Hydro Ottawa Holding Inc.

Leading the way to a **smart energy future**

Annual Report 2023


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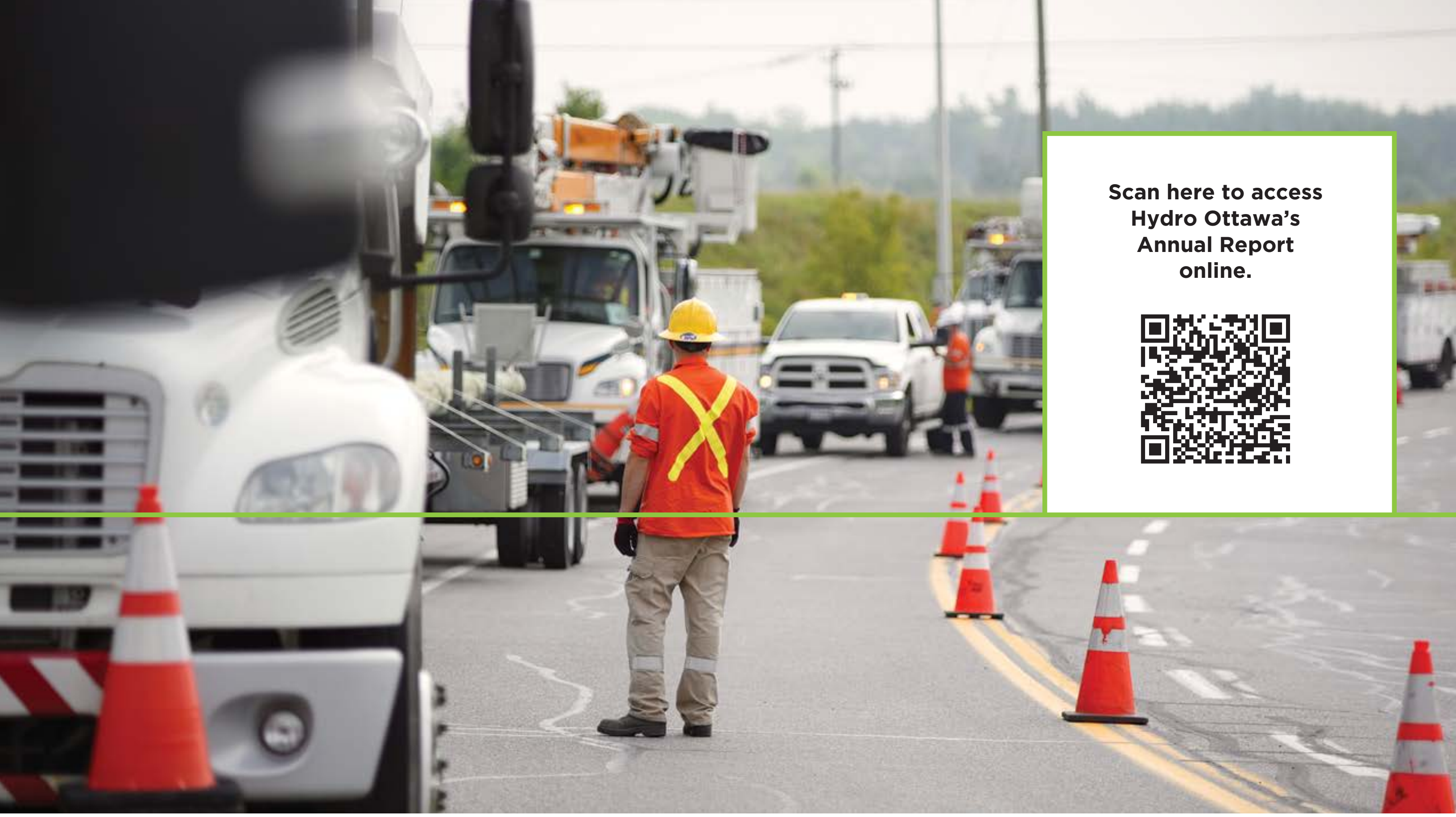

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Hydro Ottawa Holding Inc. is a Sustainable Electricity Leader™ as recognized by Electricity Canada

Sustainable Electricity Leader

Who **we are**

Hydro Ottawa Holding Inc. (Hydro Ottawa) is a private company wholly owned by the City of Ottawa. We own and operate four primary subsidiary companies: Hydro Ottawa Limited (electricity distribution), Portage Power (renewable energy generation), Envari (energy solutions) and Hiboo Networks (telecommunications services).

We are a company with deep roots in the community, established through more than 100 years of providing an essential service to our nation's capital. Today, we are proud to continue our history of balancing growth with environmental stewardship and social responsibility, as we lead the way to a smart and sustainable energy future.

We are committed to being the partner of first choice for transformative energy projects in our community and to becoming the first municipally-owned utility in Canada to achieve net-zero operations.

Our mission

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

Our vision

Hydro Ottawa — a leading partner in a smart energy future

Our values

Teamwork, integrity, excellence, service

Land acknowledgement

Hydro Ottawa acknowledges the Indigenous peoples whose territories we work from and live in. We acknowledge the ancestral unceded territories of the First Nations peoples, Inuit, and Métis that call Turtle Island home. We recognize that this land is shared through historic treaties, developed through contemporary treaties, and is land that continues to be unceded territory.

Together, we're building a sustainable, resilient and vibrant future for our community

Powering forward by operating one of the greenest, safest, and most reliable electricity distribution systems in Ontario.

- 364,000 residential and commercial customers
- 1,116 km^2 service territory across Ottawa and Casselman
- 92 substations; 6,200 km+ of lines and cable

Powering forward by delivering the innovative energy solutions municipalities, businesses, and utilities need to cut emissions and future-proof their assets.

- Serving commercial, government and utility markets
- Three practice areas: Lighting, Electrical and Buildings
- One partner from project concept to completion

Hydro Ottawa

envari

HydroOttawa Holding Inc.

hiboo networks

PORTAGE POWER | ÉNERGIE

Powering forward as the region's first municipally-owned internet service provider for commercial clients, fast-tracking digital transformation.

- Ottawa-Gatineau's dedicated connectivity partner
- High-speed, 100 per cent fibre optic network
- Enterprise-grade internet, ethernet and wavelength services

Powering forward by harnessing renewables and innovative technologies as Ontario's largest municipally-owned producer of green power.

- 131 MW of capacity (enough to power 110,000 homes)
- Run-of-river hydro, solar and landfill gas-to-energy plants
- Operations in Ontario, Québec and New York

Message **from the Chair of the Board and President & 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 2023 Annual Report to our shareholder, the City of Ottawa. This marks our third progress report under our 2021–2025 Strategic Direction.

In 2023, Hydro Ottawa once again demonstrated to our customers and community that we will deliver on our mission to provide safe, reliable electricity and to enable a smart energy future, no matter what challenges come our way. In a year featuring a wide range of operational and financial pressures, our team worked tirelessly to deliver the essential services that customers rely on, to adapt to change and uncertainty in our business environment, and to deploy the innovative energy solutions which will facilitate the transition to a more sustainable way of life.

Navigating a landscape of continuous challenges

On its own, 2023 presented an exceptional set of challenges for the company to manage. Foremost among these was a series of severe weather events as well as an 84-day labour strike by employees in our largest bargaining unit, representing over half of our total workforce. In addition, a turbine failed at one of our generating stations at Chaudière Falls. Interest rates also increased even higher. Individually and collectively, these developments placed tremendous strain on our operations.

But the events of 2023 shouldn't be viewed in isolation. They followed on the immediate heels of what was one of the toughest years in Hydro Ottawa's history in 2022, which featured the most devastating storm ever experienced in our community along with the most challenging economic constraints in recent memory. What's more, beyond the back-to-back difficulties of the past two years, the trend of the last decade has been the uncertainty created by the effects of climate change, economic and public health conditions, workforce demographics, and technological transformation, just to name a few of the biggest examples.

And yet, a common thread across these shifts in our environment is Hydro Ottawa's ability to pivot and push forward, always keeping the interests of our customers at the forefront. Our success in confronting the challenges of recent years was echoed in the effectiveness of our actions in 2023. When a freezing rain storm in April caused outages for nearly half of our customers and the summer hit us with tornadoes, hail and a record number of lightning strikes, we restored power efficiently and safely, with our recovery efforts incorporating lessons learned from the 2022 derecho. When the labour strike occurred, our robust contingency plan ensured continuity in essential activities and rapid responses to outages. When our hydroelectric plant experienced an unplanned unit shutdown, we quickly adjusted our operations, optimized water flows for the remaining Chaudière Falls facilities, and engaged with the turbine manufacturer and insurer to map out a timeline for repairing the unit and returning it to service.

In short, our response to the events of 2023 confirmed the strength and agility of our business posture, and our readiness to overcome any obstacle that we encounter.

An energy paradigm in transition — seizing the opportunity

While our business environment is not lacking in challenges, neither is there a shortage of opportunities. At present, the biggest opportunity in the global energy sector is the enormous scale of investment planned to shift away from fossil fuels and to increase the use of clean electricity. In 2023, we leveraged our position as a diversified energy provider to continue capitalizing on this opportunity and to advance numerous partnerships that are moving the needle on cutting-edge low-carbon energy solutions.

We were pleased to sign a memorandum of understanding with The Ottawa Hospital on the design and construction of an energy-efficient central utility plant, which will sustainably power the new Civic Campus and its transformative delivery of local healthcare. We also formalized our collaboration with the City on its flagship project to phase-out diesel buses in favour of a fully electrified fleet. In addition, we helped the Ottawa Airport make progress on its path towards net-zero operations.

Hydro Ottawa is focused on assisting homes, businesses and institutions with achieving their distinct decarbonization and electrification objectives. We are providing the expertise necessary to lower carbon footprints, reduce energy consumption and promote the use of local renewable resources — all of which supports the attainment of the City's Climate Change Master Plan and Energy Evolution goals.

Committed to our community

As a municipally-owned company, Hydro Ottawa knows that we are accountable to our community both as an investment and as a contributor to the public good.

With respect to our financial performance in 2023, we generated $24.1 million in net income, despite the risks and challenges with which we were confronted. This will result in a dividend payment of $20 million to our shareholder. Notably, combined net revenue from our distribution, generation, energy services and fibre optic businesses increased year-over-year (totalling $333 million), and we were able to invest $145.2 million into the renewal and expansion of our electric grid, power plants and other essential assets like technology systems.

In terms of community partnerships, we maintained our long-standing practice of helping our neighbours in need. Through a combination of employee giving and corporate donations, Hydro Ottawa contributed nearly $300,000 to local organizations seeking to build stronger and healthier communities and support vulnerable groups. In addition, we launched campaigns to raise public awareness around safety and emergency preparedness and response, and undertook initiatives to increase opportunities for youth (especially young women) to pursue a career in the electricity sector.

Finally, we know that our community was impacted by last year's labour disruption, especially with service delivery levels falling short of their usual standard. We sincerely appreciate the patience shown by residents and customers during the event, and in the months afterwards as we worked diligently through the backlog of service requests and appointments.

Leading the way forward

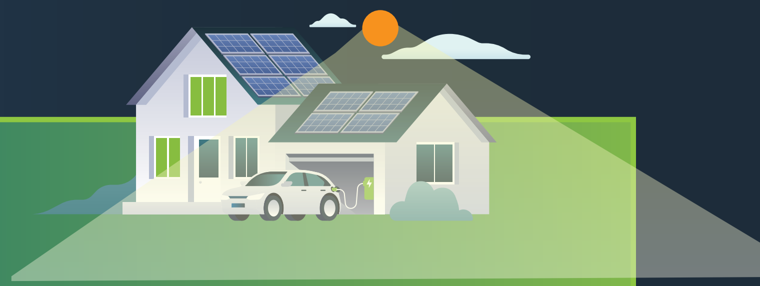
As we conclude our reflections on 2023, we would like to express our pride in Hydro Ottawa's commitment to service excellence, our gratitude for all of the support from customers and stakeholders, and our confidence in the company's business strategy, growth prospects and ability to maintain the community's trust.

After another year marked by overcoming adversity, we have emerged stronger, with our attention fixed on the opportunities ahead. Against the backdrop of a dynamic landscape, we will continue to invest in our people and in our infrastructure, and lead the way to a smart energy future.

Bernard T Ashe

Bernie Ashe
Chair, Board of Directors

Bryce Conrad
President and Chief Executive Officer



2023 **highlights**

Despite significant operational and financial challenges in 2023, Hydro Ottawa was able to advance our vision for a smart energy future and meet the needs of our customers and community for reliable, cost-effective and innovative services.

Delivering value for our shareholder

Hydro Ottawa embraces our twin responsibilities to serve as an essential service provider for our customers and to generate returns for our shareholder, the City of Ottawa. We remain committed to maximizing value over the short and long term, mindful that our earnings help support the funding of municipal programs and services that are vital to community wellbeing.

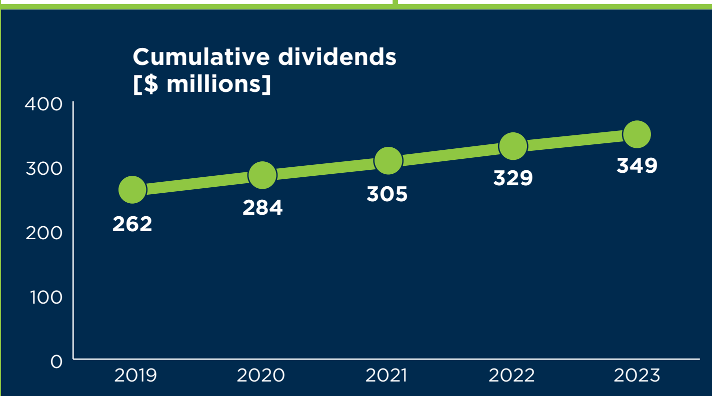
$333 M
in revenue (excluding power recovery)[1]

$24.1 M
in net income[2]

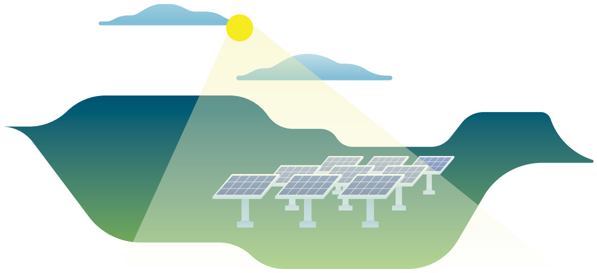
$145.2 M
in capital investment (distribution grid, generation plants, technology, equipment, facilities)

$2.6 B
in assets

566.7 GWh
of clean electricity production



1 This non-GAAP financial measure reflects combined revenue from our distribution, renewable generation, energy services and fibre optic solutions businesses. It does not include the cost of power recovered from customers through provincially established rates.
2 This figure represents net income after net movements in regulatory balances.



Enabling sustainable energy solutions

A historic transformation is underway when it comes to how energy is produced and consumed. This shift is commonly referred to as the "energy transition," which the Ontario Energy Board (the province's independent regulator of electricity and natural gas) describes as "a global shift away from using fossil fuels to a more sustainable, renewable energy future that includes more innovation and customer choice."

Across our diversified lines of business, we are playing a leadership role in helping to unlock new opportunities for our customers and community to lower their carbon footprint and adopt more sustainable forms of energy. Several key milestones were achieved in 2023 which will further position Hydro Ottawa as a trusted provider of the innovative solutions necessary to reach a decarbonized future.

