. INCOME TAXES [CONTINUED]

As at December 31, 2017, the Corporation had capital losses of $708 [December 31, 2016 – $750] and non-capital losses of $1,069 [December 31, 2016 – $313] for tax purposes, for which the tax benefit has not been recognized in the consolidated financial statements. The Corporation has U.S. losses carried forward of $15,247, which expires between 2035 and 2037. All are considered more likely than not to be realized, resulting in a recognized deferred tax asset of $3,985.

As at December 31, 2017, the Corporation's regulated subsidiary Hydro Ottawa Limited and its joint venture PowerTrail had corporate minimum tax credit carryforwards of $nil and $19 respectively [December 31, 2016 – $470 and $97 respectively], which expire 2035.

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. Deferred tax assets of $4,243 have been recognized in EONY as there is sufficient positive evidence to demonstrate that it is probable that a deferred tax asset will be realized. Factors considered include: historic and expected future taxable income and the nature, amount and expected timing of reversal of taxable temporary differences.

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

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

	2017	2016
	$	$
Accounts receivable	**128**	(20,430)
Prepaid expenses	**732**	(1,498)
Other	**-**	(4)
Note receivable from parent	**(6,125)**	(3,622)
Accounts payable and accrued liabilities	**(29,227)**	33,757
Inventory	**(585)**	(1,577)
Customer deposits in accounts receivable [Note 7]	**14,586**	-
Net change in accruals related to property, plant and equipment	**8,331**	(11,416)
Net change in accruals related to intangible assets	**(9)**	297
Net change in accruals related to business combinations	**10,000**	(8,869)
	(2,169)	(13,362)

24. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

	January 1, 2017	**Amortization of bond issuance costs expensed**	**Amortization of bond issuance costs capitalized**	**December 31, 2017**
	$	**$**	**$**	**$**
Long-term debt	**772,960**	**165**	**43**	**773,168**

25. CONTINGENT LIABILITIES

Purchasers of electricity from the IESO are required to provide security to mitigate the risk of their default based on their expected activity in the market. The IESO could draw on these guarantees if the Corporation fails to make a payment required by a default notice issued by the IESO. A prudential support obligation is calculated based upon a default protection amount and the distributor's trading limit less a reduction for the distributor's credit rating. As at December 31, 2017, the Corporation had drawn standby letters of credit in the amount of $10,000 [December 31, 2016 – $10,000] against its credit facility to cover its prudential support obligation.

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

The Corporation is party to connection and cost recovery agreements with HONI as described in Note 9. To the extent that the cost of a project is not recoverable from future transformation connection revenues, the Corporation is obligated to pay a capital contribution equal to the difference between these revenues and the construction costs allocated to the Corporation.

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

26. COMMITMENTS

As at December 31, 2017, the Corporation's regulated subsidiary, Hydro Ottawa Limited, has $155,335 in total open commitments spanning between 2018 and 2024. 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 has committed $10,272 in outstanding purchase commitments relating to finalizing the non-generation components of the Chaudière Expansion. In addition, Energy Ottawa has $7,189 in outstanding purchase commitments relating to the refurbishment projects as referenced in Note 1 of these consolidated financial statements.

Energy Ottawa maintains leases with various entities for the rights to certain lands, waterways, buildings and other generating assets at its generating stations in Ontario, Québec and New York. These leases are in place through various dates, ranging between August 19, 2019 and December 13, 2117. Certain leases have annual payments which have a fixed and contingent portion, the latter of which is based on either annual gross revenues or power generation levels. During the 2017 fiscal year, the Corporation expensed lease payments of $308 [2016 – $292], which included $136 [2016 – $112] of contingent lease payments. The Corporation's future minimum lease payments will be: 2018 – $172, 2019 to 2022 – $711 and $5,376 thereafter.

[in thousands of Canadian dollars]

27. BUSINESS COMBINATIONS

On December 14, 2016, the Corporation entered into an Agreement of Purchase and Sale ['APS'] with Gatineau Power Company [a subsidiary of Hydro-Québec] to acquire its 27 megawatt Centrale Hull-2 hydroelectric generating station [the 'HQ assets'] and its 33.33% interest in Chaudiere Water Power Inc. ['CWPI'] for a cash purchase price of $50,000, inclusive of contingent consideration estimated at the date of acquisition to be $10,000. CWPI is a non-operating entity with no significant assets or liabilities that flows-through costs associated with maintaining the Chaudière Dam at Chaudière Falls to its shareholders. Also on December 14, 2016, the Corporation entered into two agreements incidental to the APS: [1] a 25-year fixed-price, indexed power purchase agreement with Hydro-Québec to sell electricity from the HQ assets at a market base-rate and [2] a 100-year-less-a-day lease with Gatineau Power Company for the land and associated water rights pertaining to the Québec side of the Ottawa River at Chaudière Falls. The acquisition of the 33.33% interest in CWPI resulted in the Corporation controlling 100% of the entity, resulting in consolidation going forward. The acquisition of HQ assets was determined to be a business combination for accounting purposes.