Photo courtesy of Dream Unlimited

Converting wastewater energy into low-carbon heat

In 2023, Ottawa City Council approved an innovative pilot project featuring our energy and utility services affiliate, Envari, and a local real estate developer, Theia.

Using cutting-edge technology, the project proposes to extract excess thermal energy from municipal wastewater to provide low-carbon heating for 600 residential units in the Lebreton Flats area of downtown Ottawa.

The project is expected to achieve an annual reduction of over 1,100 tonnes of carbon emissions, and represents an exciting opportunity for incorporating sustainability into the design and development of new housing.

Photo courtesy of The Ottawa Hospital

Powering world-class health care with clean energy

Hydro Ottawa has formally partnered with The Ottawa Hospital (TOH) on the planning and construction of an energy-efficient, low-carbon utility plant to power TOH's state-of-the-art new Civic Campus.

The plant will be almost 140,000 square feet in size and will provide the energy required for the new campus as well as emergency back-up capabilities.

Over time, the plant will become a cornerstone of a new district energy network planned by Hydro Ottawa, which will link institutions and campuses in the downtown core into a larger low-carbon ecosystem.

Supporting sustainable public transit

Following a successful pilot, Hydro Ottawa formalized our collaboration with OC Transpo on the City of Ottawa's flagship initiative to transition to a 100 per cent electric bus fleet.

We are playing a lead support role by installing the necessary charging infrastructure, deploying energy optimization systems and expanding capacity of the local grid. With Hydro Ottawa's help, the City is set to achieve significant reductions in operating costs and avoid upwards of 38,500 tonnes of greenhouse gas (GHG) emissions every year.

In parallel, we are working in support of the other major element of Ottawa's transit transformation — Light Rail. In 2023, we invested $10 million to enable Stage 2 of the Light Rail Transit program, through infrastructure re-location, system expansion and station energization.

Together with our municipal partners, we are bringing the future of sustainable transit into focus.

Strengthening grid resilience and outage restoration

From tornadoes to floods to the most devastating storm in our history, Hydro Ottawa has been put to the test over the past few years in terms of emergency preparedness and response.

More than ever, we are aware of the need to plan for the unexpected, adapt our infrastructure and operations to increasingly frequent and severe weather events, and continuously improve our response times and customer communications when outages inevitably occur.

Since the derecho storm in May 2022, we have done a lot of heavy lifting to boost the resilience of our grid and enhance our storm restoration efforts. Those improvements were on full display on several occasions in 2023, including in the aftermath of an ice storm and a summer season which featured tornadoes, a hail storm, and a record number of lightning strikes.

If recent history is any guide, we know that another major event is just around the corner. Hydro Ottawa is committed to ensuring our customers can continue to rely on us to successfully navigate whatever emergency comes our way.

Status update — post-2022 derecho lessons learned

Grid resilience	Operations & logistics	Customer communications
Infrastructure investments: completed numerous projects to renew, replace and harden our system, with more planned over the coming years	**Emergency response plans:** updated our plans and re-organized our operations structure to encompass more large-scale, long-duration events	**Online outage map:** redesigned our map with new functionality and real-time info on outage locations, number of customers affected and estimated time of restoration
Climate risk and vulnerability assessment: updated our adaptation and mitigation plans for climate-related risks and impacts on our system	**Business continuity management (BCM):** reviewed and updated our program structure and resourcing, and prepared a new BCM exercise framework	**Outage updates and reporting:** enabled email/text message customer alerts for unplanned outages, and enhanced options for outage reporting
Overhead to underground study: commissioned an outside study examining options to enhance grid resilience; a positive business case was found for burying targeted segments of our network	**Supply chain and logistics:** increased our threshold levels for emergency stockpiles of key equipment, and adopted new communications and supply protocols with key vendors	**Large-scale emergency communications playbook:** created a new plan for communicating with the public and customers during future emergency events
Back-up system office and data centre: completed a joint assessment with a third-party expert to evaluate options for potential re-location of back-up control and data centres	**Employee communications redundancy:** achieved redundancy in internet service providers; our review of radio system and satellite phones is nearing completion	**Customer call triage:** shifted our phone system for incoming customer calls to a cloud-based solution which can scale-up during emergencies and ensure customers do not receive a fast busy signal

Building up our community

For more than 100 years, Hydro Ottawa has been powering the homes and businesses of Canada's capital. Without question, providing reliable electricity is the cornerstone of our tradition of supporting the local community. But our commitment extends well beyond simply keeping the lights on. For us, it's about making the communities in which we operate better places to live, work and play.

In 2023, Hydro Ottawa stayed true to our long-standing pledge to be a company that "gives where it lives." Through our annual employee fundraising campaign and corporate matching, we raised over $142,000 for United Way Eastern Ontario. An additional $53,000 was raised for the Royal Ottawa Prompt Care Clinic. This was accompanied by $102,000 in sponsorships and donations through our Community Investment Program for local organizations supporting vulnerable groups and seeking to build stronger and healthier communities.

Our efforts to leave a lasting, positive legacy also include contributing to local economic development. We maintained our focus on supporting local jobs and supply chains by sourcing approximately $79.6 million worth of goods and services from businesses in the National Capital Region.

Hydro Ottawa is proud of all our employees who enhance the quality of life in their communities through volunteerism, whether that involves participating with their coworkers in events like the Kanata Santa Claus Parade or giving back on their own time as a local sports coach, mentor, Legion member, not-for-profit Board Director, or other type of volunteer.

We are a community company at heart, and we will always strive to foster greater prosperity and wellbeing for the residents and families who we are so fortunate to serve.

$142,000

raised for United Way through annual employee fundraising campaign

$53,000

raised for Royal Ottawa Prompt Care Clinic

$102,000

in community sponsorships and donations

$79.6 M

paid for goods and services from local suppliers*

* "Local suppliers" in this context means suppliers located within a 100 km radius of the National Capital Region.

Towards **a smart energy future**

Advancing our 8-point strategy

Our 2021–2025 Strategic Direction outlines a balanced plan for sustainable growth, enhanced operational efficiency, and improved performance across environmental, social and governance (ESG) indicators.

In 2023, we achieved significant progress in advancing the 8-point plan which underpins our business strategy and our journey towards a smart energy future.

1 Achieve net-zero operations by 2030

A pillar of our Strategic Direction is the ambitious goal to achieve net-zero operations by 2030, becoming the first municipally-owned utility in Canada to reach this milestone. This goal is the hallmark of Hydro Ottawa's growing commitment to excellence in sustainability and ESG performance.

In 2023, we continued the implementation of our net-zero action plan, which is focused on reducing our emissions to unavoidable levels across all aspects of our business.

Decarbonizing our operations

As part of our net-zero commitment, we are constantly seeking to enhance our sustainable business practices. This includes actions like modifying our equipment use by replacing gas-powered tools with battery-powered alternatives.

In 2023, we worked with an independent expert to better understand the indirect GHG emissions associated with our business activities (known as "Scope 3" emissions). With preliminary calculations of our Scope 3-related footprint in place, we will continue to refine our strategies for addressing this important piece of the net-zero puzzle.

Metric	2022
Scope 1 GHG emissions (metric tonnes)*	**2,505**
Scope 2 GHG emissions (metric tonnes)**	**5,692**

* Includes fleet emissions, natural gas consumption, and SF6 emissions.
** Includes electricity consumed and line losses.

Revving-up for electric mobility

We advanced the ongoing electrification of our corporate vehicle fleet through the procurement of additional hybrid and electric vehicles (EVs). To support the electric mobility of our crews and employees, we installed 24 Level 2 EV chargers at our facilities.

Building our first low-carbon substation

We were especially proud in 2023 to initiate the environmental assessment and public consultation process for our first-ever low-carbon substation. The proposed Piperville Municipal Transformer Station will support projected demand growth in the southeast part of our service territory and provide system redundancy in the event of severe weather. Hydro Ottawa is developing the project using low-carbon design and construction techniques, and is exploring the potential for on-site renewable generation and electricity storage.

94%
non-hazardous waste diversion rate

12%
fleet electrification

2 Become the partner of first choice for signature green energy and carbon reduction projects in our community

2023 was another landmark year for Hydro Ottawa's participation in major green energy and carbon reduction initiatives. We continued to develop partnerships around transformational energy projects, including collaborations with the City of Ottawa on adopting zero-emission buses and piloting wastewater-to-energy technology, and engagement with The Ottawa Hospital on the central utility plant for their new Civic Campus.

In addition, we lent our support and expertise to a variety of other projects with great potential for moving our community forward on decarbonization. Through this activity, we are strengthening our leadership in this space and we welcome the prospect of multiplying such opportunities in the future.

National Capital Region's first carbon-neutral community

Hydro Ottawa is a partner in a first-of-its-kind district energy system which provides zero-carbon heating and cooling for the Zibi community in downtown Ottawa and Gatineau. The system will be one of only a few in North America to meet 100 per cent of community heating needs without fossil fuels. In 2023, we completed the next phase of the thermal plant's construction and energized several mixed-use buildings.

Net-zero partnership with the Ottawa Airport

We are excited to collaborate with the Ottawa International Airport Authority in helping their decarbonization goals to take flight. This includes charting a course towards net-zero operations at airport facilities. Key highlights last year included installing EV charging infrastructure, upgrading electrical and lighting systems, and studying the potential for on-site renewable generation.

Helping customers make the fuel switch

More and more, Hydro Ottawa is being asked by customers to provide assistance with shifting energy use from fossil fuels to clean electricity. We have numerous multi-year projects on the go with businesses and institutions interested in upgrading their service configurations to support EV chargers, heat pumps, electric boilers or self-supply of renewable power.

In anticipation of increased electrification of heating and transportation in our community, Hydro Ottawa commissioned an expert study on the potential impacts to our grid. The study will be completed in 2024 and will help inform our planned capital investments for our next five-year distribution rate cycle.

envari

Envari customer stories

From converting streetlights to improving air quality at schools, Envari is helping customers optimize their energy use, reduce costs and go green. Click here to learn more.

3 Accelerate digital transformation to enable sustainable business practices

In today's highly digitalized world, Hydro Ottawa recognizes that enhancing customer value and maximizing our efficiency require first-class digital capabilities across the company. Over the last year, we expanded our digital toolkit through the adoption of innovative new solutions tailored to the needs of customers and employees alike.

Improved outage communications

One of the most significant developments of 2023 was the launch of our new online Outage Centre, fulfilling a key commitment of our post-2022 derecho action plan. The impacts of that event underscored the need to give customers a better set of tools for receiving and reporting outage-related information. The Outage Centre represents a step change in our communications capabilities, with a redesigned outage map boasting new features like address search functionality and outage summaries by neighbourhood. We also introduced email and text alerts for outages, to provide more detailed, timely, and accurate information and restoration times for customers.

Strengthening our cybersecurity

As an essential service provider and critical infrastructure operator in the capital city of a G7 country, Hydro Ottawa is vigilant in guarding our system, assets, employees and customer information against cyber threats. In 2023, we implemented enhanced protections and controls for mission-critical operations technology. Numerous additional initiatives are planned for 2024 and beyond, as we continue to strengthen and mature our cybersecurity program.

Productivity gains through next-generation technology

By adopting next-generation technology solutions, we are able to contain costs, automate our business processes, increase efficiency and foster a culture of innovation. Below are examples of how we expanded our digital toolkit in 2023:

Satellite imaging for tree trimming

- Increased precision in identifying hazards and assessing risks
- Cost optimization
- Reduction in tree-related outages

Predictive analytics for asset management

- Optimized investment decisions
- Better risk assessments
- Improved forecasting

Enterprise data warehouse

- Advanced solution for data management, analysis and reporting
- Insights enabling improved efficiency, safety and customer service offerings

4 Leverage and promote distributed energy resources

Distributed energy resources (DERs), such as solar panels, energy storage, EVs and demand response programs, are playing a lead role in the transformation taking place in the electricity sector. Hydro Ottawa continues to explore opportunities to leverage these technologies and maximize their value for customers and the grid.

Supporting customer adoption of EVs

Electric vehicles were a major area of focus for our work on DERs in 2023. We moved into the beta testing phase for our signature “EV Everywhere” project, which uses artificial intelligence to optimize EV charging by shifting it to more grid-friendly times of the day. As more EVs appear on our roads, this project is intended to help reduce costs for customers and limit the need for capital upgrades to the grid.

We also continued the important work of reducing barriers to EV use by making charging infrastructure more available. Through the combined activity of our electricity distribution and energy services businesses, we enabled the installation of more than 500 EV chargers across Ottawa, many of which are located in public places.

A trusted partner in electricity conservation

Helping customers use energy more efficiently and lower their costs remains a key priority for Hydro Ottawa. In 2023, we completed one of our largest projects to date under Ontario’s conservation framework — a retrofit program in Kanata North that achieved a 2.5 megawatt (MW) reduction in peak demand in the local community. We also launched new conservation programs for businesses, including incentives for rooftop solar development.

A significant milestone was receiving conditional federal government approval for delivery of a Deep Retrofit Accelerator Program. With a budget of $10 million, and in collaboration with local partners, Hydro Ottawa will facilitate energy retrofits and decarbonization measures for our commercial, institutional and multi-unit residential customers. This program will help further solidify our role as a trusted advisor and partner for customers interested in achieving savings and reducing their energy and carbon footprints.

500+
EV charger installations enabled*

* These EV chargers were either installed by our energy services affiliate, Envari, or received funding through Hydro Ottawa Limited’s delivery of Natural Resources Canada’s Zero-Emission Vehicle Infrastructure Program funds.

40%
year-over-year increase

in the number of residential customers generating their own electricity using rooftop solar panels.

Hydro Ottawa makes it easy for customers to explore this option by providing support with connections and posting information on our website. Scan to learn more.

5 Continue to grow and diversify our revenue sources

A series of disruptions had an adverse impact on our financial performance in 2023. These included numerous severe weather events, such as a freezing rain storm in the spring that affected more than 170,000 customers and a record number of lightning strikes (over 6,000) during the month of July. Other challenges came in the form of a labour strike, interest rate hikes, and a generating turbine at the Chaudière Falls hydroelectric station experiencing a mechanical failure.

The increase in operating costs associated with these impacts resulted in a shortfall in net income, relative to the target set in our 2021–2025 Strategic Direction.

Nevertheless, Hydro Ottawa generated a profit of $24.1 million, owing to growth in our overall revenue ($333 million on a consolidated basis).

Despite the unique challenges encountered by Hydro Ottawa over the past couple of years, the company's overall financial position is conducive to sustained year-over-year earnings growth over the medium and long term. In addition, we continue to achieve important milestones in the diversification of our revenue sources and business activity, and will be restructuring the company in 2024 to enhance financial capacity in advance of a major infrastructure investment program on the horizon.