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

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

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

Amounts with respect to the retirement benefit asset, other post-employment benefits and accounts payable and accrued liabilities relate to the Corporation's acquired 33.33% interest in CWPI. The $10,000 earn out was included in accounts payable and accrued liabilities as at December 31, 2016 and was settled in 2017.

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

28. RELATED PARTY TRANSACTIONS

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

(a) Transactions and balances outstanding with parent

During the year, the Corporation earned power recovery and distribution revenue from the City of Ottawa and its subsidiaries, which is billed at prices and terms approved by the OEB. In addition, the Corporation earned commercial services revenue totaling $744 [2016 – $1,322] via its regulated subsidiary, Hydro Ottawa Limited, and $16,314 [2016 – $8,882] via Energy Ottawa, from the City of Ottawa and its subsidiaries. During the year, the Corporation also received $2,028 [2016 – $4,484] in additions to deferred revenue relating to the upgrade and/or expansion of the Corporation's existing electricity distribution infrastructure and earned $152 [2016 – $nil] in interest revenue with respect to the note receivable from the City of Ottawa.

The Corporation incurred $2,875 [2016 – $2,744] of operating costs to the City of Ottawa. The Corporation also incurred $2,872 [2016 – $nil] in building permit costs and development charges, which are included in property, plant and equipment.

As at December 31, 2017, the Corporation's accounts receivable include $8,872 [December 31, 2016 – $9,203] while the Corporation's accounts payable and accrued liabilities include $53 [December 31, 2016 – $136] due to the City of Ottawa and its subsidiaries in respect of the transactions described above. In addition, the Corporation's note receivable from the City of Ottawa is disclosed in Note 12 of these consolidated financial statements.

(b) Transactions and balances outstanding with joint ventures and joint operations

(i) Moose Creek LP

During the year, the Corporation earned interest income in the amount of $147 [2016 – $182] on its note receivable from the Moose Creek LP joint venture, as well as $34 [2016 – $21] in other revenue for the provision of administrative services. As at December 31, 2017, the Corporation's accounts receivable include $142 [December 31, 2016 – $45] due in respect of the transactions described for balances paid on behalf of Moose Creek LP.

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

(ii) PowerTrail

During the year, the Corporation earned imputed interest income in the amount of $90 [2016 – $104] on its note receivable from the PowerTrail joint venture, as well as $37 [2016 – $24] in other revenue for the provision of administrative services. As at December 31, 2017, the Corporation's accounts receivable include $17 [December 31, 2016 – $2] due in respect of the transactions described.

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

(iii) CWPI

Prior to the consolidation of the CWPI joint operation as of December 14, 2016, the Corporation incurred $971 of operating expenses in relation to the management and operation of the Chaudière Dam at Chaudière Falls, and earned $78 in other revenue for the provision of administrative services. The Corporation also capitalized $329 of generating assets. Subsequent to December 14, 2016, all intercompany balances with CWPI have been eliminated.

[in thousands of Canadian dollars]

28. RELATED PARTY TRANSACTIONS [CONTINUED]

(c) Compensation of key management personnel

	2017 **$**	2016 $
Salaries, director fees and other short-term benefits	**1,401**	1,349
Employee future benefits	**160**	159
Other long-term benefits	**12**	12
	1,573	1,520

29. COMPARATIVE INFORMATION

In certain instances, the 2016 information presented for comparative purposes has been reclassified to conform to the consolidated financial statement presentation adopted for the current year.

Hydro Ottawa's newest 29-megawatt state-of-the-art hydroelectric facility at Chaudière Falls is built entirely below ground and has been feeding clean, renewable energy into the provincial grid since its energization in July 2017 – on time, and on budget.

Two months before production was scheduled to begin, Ottawa experienced one of the worst floods in a century... the first time in history that all gates in the ring dam were opened.

Employees who participated in the response that weekend will never forget the power of the water and the quick action that was needed to save our generating assets. It was a tremendous effort that allowed us to stay on track for our completion date, and an inspiring example of the power of teamwork.