Electricity distribution

- Largest contributor to consolidated revenue
- Adverse financial and operational impacts in 2023 from severe weather events and labour strike

Energy solutions

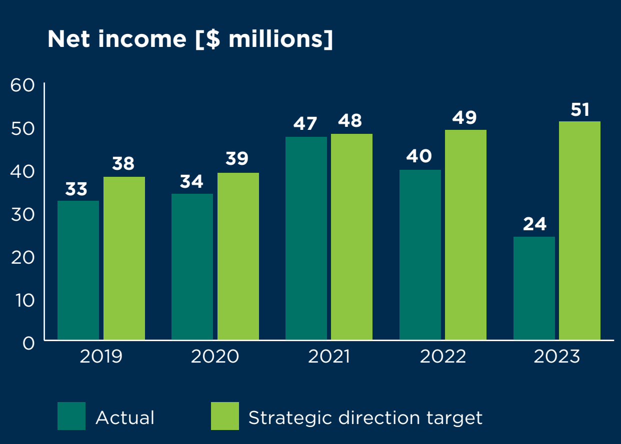
- Strongest revenue year on record
- Launched new consulting practice, Energy Advisor Plus
- Continued to expand business activity across Eastern Ontario
- Acquired dedicated warehouse space to support growth

Telecommunications

- Commenced commercial operations for Hiboo Networks, our new fibre optic solutions affiliate

Renewable generation

- Secured 20-year contract for Renewable Energy Certificates from the New York State Energy Research and Development Authority, funded through the State's Renewable Energy Standard program
- Mitigation measures implemented after historic 2017 and 2019 floods performed well during 2023 flooding
- Turbine at Chaudière Falls Generating Station No. 5 (one of four units) experienced mechanical failure; expected return to service in 2025



6 Grow our social license to operate

As a community company, Hydro Ottawa acknowledges our responsibility to establish and maintain high levels of credibility and trust with our customers and stakeholders, and to gain public acceptance for our business activities.

We know that support from the local community needs to be nurtured and renewed on an ongoing basis, and that building trust means operating transparently and going the extra mile in meeting our stakeholders' expectations.

Supporting customers in need

In the midst of numerous economic pressures, we know that many customers struggle with their energy bills. We are pleased to be able to assist customers with relief in the form of flexible payment plans and in our role as delivery agent for key provincial programs.

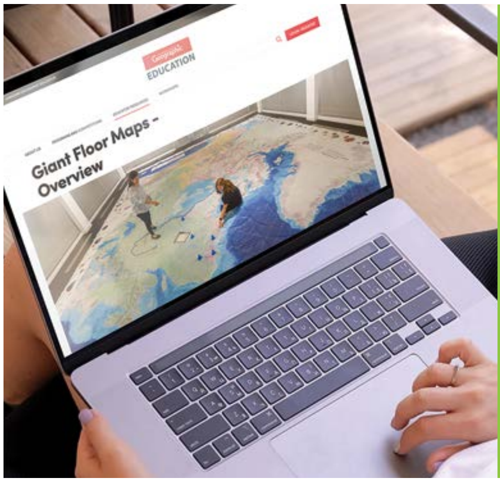
In 2023, we distributed $10.4 million in Ontario Electricity Support Program funding to over 32,500 households, as well as $157,000 in relief through the Low-Income Energy Assistance Program.

Raising community awareness

We know that customers rely on us for accurate, timely and reliable information, especially when it comes to getting the lights back on after an outage and ensuring the safety of our operations.

A major community engagement initiative in 2023 was our "Keeping Ottawa Connected" campaign, focused on informing community associations about how we prepare for emergencies, restore power following an emergency event and maintain safety through activities like tree trimming. The campaign was well-received and a second phase of engagement is planned for 2024.

We also conducted our regular campaigns around public safety, with a particular focus on minimizing safety hazards and risks during the winter season.



A partner in student success

Hydro Ottawa takes an active role in helping to shape young minds and demystify the world of electricity and the company's role in it.

In 2023, we continued our delivery of virtual and in-person programming to local elementary and secondary students regarding electricity safety, conservation, renewable energy and the prospect of a career in the sustainable energy economy.

We also collaborated with external partners in two exciting national-level projects: Electricity Human Resources Canada and Canadian Geographic, in the development of the Great Canadian Electricity Giant Floor Map, highlighting the electricity sector and the careers it offers (with two Hydro Ottawa employees showcasing their career experience); and Electricity Canada, in the creation of a standardized Grade 9/10 electricity education curriculum set to be delivered by school boards across the country.

7 Ensure organizational capacity, culture and leadership to deliver in a post-pandemic environment

To ensure that we can successfully navigate disruption and uncertainty, remain a top employer, and deliver the highest quality services to customers, Hydro Ottawa continues to foster a safe and healthy work environment, and build an engaged, prepared and diverse workforce.

Excellence in health and safety

In carrying out our day-to-day operations, the safety of our employees and the public is always at the forefront. In 2023, we retained best-in-class certifications for our Occupational Health, Safety and Environmental Management Systems to international standards. To maintain our strong safety performance, we provided an average of 18 hours of training on safe work practices for all employees and 51 hours for our trades employees.

51 hours

safe work practices training per trades employee

Hydro Ottawa employees celebrate International Women's Day

Building the workforce of tomorrow

Against the backdrop of a highly competitive labour market, we enhanced our talent management and employee development programs to ensure that we sustain a robust pipeline of highly skilled and knowledgeable employees. Key actions included hiring new apprentices, engineers and engineering interns, journeypersons and technology professionals; implementing targeted recruitment campaigns; adopting new approaches for personalizing the candidate and employee experience; and expanding online learning and training opportunities, including new virtual reality modules for trades employees.

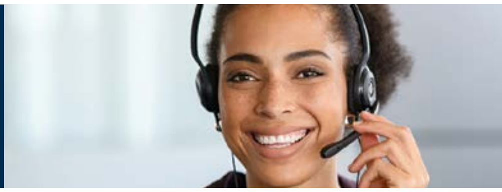
We also renewed three collective agreements with bargaining units across our electricity distribution and renewable generation businesses.

Making diversity, equity and inclusion our strength

A main focus of Hydro Ottawa's current diversity, equity and inclusion efforts is achieving gender equity goals by 2030 for mission-critical positions across our workforce. A major highlight in support of these commitments in 2023 was the establishment of a new partnership with Carleton University's Women in Engineering & IT program, focused on empowering women engineers and IT professionals with the knowledge, skills and network to excel in their future careers.

Other noteworthy collaborations included an initiative with the Canadian Centre for Diversity and Inclusion for a multi-phase Inclusive Leadership Program to equip our senior people leaders with new tools to cultivate a supportive and diverse work environment. In addition, we engaged Indigenous Works, a national Indigenous-led social enterprise, to help us create land acknowledgements for our work locations and public communications.

8 Continue to provide best-in-class customer service



The essence of Hydro Ottawa's business strategy is putting the customer at the centre of everything we do. In 2023, we continued to deliver exceptional customer service and implemented numerous initiatives to improve the customer experience.

Enhancing customer choice and convenience

"Easy and fast" remain the primary benchmarks by which customers evaluate our effectiveness in delivering value for money and in simplifying access to our services. We redesigned our online customer portal, MyAccount, as well as our mobile app in 2023, offering new features to improve the user experience and expand options for self-service. We continued to see increased customer registrations across all of our digital service platforms, including our live chat support which is the fastest growing channel for customer interaction.

We also implemented new provincial programs aimed at giving Ontario residents greater choice and convenience when it comes to their electricity usage. With the Green Button program, customers can view and share their energy usage data in a standard format in order to better understand their energy consumption and optimize their spending. In addition, the new Ultra-Low Overnight rate plan supports customers who charge their EV or consume a large portion of their energy overnight.

65%
e-billing rate (highest in Ontario)

91%
customer satisfaction rating

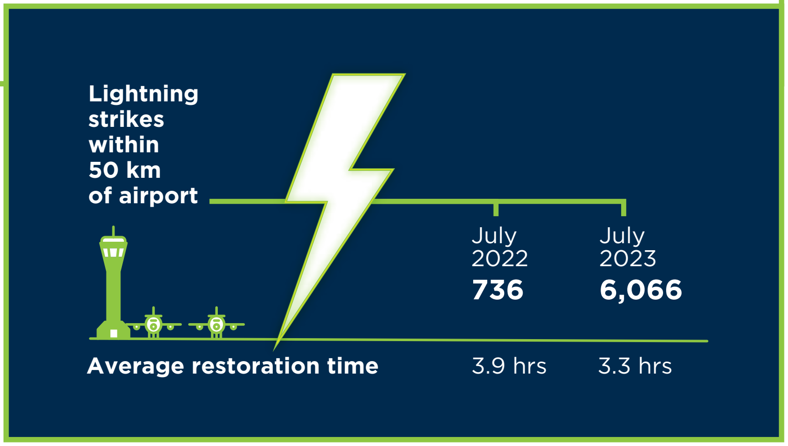
Maintaining a reliable, resilient grid

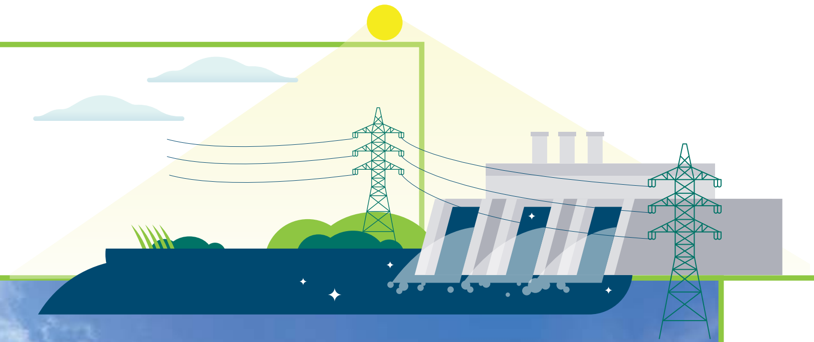
Despite multiple instances of severe weather (several of which occurred during the labour strike), our teams did an exemplary job of restoring power to customers and integrating important learnings from the 2022 derecho, such as expedited damage assessments and optimized deployment of external resources. Despite the inevitable impact of these weather events on system reliability, we were still able to achieve our second best result for outage frequency.

Certain projects were delayed or deferred due to the labour disruption. We were nevertheless able to execute on a significant portion of our distribution capital program and deliver much-needed investment to replace aging infrastructure. We likewise advanced our multi-year initiative to further elevate the intelligence and resilience of our network by automating outage restoration and modernizing our tools for grid operations.

$56.9 M
invested to keep distribution system safe and reliable

5,500
new customers connected





First commissioned in 1891, Portage Power's Generating Station No. 2 is the oldest continuously operating hydroelectric plant in Canada

Management's discussion and analysis

Introduction

The Management's Discussion and Analysis ['MD&A'] reviews Hydro Ottawa Holding Inc.'s financial position and financial performance and should be read in conjunction with the audited consolidated financial statements and accompanying notes for the year ended December 31, 2023. The accompanying consolidated financial statements are prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ['IFRS Accounting Standards'], and are expressed in thousands of Canadian dollars.

The MD&A contains forward-looking statements, including, but not limited to, statements as to future operating results and plans. These statements reflect management's expectations as of April 23, 2024, the date of approval of the consolidated financial statements. The impacts of risks and uncertainties may cause actual results, performances, or achievements to differ materially from those projected here.

Core businesses and strategy

Company profile

Hydro Ottawa Holding Inc. ['Hydro Ottawa', 'the Company' or 'the Corporation'] is 100 per cent owned by the City of Ottawa. It is a private company, registered under Ontario's *Business Corporations Act*, and overseen by an independent Board of Directors consisting of the President and Chief Executive Officer and 12 members appointed by City Council. The core businesses of the Corporation are electricity distribution, renewable energy generation, energy and utility services, and telecommunications services. Hydro Ottawa owns and operates four primary subsidiary companies.

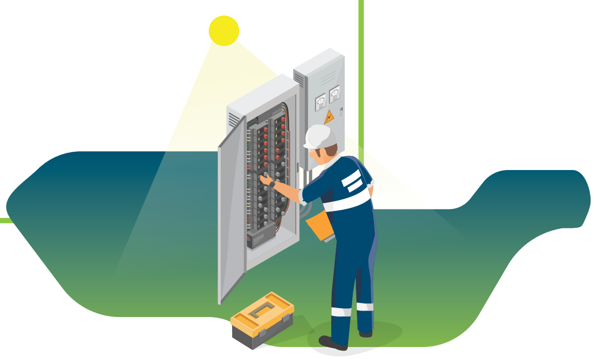
Hydro Ottawa Limited, the first of these subsidiaries, is a regulated electricity local distribution company ['LDC'] operating in the City of Ottawa and the Village of Casselman. As the third largest municipally-owned electrical utility in Ontario, Hydro Ottawa Limited maintains one of the safest, most reliable, and cost-effective electricity distribution systems in the province, serving approximately 364,000 residential and commercial customers across 1,116 square kilometres.

Energy Ottawa Inc. ['Portage Power'], the second of these subsidiaries, operates under the brand Portage Power and is the largest Ontario-based, municipally-owned producer of green power. Portage Power owns and operates six run-of-the-river hydroelectric generation plants at Chaudière Falls near Ottawa's core, along with the historic Ottawa River Ring Dam, and 12 other run-of-the-river facilities in Ontario and New York. It also holds interests in two landfill gas-to-energy joint ventures that produce clean, renewable energy from landfill gas at the Trail Road and Laflèche landfill sites in Ottawa and in Moose Creek, Ontario. It also has 16 solar installations across the City of Ottawa. In total, Portage Power has 131 megawatts of installed green generation capacity — enough to power 110,000 homes.

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

Hiboo Networks Inc. ['Hiboo'], the fourth of these subsidiaries, offers secure, high-speed fibre optic network solutions and internet service to businesses in the Ottawa and Gatineau region, operating a secure, high-capacity, state-of-the-art network. As the first municipally-owned internet service provider in the region, Hiboo launched its services in the market in September 2023.

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



Our strategic direction

In 2021, Hydro Ottawa developed a new strategic plan [‘2021–2025 Strategic Direction’], outlining the Company’s business strategy and financial projections for the next five years. This strategy represents both a continuation and an expansion of the robust foundation that Hydro Ottawa has built in our integrated planning and performance management framework. It retains the core elements of this framework, while responding to significant shifts in our business environment and placing a new emphasis on how sustainability and Environmental, Social, and Governance [‘ESG’] factors are integrated into all of our business practices.

Strategy

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

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

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

Within this dynamic landscape, our strategy for the 2021–2025 period involves:

1. Achieving net-zero operations by 2030;
2. Becoming the partner of first choice for signature green energy and carbon reduction projects in our community;
3. Accelerating digital transformation to enable sustainable business practices;
4. Leveraging and promoting distributed energy resources;
5. Continuing to grow and diversify our revenue sources;
6. Growing our social license to operate;
7. Ensuring organizational capacity, culture, and leadership to deliver in a post-pandemic environment; and
8. Continuing to provide best-in-class customer service.

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

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

- **Electricity distribution:** expanding our grid to accommodate new customers and continuing to evaluate opportunities to increase our distribution service territory;
- **Renewable generation:** increasing the supply of clean energy for customers by making smart investments in renewable generation;
- **Energy solutions:** providing innovative and sustainable solutions to help consumers, businesses, public sector agencies, utilities and communities meet their energy objectives through energy management, conservation, design engineering, efficient streetlighting, electric vehicle infrastructure, energy generation, energy storage, and district energy opportunities, among others; and
- **Telecommunications services:** delivering high-speed fibre optic network solutions and internet service to businesses in our region.

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

Mission, vision and guiding principles

Our mission

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

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

Our vision

Hydro Ottawa — a leading partner in a smart energy future

Our guiding principles

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

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

Our organizational values

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

Our commitments to our stakeholders

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

Employees

The quality of our workforce is our strength and we will strive to hire and retain the best-qualified people 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.

Electricity industry overview

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

Electricity generation

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

Electricity transmission

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

Electricity distribution

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

While it is always an LDC that delivers electricity through its distribution lines to a home or business, electricity customers have the choice of buying their electricity generation from either their local LDC or an electricity retailer. Most Ontario customers choose to buy from their LDC. Hydro Ottawa Limited is only engaged in electricity distribution in the Ontario market.

System operators

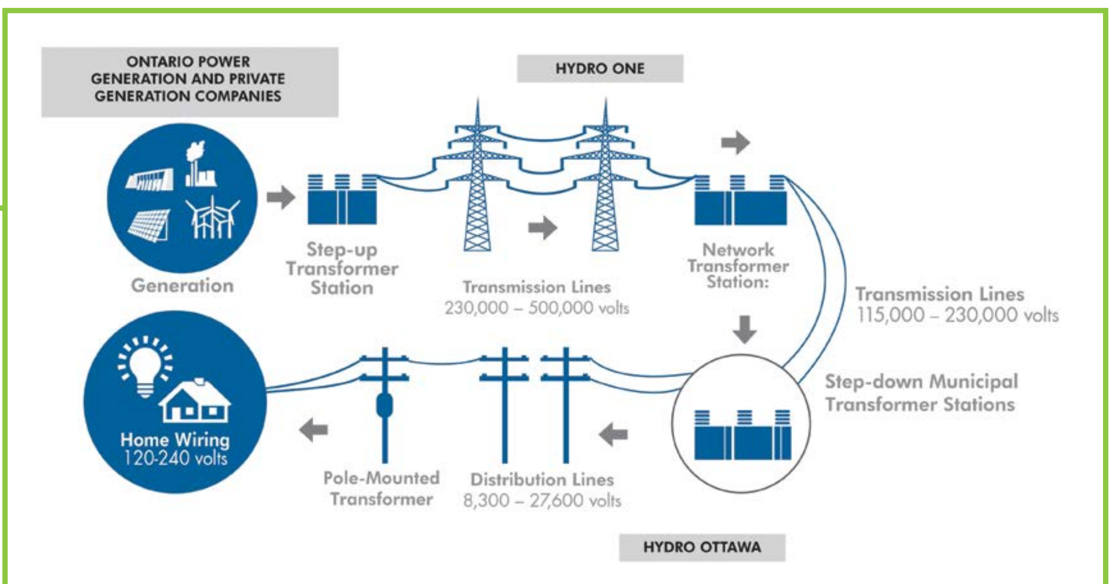
The IESO connects all participants in Ontario's power system — generators that produce electricity, transmitters that send it across the province, retailers that buy and sell it, industries that use it in large quantities, and LDCs that deliver it to homes and businesses. The IESO forecasts electricity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

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

Regulatory framework

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

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



Rates

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

- design, build, and maintain overhead and underground distribution lines, poles, stations, and local transformers;
- operate the technology systems necessary for monitoring and controlling the distribution grid; and
- provide customer service and emergency response.

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

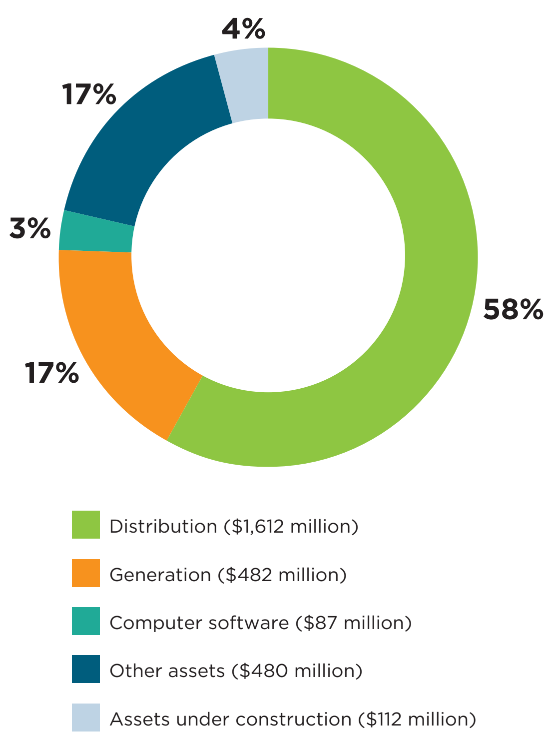
Hydro Ottawa Limited's distribution charge represents a portion of a customer's total electricity bill. Hydro Ottawa Limited bills and collects charges reflecting all electricity sector costs, extending beyond those associated with distribution, but keeps only the distribution portion.

The remainder is passed on, without mark-up, to the IESO, generators, the federal and provincial governments, and other corporate entities.

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

Portage Power's hydroelectric, landfill gas-to-energy, and solar generation rates are set through facility-specific contracts. For those facilities delivering power to Ontario, Portage Power operates under agreements with the IESO, under which a "base contractual rate" is determined at the outset. An indexing factor is applied on an annual basis until the completion of the contract term. For hydroelectric stations located in upstate New York, Portage Power's power purchase agreements — all of which are with the Niagara Mohawk Power Corporation, a subsidiary of National Grid plc — are currently market-based. As a result, generation revenues from these stations fluctuate based on market price.

Gross tangible and intangible assets



Capability to deliver results

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

Assets

Hydro Ottawa's gross asset base is $2.8 billion, as a result of 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 2023, the Corporation invested $56.9 million to maintain its distribution system and a further $53 million to expand the system to meet customer needs [see 'Investing Activities' below for more details]. In addition to these annual investments in distribution and generation infrastructure, Envari acquired a new warehouse to support its growth needs. The increase in warehouse space is tied to support of customer contracts across lighting, electrical and mechanical business lines. Examples include the City of Ottawa street lighting program, the Zero Emission Bus charging infrastructure project, suite metering and electric vehicle charging initiatives.

- **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 – 6,268 kilometres
  - Substations – 92
  - Transformers – 38,946
  - Poles – 49,027
- **Renewable generation assets** – Largest Ontario-based municipally-owned producer of green power with 131 megawatts of installed generation capacity, enough to power 110,000 homes.
  - Run-of-the-River Hydroelectric Generating Stations – 18
  - Landfill Gas-to-Energy Plants – 2
  - Solar Installations – 16
    [includes 2 behind-the-meter installations]

Envari's new warehouse

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 700 people at the end of 2023 across the enterprise, with Hydro Ottawa Limited accounting for 84 per cent 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 workforce planning, talent attraction and acquisition, effective deployment of resources, and performance management and development. More specifically, this includes:

- **Training:** In-house apprenticeship and engineering internship programs continued to grow in 2023, with fourteen new apprentices hired — bringing the total to 34, or 23 per cent of the trades workforce. Two apprentices reached journeyperson status and three engineering interns received their P. Eng. designation in 2023.
- **Succession:** Succession planning and development programs ensure that there are qualified and diverse employees in the talent pipeline for key positions.
- **Knowledge management & transfer:** A proactive approach for key positions includes an older worker and retiree engagement plan to help seamlessly transition work from the veteran workforce to the next generation.

- **Diversity, equity & inclusion:** Hydro Ottawa's strategy fosters an inclusive culture that leverages diversity and enhances employee engagement and innovation. To support the goals of its third Diversity, Equity and Inclusion Plan, Hydro Ottawa made three gender diversity commitments in 2022 — to increase women in trades and technical roles to 30 per cent, in engineering roles to 50 per cent, and in leadership roles to 50 per cent, all by 2030. Hydro Ottawa is engaging with multiple partners to increase its gender diversity and continue to evolve its plan.
- **Educational partnerships:** These include, most notably, collaborations with Algonquin College to deliver the College's Powerline Technician programs in the Eastern Ontario region, and with Carleton University's Sustainable and Renewable Energy Engineering Department for the establishment of a smart grid laboratory. The latter fosters innovative research on electrical power systems and promotes the training of engineers in the smart grid environment.

Employee compensation programs continued to support a high-performance culture in 2023, and include market-driven and performance-based components to attract and retain key employees.

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

A fundamental component of Hydro Ottawa's commitment to operating efficiently and effectively is the very high priority that is placed on protecting the health, wellness, and safety of employees and the community. Hydro Ottawa has established an integrated health, safety, and environment management system certified to international standards — ISO 45001:2018 standard for occupational health and safety management, and ISO 14001:2015 standard for environmental management.

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. Technology decisions continue to be based on three basic criteria: enhancing service to customers; creating efficiencies that will increase competitiveness; and improving functionality to be more agile and resilient in the face of industry disruption.

Hydro Ottawa continues to mature its cybersecurity program and takes the security of its critical infrastructure against cyber threats seriously. The Company collaborates proactively with government, regulators, and private sector partners across North America to manage this risk, and draws upon the expertise of such bodies as the Canadian Cyber Incident Response Centre, IESO, and OEB. The Company aspires to maintain industry-leading practices in its cyber program, including defense-in-depth security controls, regular penetration testing, anti-phishing training and campaigns for employees, third-party maturity assessments and managed security services, tabletop exercises for executive leadership, and formal plans for risk, vulnerability, threat, and incident management.

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

In 2023, the Company undertook the following initiatives:

- Modernized outage communications through the introduction of outage alert notifications to customers via text message and email, along with a new online outage map with enhanced functionality;
- Redesigned the online customer portal and mobile app, offering new self-serve functions and features to improve the user experience;
- Implemented the Green Button data standard, allowing customers to access, download and share their energy usage data in order to gain better insights into consumption, resulting in energy savings and reduced costs;

Images from Hydro Ottawa's virtual reality employee training modules

- Integrated predictive analytics into management of electricity distribution assets, which is helping to optimize asset investment decisions through comprehensive assessments of risk and augmented long-term forecasting;
- Strengthened cybersecurity protections and controls for mission-critical operational technology;
- Expanded the functionality of the customer relationship management system to centralize work intake and enhance prioritization of field crews and supervisors; and
- Continued to unlock value from the internal data warehouse, with more segments of the business leveraging analytics to improve efficiency, safety, productivity, and customer service offerings.

Progress against plan

In our 2021–2025 Strategic Direction, the Company established an 8-point strategy for achieving our vision of sustainable growth and providing value to customers. The table below summarizes 2023 performance highlights.

Strategic objectives	2023 performance highlights
Achieve net zero operations by 2030	▹ Initiated environmental assessment and public consultation for our Piperville Municipal Transformer Station project, which is being developed using net zero design and construction techniques ▹ Procured additional hybrid and electric vehicles [EVs] for our work crews, bringing the total electrification percentage for our corporate fleet to 12 per cent ▹ Installed 24 Level 2 EV chargers at our administrative and operational facilities to support electric mobility for our crews and employees ▹ Performed preliminary calculations of Scope 3 emissions and updated our strategies for reducing Scope 1 and 2 corporate emissions ▹ Diverted 94 per cent of non-hazardous waste from landfill
Become the partner of first choice for signature green energy and carbon reduction projects in our community	▹ Finalized an agreement with the City of Ottawa for the installation of EV charging infrastructure and provision of energy services in support of the City's flagship project to replace its diesel-powered bus fleet with electric buses ▹ Formalized a partnership with The Ottawa Hospital for the planning and construction of an energy efficient central utility plant to sustainably power the hospital's new campus ▹ Secured City of Ottawa approval for a wastewater heat recovery pilot project, co-led by our energy services affiliate; the project will provide zero-carbon heating for a major residential development in downtown Ottawa ▹ Continued to reduce the energy consumption and environmental footprint of the Ottawa International Airport Authority's operations, as part of our collaboration on net zero and green energy opportunities ▹ Provided support and expertise for businesses and institutions requiring electrical service upgrades to help shift more of their energy use from fossil fuels to electricity
Accelerate digital transformation to enable sustainable business practices	▹ Introduced outage alert notifications to customers via text message and email, along with a new online outage map with enhanced functionality ▹ Strengthened cybersecurity protections and controls for mission-critical operational technology ▹ Achieved operational efficiencies through the adoption of next-generation technology solutions, including: › Satellite imaging for tree trimming › Predictive analytics for managing our electricity distribution assets › Virtual reality training for employees ▹ Completed key milestones in testing an artificial intelligence solution under development with BluWave-ai, a local clean tech innovator, which will optimize EV charging for customers
Leverage and promote distributed energy resources	▹ Secured conditional federal government approval for delivery of a $10 million Deep Retrofit Accelerator Program; in collaboration with local partners, Hydro Ottawa will facilitate energy retrofits and decarbonization measures for our commercial, institutional and multi-unit residential customers ▹ Launched new electricity conservation programs for businesses, including incentives for rooftop solar deployment ▹ Maintained our status as the leading installer of EV charging infrastructure in the National Capital Region through the installation of more than 500 charging stations across our community

Strategic objectives	2023 performance highlights
Continue to grow and diversify our revenue sources	▷ Achieved consolidated net income of $24.1 million; this is 53 per cent below our Strategic Direction target, primarily due to impacts from numerous severe weather events, a mechanical failure at our Chaudière Falls generating station, the labour strike in our electricity distribution business and interest rates ▷ Achieved several milestones in our strategic direction agenda for business growth and revenue diversification: › Earned a 20-year contract for Renewable Energy Certificates from a highly competitive procurement in New York › Established an advisory and consulting practice within our energy services business › Secured dedicated warehouse space for our energy services affiliate, with the aim of optimizing inventory management and supporting long-term growth › Commenced commercial operations for Hiboo Networks, our new telecommunications affiliate
Grow our social license to operate	▷ Responded to the needs of our community through targeted support: › Raised $142,000 for the united way and $53,000 for The Royal Ottawa Prompt Care Clinic through our annual employee charitable fundraising activities › Sponsored local organizations seeking to build stronger and healthier communities and support vulnerable groups through our Community Investment Program [$102,000 total] ▷ Conducted a community awareness campaign to educate customers on emergency preparedness and outage restoration ▷ Received five awards for performance excellence, including: › National Capital Region's Top Employers [15th year] › Canada's Greenest Employers [12th year] › Canada's Best Employers [Forbes] › Canadian Apprenticeship Forum Award for Top Employers
Ensure organizational capacity, culture and leadership to deliver in a post-pandemic environment	▷ Maintained safety as our top priority: › Provided an average of 18 hours of safe work practices training for all employees (51 hours for trades employees) › Retained best-in-class certifications for our Occupational Health, Safety, and Environment Management System to international standards ▷ Continued to renew our workforce through apprentice and journeyperson hiring, and through implementation of comprehensive talent management programs ▷ Established new external partnerships in support of our workforce development goals: › Carleton University's Women in Engineering and IT Program, as part of our corporate commitment to increasing gender equity in our trades, technical, engineering and leadership roles › Electricity Canada and Electricity Human Resources Canada, on the development of a national curriculum for Grade 9 and 10 students to enhance electricity literacy and encourage career opportunities in the sector ▷ Renewed three collective agreements with bargaining units across our electricity distribution and renewable generation businesses
Continue to provide best-in-class customer service	▷ Coordinated effective emergency response efforts following multiple severe weather events [spring flooding, April ice storm and summer tornadoes and thunderstorms] ▷ Maintained best-in-class reliability performance, including throughout Hydro Ottawa's labour strike ▷ Invested $56.9 million to keep our distribution system safe and reliable ▷ Achieved 91 per cent customer satisfaction rating ▷ Redesigned our online customer portal and mobile app, offering new features to improve the user experience ▷ Implemented provincial programs focused on customer choice and convenience: › Green Button data standard, allowing customers to view and share their energy usage data in order to better understand their consumption and optimize their spending › Ultra-Low Overnight rate plan, a new pricing option aimed at supporting customers who consume a major portion of their electricity or charge their EV overnight ▷ Maintained highest e-billing rate among Ontario electricity distributors [65 per cent of customers], saving $3 million per year

Capital resources

Liquidity and capital resources

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

On June 30, 2023, the Corporation renewed, increased and extended its $500 million 3-year revolving credit facility to August 2026. The credit facility is used for general operating purposes, annual capital expenditures, and to provide adequate liquidity to withstand sudden and adverse changes in economic circumstances. Additionally, the credit facility is used to backstop the Corporation's $400 million commercial paper program to better optimize short-term borrowings.