Statement of Executive Compensation

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

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

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

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

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

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

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

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

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

COMPENSATION OF OFFICERS AND BOARD MEMBERS

Officers

NAME AND PRINCIPAL POSITION[1]	YEAR	BASE SALARY ($)[2]	AT RISK PERFORMANCE INCENTIVE ($)[3]	OTHER COMPENSATION ($)[4]
Bryce Conrad	2017	380,957	N/A	18,166
President and Chief Executive Officer	2016	375,711	N/A	22,398
	2015	384,163	N/A	15,178
Geoff Simpson	2017	183,839	61,842	8,491
Chief Financial Officer	2016	180,783	67,711	8,479
	2015	184,850	57,254	8,471
Lance Jefferies	2017	162,668	54,720	8,412
Chief Electricity Distribution Officer	2016	159,830	34,798[5]	8,401
Gregory Clarke	2017	186,627	62,780	8,501
Chief Electricity Generation Officer	2016	183,525	66,484	8,798
	2015	187,654	57,055	8,482

1 Officers whose earnings are reported are those who occupied the position at December 31, 2017.

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

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

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

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

Board Members

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

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

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

Corporate Governance

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

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

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

GOVERNANCE STRUCTURE

Accountability for the effective oversight of the Corporation and its wholly-owned subsidiaries [Hydro Ottawa Limited 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 BOARDS 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 is responsible for assisting management and the Board of Directors in the review and pursuit of business development, acquisition and investment opportunities. In carrying out these functions, the Committee focuses on the consistency of opportunities with strategic plans and investment guidelines, the maximization of shareholder value and the management of risk.

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

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

BOARD AND COMMITTEE MEETING ATTENDANCE

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

HYDRO OTTAWA HOLDING INC.

DIRECTOR	BOARD MEETINGS	COMMITTEE MEETINGS
Jim Durrell, C.M., ICD.D [Chair]	7/7	19/19
Bryce Conrad [President and CEO]	7/7	N/A
Dale Craig	5/7	8/8
Jan Harder	7/7	5/5
Andrea Johnson	6/7	9/9
Kalai Kalaichelvan	7/7	8/10
Cyril Leeder[2]	3/3	2/2
J. Douglas McLarty	7/7	9/9
Philip Murray	7/7	8/8
Lori O'Neill	7/7	10/10
Zaina Sovani[1]	4/4	4/5
Marianne Wilkinson	7/7	6/6

1 Depicts outgoing Board member whose term ended on June 30, 2017

2 Depicts incoming Board member whose term took effect July 1, 2017

HYDRO OTTAWA LIMITED

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

Members of the Boards of Directors

HYDRO OTTAWA HOLDING INC.


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


Bryce Conrad


Dale Craig


Councillor Jan Harder


Andrea Johnson


Kalai Kalaichelvan


Cyril Leeder


J. Douglas McLarty


Philip Murray


Lori O'Neill


Zaina Sovani


Councillor Marianne Wilkinson

HYDRO OTTAWA LIMITED


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


Bryce Conrad


Lance Jefferies

Note: Zaina Sovani was first appointed to the Hydro Ottawa Holding Inc. Board of Directors effective December 1, 2014 and was previously a Director of the Hydro Ottawa Limited Board from July 1, 2012 to November 30, 2014. She was appointed to the Audit Committee on July 17, 2012, and Governance and Management Resources Committee on September 18, 2015, and served on these Committees until the end of her term on June 30, 2017. We wish to convey our sincere appreciation to Zaina Sovani for her dedicated service.

Cyril Leeder was appointed to the Hydro Ottawa Holding Inc. Board of Directors effective July 1, 2017.

CSWEEK expanding excellence awards

ENERGYGALA 2017 AWARD WINNERS OEA

CSSE AWARDS OF EXCELLENCE

ieso powerful IDEAS '17

2017 EDA AWARDS

CANADA'S TOP EMPLOYERS FOR YOUNG PEOPLE 2017

NATIONAL CAPITAL REGION'S TOP EMPLOYERS
LES MEILLEURS EMPLOYEURS DE LA RÉGION DE LA CAPITALE
2017

Canadian HR Awards 2017
THE UNIVERSITY OF WATERLOO AWARD FOR
NEXT GENERATION EMPLOYEE INNOVATION OF THE YEAR
WINNER

IABC
International Association of Business Communicators
Gold Quill Awards

RISING STARS 2017

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

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

3025 Albion Road North
PO Box 8700
Ottawa, Ontario K1G 3S4
Tel (613) 738-5499 ext. 2345

hydroottawa.com