Bond issuances in the utility sector continue to be a very attractive investment in the capital markets with strong demand across all bond tenures. This provides the Corporation access to market capacity to support its ongoing investment requirements. The Corporation's existing corporate bond profile is very strong, with a weighted average maturity of 13 years at an average weighted cost of 3.49 per cent. A $204-million, project-level, 40-year non-recourse amortizing bond, with $200.3 million outstanding, was issued in 2016 for the hydroelectric generation expansion at Chaudière Falls at a rate of 4.08 per cent. A $290.5 million, project-level, 40-year non-recourse amortizing green bond was issued in 2019 for the refurbishment of the two generating plants in Québec at a rate of 3.53 per cent. For additional details regarding the Corporation's sources of liquidity and capital resources, see Notes 11, 15, and 17 to the consolidated financial statements.

Credit ratings

On October 18, 2023, Dominion Bond Rating Service Inc. ['DBRS'] reaffirmed Hydro Ottawa's A [low] credit rating and changed the trend on the rating from Stable to Negative. The re-affirmed rating confirms the continued strength and stability of Hydro Ottawa's distribution operations. DBRS noted that Hydro Ottawa continues to have an excellent business risk profile due to its operation under a reasonable regulatory regime for electricity distribution; a large and diverse customer base; and high credit-quality power purchase agreements for the majority of its generation assets, which provide steady, predictable, and stable cash flows. DBRS's change in trend is largely attributed to growth from unregulated businesses outpacing growth from the regulated business, which has changed Hydro Ottawa's business risk profile.

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, 2023.

Consolidated statement of income [summary]

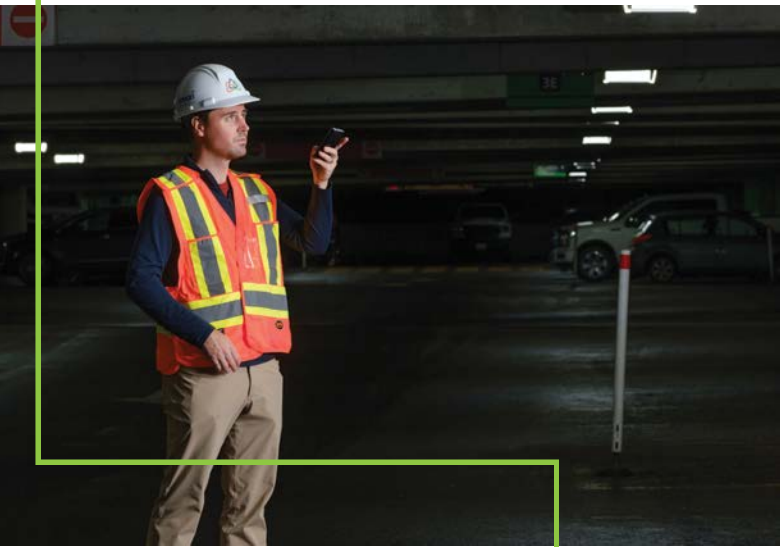
[in thousands of Canadian dollars]

	2023	**IFRS 14 impact**	**2023 (Pre-IFRS 14) (1)**	2022	IFRS 14 impact	2022 (Pre-IFRS 14) (1)	Change (Pre-IFRS 14) (1)
Revenue and other income							
Power recovery	**861,905**	**(15,913)**	**845,992**	863,545	(10,710)	852,835	(6,843)
Distribution	**224,770**	**(4,367)**	**220,403**	209,841	148	209,989	10,414
Generation	**48,073**	**-**	**48,073**	45,336	-	45,336	2,737
Commercial services	**36,477**	**-**	**36,477**	33,572	-	33,572	2,905
Government grant income	**4,336**	**-**	**4,336**	4,164	-	4,164	172
Business interruption proceeds	**4,482**	**-**	**4,482**	-	-	-	4,482
Other	**14,382**	**-**	**14,382**	13,191	-	13,191	1,191
	1,194,425	**(20,280)**	**1,174,145**	1,169,649	(10,562)	1,159,087	15,058
Expenses							
Purchased power	**864,882**	**(32,418)**	**832,464**	863,139	(34,063)	829,076	3,388
Operating costs	**182,273**	**(1,220)**	**181,053**	160,624	(233)	160,391	20,662
Depreciation and amortization	**79,604**	**-**	**79,604**	76,199	-	76,199	3,405
	1,126,759	**(33,638)**	**1,093,121**	1,099,962	(34,296)	1,065,666	27,455
Income before undernoted items	**67,666**	**13,358**	**81,024**	69,687	23,734	93,421	(12,397)
Financing costs, interest income and taxes	**64,671**	**(8,497)**	**56,174**	64,839	(11,533)	53,306	2,868
Share of loss (profit) from joint ventures	**746**	**-**	**746**	441	-	441	305
	65,417	**(8,497)**	**56,920**	65,280	(11,533)	53,747	3,173
Net income	**2,249**	**21,855**	**24,104**	4,407	35,267	39,674	(15,570)
Net movements in regulatory balances, net of tax	**21,855**	**(21,855)**	**-**	35,267	(35,267)	-	-
Net income after net movements in regulatory balances	**24,104**	**-**	**24,104**	39,674	-	39,674	(15,570)

(1) Non-GAAP financial measure

Non-GAAP financial measure

IFRS 14—Regulatory Deferral Accounts requires a one-line separate presentation of the net movement within the Corporation's regulatory deferral accounts related to income [i.e. the debit and credit balances, net of taxes] within its consolidated statement of income. This net movement of regulatory balances primarily arises when there is a timing difference between the cost of power purchased and the recovery thereof. This difference is recorded as a settlement variance, representing amounts to be recovered from or refunded to customers through future billing rates approved by the OEB. Consequently, the Corporation's purchased power and power recovery line items can be significantly impacted by these timing differences. For the purposes of the analysis and interpretation of financial variances presented, management has identified and excluded impacts resulting from the adoption of IFRS 14, and used pre-IFRS 14 results as the basis for its discussion unless otherwise noted. Management believes this more accurately represents the true financial performance of the Corporation, given its rate-regulated environment as prescribed by the OEB. Readers should be cautioned that the pre-IFRS 14 non-GAAP financial measure is not a standardized measure and might not be comparable to disclosures by other entities.



Net income

Net income decreased by $15.6 million in comparison to the previous year's results. This was largely due to a $20.7 million increase in operating costs stemming from several adverse events that took place in 2023. In early April, a freezing rain storm began causing power outages across Ottawa. More than 270,000 customers were impacted by a power outage at some point throughout the storm. The Spring also brought with it rising water levels along the Ottawa River which led to temporary generating station shutdowns. Mechanical problems also arose at two of Portage Power's four hydroelectric generating units at its Generating Station No. 5 ['GS5'] located on Chaudière Island, one of which remains out of service as it undergoes major repairs. The Corporation also faced a strike by its employees represented by the International Brotherhood of Electrical Workers Local 636 at Hydro Ottawa Limited ['IBEW 636'], which began on June 28, 2023. After the better part of three months, the IBEW membership and the Corporation ratified a new four year Collective Agreement for the period of April 1, 2023 to March 31, 2027. During this period, the City of Ottawa experienced a significant number of storms — July 2023 saw seven adverse weather events compared to zero over the same period in 2022. Many of the storms brought heavy rain, high winds and, in certain areas, hail. Moreover, the City saw tornadoes touch down in Barrhaven and in Findlay Creek. It was reported that the City of Ottawa saw 6,066 lightning strikes take place within a 50-km radius of the Ottawa airport in July 2023, more than 8.2 times the 736 lightning strikes that were observed in July 2022. Despite all of these challenges, the Corporation was still able to earn a profit of $24.1 million, owing to the growth in the Corporation's revenue in 2023.

The Corporation saw an increase in revenue of $15.1 million in comparison to the previous year. This increase was largely driven by the Corporation's regulated electricity distribution company, which saw an increase in distribution revenue of $10.4 million due to regulated increases in its electricity rates and an increase in customers, offset by a $6.8 million decrease in the cost of power recovered. Moreover, generation revenue, commercial services revenue and government grant income recorded $2.7 million, $2.9 million and $0.2 million increases, respectively. The CDM programs in government grant income are being wound down, as program delivery responsibility is being transferred to the IESO.

In addition to the rise in operating costs, Hydro Ottawa recorded an increase in financing costs of $10.9 million as a result of rising short-term interest rates, and an increase in depreciation and amortization of $3.4 million on account of its growing capital asset base.

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 2023, Hydro Ottawa's total revenue, including flow-through cost of power, amounted to approximately $1.2 billion, representing an increase of one per cent from the prior year.

The largest component of Hydro Ottawa's total revenue is the cost of power recovered from customers through provincially established rates. The cost of power is a flow-through amount, which poses limited risk to Hydro Ottawa's financial performance. However, variances arise between the cost of power purchased and the recovery thereof, due to timing differences in invoicing from the IESO for the former, and receipt of payment from customers for the latter. This difference is recorded as a settlement variance. Hydro Ottawa Limited's power recovery revenue decreased $6.8 million in 2023, mainly due to lower global adjustment portions of commodity charges.

Distribution revenue is recorded based on OEB-approved distribution rates, set at a level intended to recover the costs incurred by Hydro Ottawa Limited in delivering electricity to customers. The rates include revenue related to the collection of OEB-approved rate riders. 2023 marked the third year of rates approved under Hydro Ottawa Limited's 2021–2025 Custom Incentive rate application. Distribution revenue rose five per cent relative to 2022, due in large part to the regulated increases in Hydro Ottawa Limited's electricity rates and a rise in consumption.

In 2023, commercial services revenue, which includes Envari's energy and utility services business, produced a $2.9 million increase in revenue as economic activity continued to strengthen. The increase in its lighting, buildings and electrical practices represented 15 per cent growth from 2022. Business activity was supported, in particular, by forward movement on the electric vehicle charging infrastructure project for the City's Zero Emission Bus initiative.

During the year, Portage Power, the Corporation's renewable generation subsidiary, achieved a $2.7 million increase in revenue in comparison to the previous year despite seeing a drop in production. This is attributable to the unique circumstances of the facilities within Portage Power's fleet which operate under the terms of supply contracts with the IESO, but which are also directly connected to Hydro Ottawa's distribution system. In these instances, the applicable facilities receive settlement from Hydro Ottawa at the spot market rate, and the difference between the contracted power purchase agreement rates and the spot market rate from the IESO. In 2023, the average spot market rate was lower than the prior year, resulting in a lower settlement between Hydro Ottawa and Portage Power, resulting in a smaller elimination of intercompany revenues and purchased power, upon consolidation of the entities. On a stand-alone basis, Portage Power's decrease in revenue is mostly attributable to the GS5 Unit 1 mechanical failure and Unit 2 temporary outage, as well as the unfavourable spot market pricing obtained by its generating plants in upstate New York. The decrease in revenue was partly offset by business interruption insurance policy proceeds of $4.5 million [in connection with the GS5 Unit 1 mechanical failure], and the increase in production at its other stations at Chaudière Falls and in Eastern Ontario.

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 commodity charges, wholesale market service charges, transmission charges, and the global adjustment. The cost of purchased power increased $3.4 million in 2023, mainly due to the global adjustment portion of the commodity cost. The global adjustment comprises the difference between the market rate and the contracted price for generation, and a portion of CDM programs. Operating costs in 2023 of $181.1 million were $20.7 million higher than the prior year. In 2023, the Corporation dealt with many severe weather events, unlike 2022, where it saw one major event, the derecho. The Corporation was further impacted by a 84-day strike by the IBEW 636, which resulted in additional contractor, security and legal costs. The strike-related costs were partly offset by savings in compensation. During the year, the

Corporation saw Envari's operating costs increase by $3.5 million from the prior year, which coincided with a $3.5 million increase in revenues. The formal launch in September 2023 of Hiboo Networks, the Corporation's telecommunications services subsidiary led to a further increase in costs of $1.6 million. What is more, the Corporation incurred a loss on the write-off of assets and costs associated with the disassembly, transportation, inspection and storage of the damaged GS5 hydroelectric generation unit of $4.3 million and $1 million, respectively. Lastly, the Corporation's operating costs were impacted by a $2.1 million decrease in costs being allocated to capital programs as a result of the lower than expected capital activity during the year caused by the strike and the nature of the storms.

Depreciation and amortization
Depreciation and amortization on Hydro Ottawa's property, plant, and equipment, and on its intangible assets increased in 2023 by $3.4 million, due to the ongoing investment in the Corporation's electricity distribution infrastructure, generation and general plant assets.

Share of [loss] profit from joint ventures
In 2023, the Corporation recorded a loss of $0.7 million from joint ventures, which is slightly more than the $0.4 million loss suffered in 2022. Share of [loss] profit from joint ventures represents the Corporation's share of net [loss] profit from the continuing operations of Moose Creek Energy LP [50.05 per cent] and PowerTrail Inc. [60 per cent], both landfill gas-to-energy joint ventures. In addition, the Corporation has a 50 per cent interest in Zibi Community Utility LP ['ZCU'], a zero-carbon district cooling and heating system for the Zibi development in downtown Ottawa-Gatineau. For more information regarding the Corporation's joint ventures, see Note 8 to the consolidated financial statements.

Financing costs [net of interest income] and taxes
Financing costs increased $10.9 million due to an increase in short-term borrowing rates resulting from the Bank of Canada's interest rate hikes. In 2023, the Bank of Canada average interest rate was 4.74 per cent, up from the 1.92 per cent average rate in 2022.

The Corporation's effective tax rate decreased from 34.57 per cent in 2022 to 30.37 per cent in 2023, 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 $10.5 million decrease in income tax expense after the impact of IFRS 14 is largely the result of a decrease in pre-tax income and temporary differences. [There was a $7.4 million decrease in income tax expense pre-IFRS 14]. 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 statements of income and comprehensive income. The changes in the regulatory debit and credit balances for the year, on the consolidated balance sheet, were an increase of $15.3 million [debit] and a decrease of $6.7 million [credit], respectively. This is equal to the net movement in regulatory balances, net of tax, on the consolidated statements of income and comprehensive income [an increase of $21.8 million and an increase of $0.2 million, respectively]. The impact of the IFRS 14 adjustments of $21.8 million is shown on the consolidated statement of income [summary]. As Hydro Ottawa Limited passes on the benefit of deferred income taxes through annual distribution rate adjustments approved by the OEB, it records a regulatory deferral account credit [or debit] balance for the amounts of deferred income taxes expected to be refunded to [or recovered from] customers in future rates.

Consolidated balance sheet [summary]

[in thousands of Canadian dollars]

	2023	2022	Change
Current assets	**230,042**	207,253	22,789
Non-current assets	**2,248,745**	2,160,238	88,507
Total assets	**2,478,787**	2,367,491	111,296
Regulatory account balances	**131,843**	116,513	15,330
Total assets and regulatory account balances	**2,610,630**	2,484,004	126,626
Current liabilities	**567,443**	480,211	87,232
Non-current liabilities	**1,498,559**	1,455,164	43,395
Total liabilities	**2,066,002**	1,935,375	130,627
Shareholder's equity	**529,669**	526,944	2,725
Total liabilities and shareholder's equity	**2,595,671**	2,462,319	133,352
Regulatory account balances	**14,959**	21,685	(6,726)
Total liabilities, shareholder's equity and regulatory account balances	**2,610,630**	2,484,004	126,626

Assets

Total assets increased by approximately $111.3 million in 2023. This increase is largely attributable to property, plant, and equipment, and to intangible assets, which in combination have increased by $86.5 million. This increase is a result of the continuing investments in electrical distribution and generation infrastructure, and the acquisition of general plant assets, which includes the Envari warehouse. In addition, the Corporation's current assets increased by $22.8 million, as accounts receivable and prepaids increased by $22 million and $4 million, respectively; however, cash and restricted cash, and income taxes receivable, both decreased by $1.6 million. The increase in accounts receivable is largely due to the impact of higher rates and an increase in customers, as well as the residual effect of the strike by the IBEW 636.

Liabilities

Total liabilities increased by $130.6 million in 2023. This is due, in part, to an increase in current liabilities, which comprises a $57.3 million increase in the Corporation's bank indebtedness and commercial paper, and a $26.3 million increase in accounts payable and accrued liabilities. The increase in bank indebtedness and commercial paper is mainly due to funding needs arising from the Corporation's operations. In addition, the Corporation's non-current liabilities increased by $43.4 million due to a $33.3 million increase in the non-current portion of deferred revenue due to capital contributions received in 2023, net of amortization, and an increase of $11.7 million in deferred income taxes.

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 Accounting 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, 2023, Hydro Ottawa Limited had recognized $131.8 million in regulatory account debit balances [assets] and $15 million in regulatory account credit balances [liabilities].

The $15.3 million increase in regulatory account debit balances is largely due to a $8.4 million increase in the regulatory asset for deferred income taxes and a $8.3 million increase in the Regulatory Asset Refund Account ['RARA'], offset by a $0.9 million decrease in other variances and deferred costs.

The $6.7 million decrease in regulatory account credit balances is largely due to a $12.2 million decrease in settlement variances, offset by a $3 million increase in the Lost Revenue Adjustment Mechanism ['LRAM'] account, which tracks and disposes of lost electricity distribution revenues that result from Conservation and Demand Management ['CDM'] programs, a $1.1 million increase in the Gain on Asset Disposal variance account, which accounts for the difference between actual amount of gain from disposal of fixed assets and the forecasted gain, and a $1.2 million increase in other variance and deferred costs.

Consolidated statement of cash flows [summary]

[in thousands of Canadian dollars]

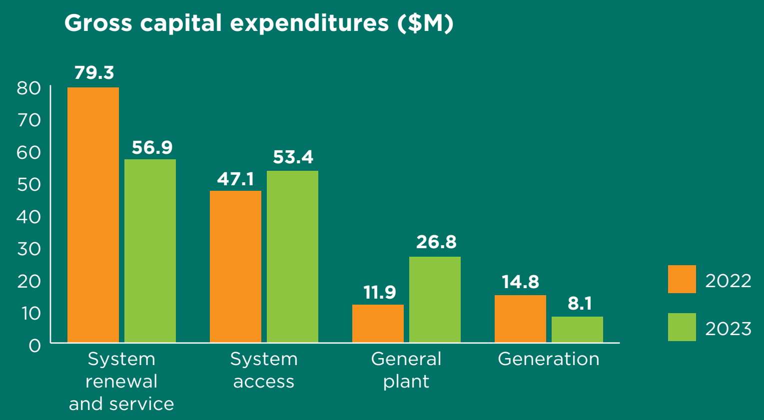
	2023	2022	Change
Bank indebtedness, beginning of year	**1,706**	(5,185)	6,891
Cash provided by Operating Activities	**120,268**	108,410	11,858
Cash used in Investing Activities	**(156,514)**	(164,814)	8,300
Cash provided by Financing Activities	**41,638**	63,295	(21,657)
Cash (bank indebtedness), end of year	**7,098**	1,706	5,392
Cash (bank indebtedness) consists of:			
Cash	**14,920**	13,978	942
Bank indebtedness	**(7,822)**	(12,272)	4,450
	7,098	1,706	5,392

Operating activities

Cash generated by operating activities increased by $11.9 million in 2023. The majority of this increase relates to a $13.4 million reduction in the outflow of cash as a result of the net movements in regulatory balances, a $9.3 million increase in cash inflow from customer deposits, and a $8.2 million inflow from the change in non-cash working capital items. The increases in operating activities are partially offset by a decrease in net income of $15.6 million and the timing of financing cost payments.

Investing activities

Cash used in investing activities decreased by $8.3 million in 2023. This decline was largely due to the decrease in the addition of intangibles [other contractual rights]. Hydro Ottawa Limited is party to various Connection and Cost Recovery Agreements with Hydro One Networks Inc. ['HONI']. These agreements govern the construction by HONI of new or modified transformer stations for the purpose of serving Hydro Ottawa Limited's customers, including anticipated electricity load growth. Furthermore, the Corporation saw a decrease in capital activities due to the suspension of work for the better part of three-months as a result of the strike. The decrease in investing activities was partially offset by the acquisition of the new Envari warehouse. Total investment in property, plant, and equipment and in intangible assets was $145.2 million in 2023. The chart below shows Hydro Ottawa's capital investments by category for both 2023 and 2022.



Capital investments in 2023 included the following: $56.9 million on system renewal and service to replace aging infrastructure and to modify the existing distribution system; $53.4 million on system access projects, including third-party-driven growth projects such as new residential or commercial installations, and municipal improvement projects; $26.8 million on general plant, including information technology infrastructure, fleet, and the acquisition of a new warehouse by Envari; and $8.1 million on generating plants.

Financing activities

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

In 2023, dividends were paid to the Shareholder, the City of Ottawa, in accordance with the approved dividend policy. The 2023 payment totaled $20 million based on 2022 results, and the 2022 payment totaled $23.7 million based on 2021 results. Subsequent to year-end, the Board of Directors declared a $20 million dividend based on 2023 results.

Accounting matters

Material accounting estimates and judgments

On January 1, 2023, the Corporation adopted amendments within IAS 1 Presentation of Financial Statements related to the Disclosure of Accounting Policies. The changes required an entity to disclose material rather than significant accounting policies and provided guidance identifying material accounting policies relevant to users of the financial statements. Accordingly, management reviewed its accounting policies and updated the accounting policy information to align with these amendments.

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

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

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

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

Risks and uncertainties

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

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

Hydro Ottawa monitors sources and factors of risk that are structural to the industry and to the Corporation's lines of business. These include, but are not restricted to, the following: the weather; the policy and regulatory environment; the state of the economy and macro-economic trends; the state of financial markets and of investment in the utilities space; government policies relating to the production and procurement of renewable and clean energy, as well as carbon emissions and conservation; the pace and nature of changes in technology, including the convergence of information technology and operational technology; cybersecurity; labour force demographics, with a particular emphasis on the renewal of human resources in the trades; the state of the market for talent and skills; the course and consequences of climate change; hazards, including extreme weather events, which could significantly affect the socio-economic and physical environment; and the impact of fiscal policies on the Corporation's customers. In combination, these sources of risk shape the evolution of the industry, which could in turn present new and emerging risks that the Corporation needs to manage effectively.

The description of risks below is not intended to be comprehensive and does not include all possible risks. The actual impact of any risk event may vary substantially from what is anticipated or described below. The sources and factors of risk analyzed below are interrelated to a great extent. They may quite possibly converge as a cause or consequence of one another. Thus, the cumulative impact of multiple risk events occurring within a relatively short time frame must be considered. In 2023, for example, Hydro Ottawa Limited's business results were significantly affected by the concurrence of two tornadoes, over 9,000 lightning strikes and a significant number of summer storms, most of which occurred during an 84-day strike by a substantial segment of its workforce.

Policy and regulatory environment

Uncertainty regarding long-term policy direction for the electricity sector in Ontario

The Ontario provincial government may pass legislation or issue regulations at any time that could directly affect the Corporation's electricity distribution and electricity generation businesses. For example, the government may direct the OEB to more aggressively scrutinize LDCs' pursuit of cost efficiencies, or take other measures to mitigate rises in electricity distribution rates, or require the IESO to achieve savings by amending supply contracts with electricity generation companies.

The government's policy posture and regulations on climate change response, including incentives for investment in more sustainable infrastructure and energy solutions, could have an impact on the Corporation's energy and infrastructure business. Although there are several clear indications that grid transformation and energy transition are priorities for the provincial government, there is still considerable uncertainty around the policy and regulatory stance with regard to the role it envisages for LDCs and electricity generation companies in anticipating and meeting the requirements of a distributed energy resource ['DER'] environment.

The climate of uncertainty may affect future investment and success in renewable energy generation, emerging grid technologies, refurbishment of energy infrastructure, and energy management services — all key pillars of growth identified by the Corporation in its 2021–2025 Strategic Direction.

Custom incentive rate application for 2021–2025

Hydro Ottawa's electricity distribution business has obtained approval from the OEB for its distribution rate plan for 2021–2025. While the Corporation expects to be able to carry out its planned programs, provide safe and reliable electricity to its customers, and earn the allowed rate of return, there can be no assurance that the LDC's results over a multi-year period will be consistent with projections included in the approved revenue requirements framework. Business performance may be affected if, for example, actual loads and energy consumption vary substantially from forecast, or unanticipated capital expenditure needs to be incurred, or actual costs of operations, maintenance, administration, capital, and financing materially exceed initial projections. As reflected in Hydro Ottawa's direct experience in both 2022 and 2023, the convergence of multiple hazards may also adversely affect business performance.

Economy and financial markets

The state of the local, national and global economy could have a significant impact on the Corporation's business performance through factors such as interest rates, inflation, supply chain stability, and availability of market capital to fund growth. The economic climate could also have an effect on the financial strength and performance of some of Hydro Ottawa's key business partners.

Access to capital

The Corporation is reliant on funds generated from its operations and funds secured from the capital markets to enable ongoing operations, capital expenditures, acquisitions and growth in the business. Disruptions in the capital markets could increase the Corporation's cost of capital and adversely affect its ability to fund its liquidity needs and future growth.

As Hydro Ottawa's debt matures from time to time, its ability to finance and refinance indebtedness would be largely dependent on general economic conditions and overall state of the capital markets, continued operating performance of its assets, its credit ratings, the regulatory and policy environment, the level of future interest rates, and the attractiveness of its debt instruments to capital market participants. If external sources of capital become limited or unavailable, the Corporation's ability to fund operations and execute capital expenditures and strategic investments, in accordance with its 2021–2025 Strategic Direction, may as a result be adversely affected.

Interest rates and credit ratings

The Corporation has variable rate interest exposure on its short-term borrowings and Commercial Paper program, which represent approximately 24 per cent of aggregate debt as at December 31, 2023. In 2023, the Bank of Canada initiated a mid-year pause after tightening its key benchmark interest rate 75 basis points (475 basis points within the past 18-month period), resulting in a significant increase in the cost of short-term borrowings. The Corporation's interest rate costs will also be impacted as it refinances maturing long-term debt at higher rates.

Hydro Ottawa continues to maintain an A [low] credit rating; however, the Corporation's growth in unregulated businesses continues to outpace the growth in the regulated business. As a result, the rating agency has changed the company's outlook from Stable to Negative. The consequences of a downgrade may have an adverse effect on the Corporation's financial position, its ability to raise capital in the future and the company's cost of borrowings.

Inflation and supply chain disruption

The combined effects of inflation and challenges in the supply chain may continue to affect the Corporation's ability to achieve or maintain expected business results, including those outlined in its 2021-2025 Strategic Direction.

Hydro Ottawa's Strategic Direction and financial projections for the 2021-2025 cycle are based on best estimates of costs to perform work and to run operations in a sustainable manner. Persistent inflation may result in substantial variance between actual results and current assumptions.

Inflation may also exacerbate the impact of the disruption of the global supply chain. Inconsistencies in the availability or cost of a range of original equipment and spares could affect the operational efficiency of the Corporation's businesses, diminish the ability to respond to outages and customer needs, erode the capacity to manage major capital projects within budgeted costs and timelines, and undermine profitability overall. The potential paucity of affordable contractors to perform the range of specialized services procured by the Corporation may also have an adverse impact upon vital support functions and back-office operations.

Exchange rate fluctuations

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

Electricity industry

Aging assets

Hydro Ottawa Limited has developed a long-term Distribution System Plan which takes into account the impact of climate change — in particular, changes in the frequency, severity, and pattern of occurrence of extreme weather events. While the Plan enables a high degree of resilience and responsiveness within the Corporation, there is a considerable risk of not being able to sustain the distribution business' historically high standards of reliability and operability. The fact that a substantial part of its distribution assets [29 per cent] have already exceeded or will reach the end of their expected useful life over the next decade may aggravate this risk.

As a result of a series of rapid-onset extreme weather events since 2018, including most notably the derecho storm of 2022 and numerous events in 2023, Hydro Ottawa Limited has needed to absorb the risks and costs of complex and financially onerous restoration of the distribution system. The occurrence of more such extreme weather events is highly likely, though the damage they may cause and the potential financial impact that may result are difficult to estimate.

Market prices for electricity

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

Major project execution

The successful and timely completion of major projects is critical to the Corporation's long-term Strategic Direction. There are inherent risk factors in such projects: construction delays; cost overruns; equipment performance not in accordance with expectations; delays in permissions and clearances from all levels of government and their agencies; and technical issues in connecting to the grid.

Equipment failure

The Corporation has established programs to monitor asset condition and performance, with a view to managing the risk of equipment failures.

Nonetheless, Hydro Ottawa Limited's distribution assets face considerable risks of failure, stemming partly from their age and partly from severe weather conditions and natural disasters. Equipment failure risks, including the failure of assets under warranty, and the degradation of critical part components, are intrinsic to the generation of hydro-electric power, as experienced by Portage Power during 2023. Risks arising from equipment failure could be exacerbated by poor vendor support and performance, as well as by the precarious nature of global supply chains in recent years.

Losses from lost revenue and repair costs may be substantial, even after taking into account any insurance coverage.

Hydrology

Hydro-electric generation assets account for 91 per cent of Portage Power's portfolio. The operation of those facilities depends upon the availability of water. Water flows could be affected by short-term variability in weather as well as longer term changes in precipitation patterns and amounts, water temperatures and ambient air temperatures.

Technology infrastructure and platforms

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

Complexity and connectedness

Hydro Ottawa Limited's key systems 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.

On a smaller scale, the Corporation's infrastructure and energy management business as well as its newly-established telecommunication business face similar exposures, as they draw upon data and information from a number of devices and systems, including some that are owned by third parties.

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

The functioning of the Corporation's technology and communications infrastructure depends to a great degree on the expertise, reliability, and resilience of third parties. There can be no assurance that the performance of these third parties will be consistent with the standards the Corporation expects.

Cybersecurity

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

Human capital

Labour relations

A substantial segment of Hydro Ottawa's workforce is represented by various unions. Unsuccessful negotiations with unions present the risk of a labour disruption or dispute. This risk manifested itself in 2023 in Hydro Ottawa Limited for an 84-day period during which other, unrelated risks also occurred, notably extreme weather events. Together, this convergence of events severely tested the resilience of the Corporation's business continuity program, and affected business performance in 2023.

The Corporation has now negotiated four-year collective agreements with all sections of its represented workforce. As a result, the risk of a major labour disruption or dispute is considerably lower for the next three years.

Talent attrition and retention

The Corporation expects the market for trades, technical, and professional staff to remain intensely competitive. In such conditions, Hydro Ottawa's capacity to match or exceed the compensation and benefits offered by its comparators cannot be guaranteed. The prolonged inability to attract, train and or retain a skilled or qualified workforce could have an adverse effect on the Corporation's service delivery and business results.

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.

Pension plans

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

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

Hazards and business continuity

Parts of the Corporation's business operations entail exposure to a range of hazards and events arising from a number of potentially inter-related factors: environmental [e.g. extreme weather; floods and earthquakes]; industrial [e.g. toxic and hazardous substances]; public health [e.g. pandemic]; public safety [e.g. civil disorder, terrorism]; structural [building or dam failure]; cybersecurity; and infrastructural [e.g. communications or transport failures].

Hydro Ottawa's Business Continuity program is designed to build capacities to respond to these events while maintaining essential operations, and to restore the business to full-scale operations when it is safe to do so. The program has demonstrated its effectiveness and resilience through a series of natural disasters since 2018, as well as during the 84-day strike in 2023 by the represented workforce in Hydro Ottawa Limited.

As robust as the program is, there can be no assurance that it will be able to withstand future challenges, especially if these emergencies and exceptional events should occur more often and with greater severity. Apart from creating risks to organizational resilience, hazards may also exacerbate financial risks. For example, the power and utilities sector may be required to absorb a greater proportion of the resulting losses if the insurance industry continues to reduce its coverage and offerings for such events.

Outlook

Subject to the risks and uncertainties above, Hydro Ottawa anticipates strengthening its financial posture in 2024 and steadily improving its business performance during the remainder of the 2021–2025 Strategic Direction term.

The Corporation believes that the adverse impact on the Corporation's financial performance in both 2022 and 2023 arises largely from a unique convergence of factors and circumstances — natural hazards and interest rate increases in 2022, and a summer of sustained extreme weather events together with a long strike in 2023. Accordingly, a slower pace of growth is projected relative to the original Financial Outlook in the 2021–2025 Strategic Direction. Nevertheless, the Corporation's overall financial position and risk profile are conducive to sustained year-over-year earnings over the long term.

By the end of 2024, Hydro Ottawa Limited will be on the cusp of submitting its 2026–2030 rate cycle application to the OEB. The application will seek to enable the capital investments that are necessary to maintain system reliability and operational effectiveness, while also providing an appropriate rate of return. Embedded in the plan will be controls and incentives which focus on productivity and cost efficiency.

The Corporation's non-regulated businesses likewise remain on a positive trajectory. Portage Power is well-positioned for future growth and opportunities, including upcoming competitive energy supply procurements set to be administered by the IESO. Against a backdrop of heightened interest in decarbonization, the landscape is similarly favourable for Envari, the Corporation's energy and utility services arm. With a growing roster of commercial and institutional clients pursuing sustainability objectives, an expanding portfolio of expertise and services, and a widening footprint across Eastern Ontario, Envari is strengthening its credentials as a preferred partner for carbon reduction and energy transformation projects.

Hiboo Networks, the Corporation's new telecommunications affiliate, continues its focus on acquiring customers, expanding its network, digitizing its customer experience and building internal capacity, with a business plan oriented towards value creation and revenue growth over the long-term.

Hydro Ottawa Holding Inc.

Consolidated Financial Statements

December 31, 2023

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 AUDITOR'S REPORT

To the Shareholder of Hydro Ottawa Holding Inc.

Opinion

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

- the consolidated balance sheet as at December 31, 2023
- the consolidated statement of income for the year then ended
- the consolidated statement of comprehensive income for the year then ended
- the consolidated statement of changes in equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- and notes to the consolidated financial statements, including a summary of material accounting policy information

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at end of December 31, 2023, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS Accounting Standards").

Basis for Opinion

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

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

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

Other Information

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

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

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

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

We have nothing to report in this regard.

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

We also:

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

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

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

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Ottawa, Canada

April 23, 2024

Hydro Ottawa Holding Inc.

Consolidated Statement of Income
Year ended December 31, 2023
[in thousands of Canadian dollars]

	2023 $	2022 $
Revenue and other income		
Power recovery revenue [Note 19]	**861,905**	863,545
Distribution revenue [Note 19]	**224,770**	209,841
Generation revenue [Note 19]	**48,073**	45,336
Commercial services revenue [Note 19]	**36,477**	33,572
Other revenue [Note 19]	**14,382**	13,191
Government grant income	**4,336**	4,164
Business interruption proceeds [Note 4]	**4,482**	-
	1,194,425	1,169,649
Expenses		
Purchased power	**864,882**	863,139
Operating costs [Note 20]	**182,273**	160,624
Depreciation [Note 6]	**69,116**	65,709
Amortization [Note 7]	**10,488**	10,490
	1,126,759	1,099,962
Income before the undernoted items	**67,666**	69,687
Financing costs [Note 21]	**55,900**	45,026
Interest income	**(1,741)**	(1,154)
Share of loss from joint ventures [Note 8(a)]	**746**	441
Income before income taxes	**12,761**	25,374
Income tax expense [Note 22]	**10,512**	20,967
Net income	**2,249**	4,407
Net movements in regulatory balances, net of tax [Note 5]	**21,855**	35,267
Net income after net movements in regulatory balances	**24,104**	39,674

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, 2023
[in thousands of Canadian dollars]

	2023	2022
	$	$
Net income after net movements in regulatory balances	**24,104**	39,674
Other comprehensive income		
Items that may be subsequently reclassified to net income		
Exchange differences on translation of foreign operations, net of tax	**(1,005)**	2,860
Items that will not be subsequently reclassified to net income		
Actuarial (loss) gain on post-employment benefits, net of tax	**(575)**	2,313
Net movement in regulatory balances related to other comprehensive income, net of tax	**201**	(1,498)
Total comprehensive income	**22,725**	43,349

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

Hydro Ottawa Holding Inc.

Consolidated Balance Sheet
As at December 31, 2023
[in thousands of Canadian dollars]

	2023	2022
	$	$
Assets		
Current assets		
Cash	14,920	13,978
Accounts receivable [Note 4]	202,873	180,874
Income taxes receivable	1,220	2,818
Prepaid expenses	9,474	5,472
Inventory	1,555	1,551
Restricted cash [Note 14(b)]	-	2,560
	230,042	207,253
Non-current assets		
Property, plant and equipment [Note 6]	2,039,273	1,946,822
Intangible assets [Note 7]	152,497	158,415
Investment properties, at cost	4,524	4,548
Investments in joint ventures [Note 8(a)]	16,849	18,486
Notes receivables from related parties [Note 9(a)]	20,000	17,625
Restricted cash [Note 14(b)]	7,160	7,610
Deferred income tax asset [Note 22]	8,442	6,732
Total assets	2,478,787	2,367,491
Regulatory debit balances [Note 5]	131,843	116,513
Total assets and regulatory balances	2,610,630	2,484,004
Liabilities and equity		
Current liabilities		
Bank indebtedness [Note 10]	7,822	12,272
Commercial paper [Note 10]	338,105	276,390
Accounts payable and accrued liabilities [Note 11]	207,998	181,735
Income taxes payable	118	-
Deferred revenue [Note 12]	9,604	7,458
Current portion of long-term debt [Notes 14 and 24]	3,796	2,356
	567,443	480,211
Non-current liabilities		
Deferred revenue [Note 12]	271,715	238,443
Employee future benefits [Note 13]	13,657	12,642
Customer deposits	18,026	19,481
Long-term debt [Notes 14 and 24]	1,074,563	1,075,648
Deferred income tax liability [Note 22]	118,607	106,872
Other liabilities [Note 15]	1,991	2,078
Total liabilities	2,066,002	1,935,375
Equity		
Share capital [Note 17]	228,453	228,453
Accumulated other comprehensive income	3,615	4,994
Retained earnings	297,601	293,497
Total liabilities and equity	2,595,671	2,462,319
Regulatory credit balances [Note 5]	14,959	21,685
Total liabilities, equity and regulatory balances	2,610,630	2,484,004

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, 2023
[in thousands of Canadian dollars]

	Share capital $	Accumulated other comprehensive income $	Retained earnings $	Total $
Balance at December 31, 2021	228,453	1,319	277,523	507,295
Net income after net movements in regulatory balances	-	-	39,674	39,674
Other comprehensive income	-	3,675	-	3,675
Dividends [Note 17(b)]	-	-	(23,700)	(23,700)
Balance at December 31, 2022	228,453	4,994	293,497	526,944
Net income after net movements in regulatory balances	-	-	24,104	24,104
Other comprehensive income	-	(1,379)	-	(1,379)
Dividends [Note 17(b)]	-	-	(20,000)	(20,000)
Balance at December 31, 2023	**228,453**	**3,615**	**297,601**	**529,669**

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, 2023
[in thousands of Canadian dollars]

	2023	2022
	$	$
Net inflow (outflow) of cash related to the following activities:		
Operating		
Net income after net movements in regulatory balances	**24,104**	39,674
Adjustments for:		
Depreciation and amortization	**79,604**	76,199
Loss on disposal of non-financial assets [Note 6]	**4,047**	1,408
Amortization of debt-issuance costs	**336**	330
Share of losses from joint ventures	**746**	441
Amortization of deferred revenue [Note 19]	**(7,819)**	(6,880)
Financing costs, net of interest income and debt-issuance costs	**53,823**	43,542
Income tax expense	**10,512**	20,967
Other	**(173)**	(540)
Changes in non-cash working capital and other operating balances [Note 23]	**(7,878)**	(16,118)
Income tax refunds received	**2,162**	1,936
Income taxes paid	**(1,210)**	(3,947)
Financing costs paid, net of interest income received	**(53,723)**	(37,671)
Capital contributions from customers	**20,065**	17,826
Capital contributions from developers [Note 6]	**11,067**	9,356
Change in customer deposits	**6,460**	(2,846)
Net movements in regulatory balances	**(21,855)**	(35,267)
	120,268	108,410
Investing		
Acquisition of property, plant and equipment [Note 6]	**(154,964)**	(156,646)
Acquisition of intangible assets	**(3,629)**	(8,573)
Proceeds from disposal of property, plant and equipment	**1,247**	1,113
Capital contributions to joint venture [Note 14(c)]	**(356)**	(283)
Dividends from joint venture	**540**	600
Issuance of note receivable to related party	**(2,375)**	(1,884)
Financing costs paid	**(694)**	(849)
Restricted cash held in-trust	**3,010**	610
Repayment of note receivable from joint ventures	**-**	214
Government grant received [Note 14(c)]	**356**	283
Distributions from joint venture	**351**	601
	(156,514)	(164,814)
Financing		
Proceeds from the issuance of commercial paper, net of repayments [Note 10]	**61,715**	86,390
Proceeds from issuance of long-term debt, net of repayments [Note 14]	**19**	712
Dividends paid [Note 17(b)]	**(20,000)**	(23,700)
Repayments of lease liabilities	**(96)**	(107)
	41,638	63,295
Net change in cash, net of bank indebtedness	**5,392**	6,891
Cash, net of bank indebtedness, beginning of year	**1,706**	(5,185)
Cash, net of bank indebtedness, end of year	**7,098**	1,706

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

[in thousands of Canadian dollars]

1. DESCRIPTION OF BUSINESS AND CORPORATE INFORMATION

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

Significant operating subsidiaries, each of which is wholly-owned by the Corporation as at December 31, 2023, are as follows:

Subsidiary	Principal activity
Hydro Ottawa Limited ['Hydro Ottawa']	An electricity distribution company regulated by the Ontario Energy Board ['OEB'] that owns and operates electrical infrastructure in the City of Ottawa and the Village of Casselman. In addition to distribution services, Hydro Ottawa Limited invoices customers for amounts it is required to pay to other organizations in Ontario's electricity system for providing wholesale generation and transmission services.
Energy Ottawa Inc. ['Energy Ottawa']	Operating under the Portage Power brand, Energy Ottawa owns and operates 18 hydroelectric generating stations totalling 118 MW located in Ontario and Québec [at Chaudière Falls] and New York state. Significant subsidiaries of Energy Ottawa include Chaudiere Hydro L.P. ['CHLP'], Hull Energy L.P. ['Hull Energy LP'], EONY Generation Limited ['EONY'], Chaudiere Hydro North L.P. ['CHLP North'], EO Generation LP ['EO Gen'] and Chaudiere Financial L.P. ['CFLP'].
Envari Holding Inc. ['Envari']	Envari provides turnkey management, analysis and infrastructure services to large energy consuming organizations and non-destructive cable testing services to utility companies. Significant subsidiaries of Envari include Envari Energy Solutions Inc. and Energy Ottawa Cable Testing Services Inc. ['Cable Q'].
Telecom Ottawa Holding Inc. ['TOHI']	TOHI owns 100% of Hiboo Networks Inc. ['Hiboo'] (formerly 13310361 Canada Inc.). Hiboo provides secure, high-speed fibre optic network solutions and internet service to businesses in the Ottawa and Gatineau area.

Joint ventures the Corporation is a party of as at December 31, 2023, are as follows:

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

2. BASIS OF PRESENTATION

(a) Statement of compliance

These consolidated financial statements have been prepared by management on a going-concern basis in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ['IFRS Accounting Standards'], and have been approved and authorized by the Corporation's Board of Directors for issue on April 23, 2024.

(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(n).

(c) Functional and presentation currency

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

(d) Use of estimates and judgments

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

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

(i) Accounts receivable

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

(ii) Regulatory balances

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

(iii) Useful lives of depreciable assets

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

2. BASIS OF PRESENTATION [continued]

(d) Use of estimates and judgments [continued]

(iv) 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(m). By their nature, estimates of future cash flows, including estimates of future capital expenditures, revenue, operating expenses, discount rates, generation production, inflation, terminal capitalization rates and forecasted market pricing [including ancillary, capacity and other market incentives] are subject to measurement uncertainty. Management factors in current economic conditions, past experience and obtains third party consultations to support its estimates when necessary.

(v) Employee future benefits

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

(vi) Capital contributions

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

(vii) Deferred income taxes

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

(viii) Indicator of asset impairment

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

Based on management's judgment, an indicator of impairment [under IAS 36 – *Impairment of Assets* ['IAS 36']] existed within EONY at December 31, 2023 pertaining to the volatility in energy market prices in New York State and the increase in market interest rates. 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)(iv)] and details regarding management's 2023 value-in-use analysis are presented in Note 7 of these consolidated financial statements.

3. MATERIAL ACCOUNTING POLICIES

On January 1, 2023, the Corporation adopted amendments within IAS 1 *Presentation of Financial Statements* related to the *Disclosure of Accounting Policies*. The changes required an entity to disclose material rather than significant accounting policies and provided guidance identifying material accounting policies relevant to users of the financial statements. Accordingly, management reviewed its accounting policies and updated the accounting policy information within this note to align with these amendments.

(a) Basis of consolidation

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

(b) Joint ventures

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

(c) Foreign currency translation

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

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.

(d) Regulation – Hydro Ottawa

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

For fiscal year ended December 31, 2023, Hydro Ottawa continued to operate under a custom incentive rate-setting application ['Custom IR'] prescribed by the OEB. The Custom IR is one of the rate setting options contained in the *Renewed Regulatory Framework for Electricity Distributors: A Performance-Based Approach* policy.

Annual IR applications are required to set rates and charges for the 2022-2025 rate years. On August 17, 2023, Hydro Ottawa filed its Custom IR year 4 update application seeking approval to change its base distribution rates effective January 1, 2024. Rates are adjusted using a formulaic approach following the first year base rates. The 2024 rates are based on an update to Hydro Ottawa's custom price escalation factor, working capital allowance, and Hydro Ottawa's annual incremental capital stretch factor for capital-related revenue requirement. Hydro Ottawa's 2024 rates were approved by the OEB on December 14, 2023.

3. MATERIAL ACCOUNTING POLICIES [CONTINUED]

(d) Regulation – Hydro Ottawa [continued]

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

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

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

Regulatory balances principally comprise of the following:

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

Other variances and deferred costs include the following:

- The Connection Cost Recovery Agreement ['CCRA'] account allows Hydro Ottawa to record annual revenue requirements related to the difference between forecasted payments built into rates and actual payments made to Hydro One Networks Inc. ['HONI'] under the CCRA's.

3. MATERIAL ACCOUNTING POLICIES [CONTINUED]

(d) Regulation – Hydro Ottawa [continued]

- Capital Variance Account ['CVA'] account (excluding the System Access capital variance sub-account relating to plant relocation requested by third parties and residential expansion) is an asymmetrical variance account. Accordingly, the CVA tracks on an annual basis [for years 2021-2025], the cumulative revenue requirement difference resulting from the underspending in the Corporation's three capital spending categories: System Renewal/System Service, System Access, and General Plant. The System Access capital variance sub-account records the cumulative revenue requirement difference due to both overspending or underspending and is referred to as a symmetrical variance account.
- A Performance Outcomes Accountability Mechanism account to return up to $200 annually for each under-achieved target during the 2021-2025 custom incentive rate-setting period. The five targets impacted by this mechanism account are identified in Hydro Ottawa's settlement agreement.
- The OEB established a variance account for electricity distributors to record any material differences between OEB cost assessments currently built into rates, and cost assessments that will result from the application of the new cost assessment models.

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

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

(e) Revenue recognition

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

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

(i) Power recovery

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

(ii) Distribution

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

3. MATERIAL ACCOUNTING POLICIES [CONTINUED]

(e) Revenue recognition [continued]

(iii) Generation

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

(iv) Commercial services

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

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

(v) Other

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

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

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

(f) Interest income and financing costs

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

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

3. MATERIAL ACCOUNTING POLICIES [CONTINUED]

(g) Income taxes

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

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

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

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

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

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

(h) Restricted cash

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

(i) Bank indebtedness

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

(j) Financial instruments

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

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

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

3. MATERIAL ACCOUNTING POLICIES [CONTINUED]

(j) Financial instruments [continued]

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

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

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

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

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

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

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

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

(k) Property, plant and equipment

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

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

[in thousands of Canadian dollars]

3. MATERIAL ACCOUNTING POLICIES [CONTINUED]

(k) Property, plant and equipment [continued]

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

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

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

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

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

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

Assets under construction and land are not subject to depreciation.

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

(l) Intangible assets

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

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

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

3. MATERIAL ACCOUNTING POLICIES [CONTINUED]

(l) Intangible assets [continued]

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

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

Land rights	50 years
Water rights with a definite useful life	7 to 100 years
Computer software	5 to 15 years
Other contractual rights	
Capital contribution agreements	45 years
Power purchase agreements ['PPA']	15 years
Deferred contract costs	14 years

(m) Impairment of non-financial assets

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

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

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

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

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

(n) Employee future benefits

(i) Pension plans

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

3. MATERIAL ACCOUNTING POLICIES [CONTINUED]

(n) 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'] which provides pension benefits for certain of the Corporation's employees and is accounted for as follows:

– Chaudiere Hydro Pension Plan 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 Chaudiere Hydro Pension Plan 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 Chaudiere Hydro Pension Plan'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 Chaudiere Hydro Pension Plan'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 Chaudiere Hydro Pension Plan'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 Chaudiere Hydro Pension Plan's assets] and interest income on plan assets, if applicable. Chaudiere Hydro Pension Plan's significant assumptions are assessed and revised, as appropriate.

– Past service costs are included in the cost of the Chaudiere Hydro Pension Plan for the year when they arise.

3. MATERIAL ACCOUNTING POLICIES [CONTINUED]

(n) Employee future benefits [continued]

(i) Pension plans [continued]

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

(ii) Other post-employment benefits

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

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

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

(o) Customer deposits

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

(p) Provisions and contingencies

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

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

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

[in thousands of Canadian dollars]

3. MATERIAL ACCOUNTING POLICIES [CONTINUED]

(q) Deferred revenue

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

(r) Debt-issuance costs

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

4. ACCOUNTS RECEIVABLE

	2023 $	2022 $
Receivables from contracts with customers		
Electricity receivable	**71,600**	59,994
Unbilled receivables related to electricity	**86,259**	82,660
IESO receivable	**14,065**	9,742
Trade and other receivables	**11,541**	14,352
Amounts due from related parties [Note 27]	**18,929**	17,911
Less: loss allowance [Note 18(c)]	**(4,179)**	(4,030)
	198,215	180,629
Receivables from other sources		
Business interruption proceeds	**2,653**	–
Sales tax receivable	**233**	245
Investment tax credit receivable	**1,772**	–
	202,873	180,874

On March 19, 2023, the Unit 1 turbine-generator [of 4 Units] of CHLP experienced a mechanical failure while in operation, resulting in significant damage, requiring replacement of the turbine-generator [the 'Unit 1 Event']. The Corporation initiated a claim under its insurance policy for the generating facility providing business interruption compensation in circumstances such as the Unit 1 Event. Business interruption proceeds are available following a 30 day grace period from the date of notice and for a total coverage maximum of $48,800. In 2023, the Corporation recognized $4,482 in business interruption proceeds under its insurance policy for lost generation revenues. At December 31, 2023, the Corporation has received $1,829 in cash proceeds from its insurance provider pertaining to these lost revenues, and has accrued business interruption proceeds of $2,653.

[in thousands of Canadian dollars]

5. REGULATORY BALANCES

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

	Remaining recovery/ reversal [years]	2022 $	Balances arising in the year $	Recovery/ reversal $	Other movements[1] $	**2023 $**
Regulatory debit balances						
RARA	1 - 5	687	7,378	949	(73)	**8,941**
Settlement variances	1 - 5	36,724	10,279	-	(10,877)	**36,126**
OPEB cash vs accrual	1 - 5	3,218	314	-	-	**3,532**
Loss on asset disposal	1 - 5	148	-	-	(148)	**-**
Regulatory asset for deferred income taxes	[2]	74,238	8,384	-	-	**82,622**
Other variances and deferred costs	1 - 5	1,498	(814)	-	(62)	**622**
		116,513	25,541	949	(11,160)	**131,843**
Regulatory credit balances						
RLRA	1 - 5	1,148	1,794	(1,592)	(73)	**1,277**
Settlement variances	1 - 5	17,033	(1,315)	-	(10,877)	**4,841**
ESM	1 - 5	1,467	74	-	-	**1,541**
Gain on asset disposal	1 - 5	-	1,241	-	(148)	**1,093**
LRAM	1 - 5	105	2,951	-	-	**3,056**
OPEB deferral account	1 - 5	30	33	-	-	**63**
Other variances and deferred costs	1 - 5	1,902	1,248	-	(62)	**3,088**
		21,685	6,026	(1,592)	(11,160)	**14,959**

[in thousands of Canadian dollars]

5. REGULATORY BALANCES [CONTINUED]

	Remaining recovery/ reversal [years]	2021 $	Balances arising in the year $	Recovery/ reversal $	Other movements[1] $	2022 $
Regulatory debit balances						
RARA	1 - 5	1,691	4,170	(1,600)	(3,574)	687
Settlement variances	1 - 5	13,453	23,049	222	-	36,724
OPEB cash vs accrual	1 - 5	5,561	(2,343)	-	-	3,218
LRAM	1 - 5	967	-	-	(967)	-
Loss on asset disposal	1 - 5	-	484	-	(336)	148
Regulatory asset for deferred income taxes	[2]	61,860	12,378	-	-	74,238
Other variances and deferred costs	1 - 5	2,842	(471)	7	(880)	1,498
		86,374	37,267	(1,371)	(5,757)	116,513
Regulatory credit balances						
RLRA	1 - 5	9,588	(5,441)	575	(3,574)	1,148
Settlement variances	1 - 5	12,850	4,411	(228)	-	17,033
ESM	1 - 5	2,126	(659)	-	-	1,467
Gain on asset disposal	1 - 5	336	-	-	(336)	-
LRAM	1 - 5	-	1,072	-	(967)	105
OPEB deferral account	1 - 5	12	18	-	-	30
Other variances and deferred costs	1 - 5	403	1,485	894	(880)	1,902
		25,315	886	1,241	(5,757)	21,685

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

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

[in thousands of Canadian dollars]

6. PROPERTY, PLANT AND EQUIPMENT

	Land, buildings and structures $	Distribution $	Generation and other $	Assets under construction $	Total $
Cost					
Balance as at December 31, 2021	312,447	1,368,056	454,434	77,533	2,212,470
Additions, net of transfers	3,554	136,033	18,405	3,658	161,650
Disposals	(1)	(3,300)	(1,267)	(27)	(4,595)
Exchange differences	1,328	-	2,865	14	4,207
Balance as at December 31, 2022	317,328	1,500,789	474,437	81,178	2,373,732
Additions, net of transfers	14,969	113,490	15,034	24,341	167,834
Disposals	(14)	(1,427)	(5,907)	-	(7,348)
Exchange differences	(475)	-	(1,103)	(3)	(1,581)
Balance as at December 31, 2023	**331,808**	**1,612,852**	**482,461**	**105,516**	**2,532,637**
Accumulated depreciation					
Balance as at December 31, 2021	(30,892)	(250,749)	(80,347)	-	(361,988)
Depreciation	(6,113)	(43,952)	(15,576)	-	(65,641)
Disposals	-	1,159	915	-	2,074
Exchange differences	(399)	-	(956)	-	(1,355)
Balance as at December 31, 2022	(37,404)	(293,542)	(95,964)	-	(426,910)
Depreciation	(6,422)	(46,002)	(16,622)	-	(69,046)
Disposals	-	726	1,328	-	2,054
Exchange differences	130	-	408	-	538
Balance as at December 31, 2023	**(43,696)**	**(338,818)**	**(110,850)**	**-**	**(493,364)**
Net book value					
As at December 31, 2022	279,924	1,207,247	378,473	81,178	1,946,822
As at December 31, 2023	**288,112**	**1,274,034**	**371,611**	**105,516**	**2,039,273**

The Corporation's property, plant and equipment disposals include $4,330 of turbine-generator components that were identified for replacement as a result of the Unit 1 Event described in Note 4.

As at December 31, 2023, land, buildings and structures and generation and other includes $4,413 [2022 – $4,578] of ROU assets with remaining lease terms ranging between 10 and 20 years, comprising of a cost of $5,468 [2022 – $5,362] and accumulated depreciation of $1,055 [2022 – $784].

On September 30, 2022, the Corporation's subsidiary, Energy Ottawa executed an Asset Purchase Agreement, with Canadian Hydro Developers Inc., that closed on December 2, 2022 [the 'Acquisition Date'], for the asset purchase of two run of the river hydroelectric facilities [Galetta hydro facility – 1.60MW and Appleton hydro facility – 1.35MW], for cash consideration of $6,200.

[in thousands of Canadian dollars]

6. PROPERTY, PLANT AND EQUIPMENT [CONTINUED]

During the year, the Corporation capitalized borrowing costs of $510 [2022 – $677] to property, plant and equipment. The average annual interest rate for 2023 was 3.4% [2022 – 2.9%].

The Corporation has entered into non-cash transactions that have been excluded from the consolidated statement of cash flows as detailed in Note 23. In addition, $12,105 [2022 – $7,587] of property, plant and equipment was contributed by developers, the directly related liability of which is included in deferred revenue.

7. INTANGIBLE ASSETS

	Land rights and water rights $	Computer software $	Other contractual rights $	Assets under development $	Total $
Cost					
Balance as at December 31, 2021	61,040	75,704	75,704	19,901	232,349
Additions, net of transfers	507	4,779	15,441	(15,477)	5,250
Exchange differences	1,673	25	-	45	1,743
Balance as at December 31, 2022	63,220	80,508	91,145	4,469	239,342
Additions, net of transfers	-	7,308	(4,756)	2,248	4,800
Exchange differences	(614)	(9)	-	(25)	(648)
Balance as at December 31, 2023	**62,606**	**87,807**	**86,389**	**6,692**	**243,494**
Accumulated amortization					
Balance as at December 31, 2021	(16,364)	(47,771)	(5,263)	-	(69,398)
Amortization	(1,792)	(6,570)	(2,128)	-	(10,490)
Exchange differences	(1,013)	(25)	(1)	-	(1,039)
Balance as at December 31, 2022	(19,169)	(54,366)	(7,392)	-	(80,927)
Amortization	(1,601)	(6,732)	(2,155)	-	(10,488)
Exchange differences	409	9	-	-	418
Balance as at December 31, 2023	**(20,361)**	**(61,089)**	**(9,547)**	**-**	**(90,997)**
Net book value					
As at December 31, 2022	44,051	26,142	83,753	4,469	158,415
As at December 31, 2023	**42,245**	**26,718**	**76,842**	**6,692**	**152,497**

[in thousands of Canadian dollars]

7. INTANGIBLE ASSETS [CONTINUED]

Other contractual rights includes connection and cost recovery agreements ['capital contribution agreements'] that govern the construction by HONI of new or modified transformer stations for the purpose of serving Hydro Ottawa's customers, including anticipated electricity load growth. Each of Hydro Ottawa's capital contribution agreements has a term of 25 years. All terms and conditions of CCRAs follow the *Transmission System Code* [the 'Code'] issued by the OEB.

During the year, the Corporation capitalized borrowing costs of $184 [2022 – $172] to intangible assets. The average annual interest rate for 2023 was 3.4% [2022 – 2.9%].

A significant portion of the Corporation's water rights with indefinite lives [72% or $16,941] stems from a historical 1889 lease agreement with Public Services and Procurement Canada. This contract provides rights to waters on the Ottawa River at Chaudière Falls for two of the Corporation's CGUs – the CHLP CGU [water rights carrying value of $9,575] and the CHLP North CGU [water rights carrying value of $7,366] – and renews every 21 years into perpetuity. The Corporation also retains water rights with indefinite lives [28% or $6,459 translated US-to-CAD] at two of its EONY generating stations which stem from historical agreements with the U.S. Federal Energy Regulatory Commission ['FERC']. These FERC licenses have an indefinite life as the Corporation is granted a legal exemption from re-qualifying for these licenses due to the size of the stations.

The Corporation's annual impairment tests with respect to the CHLP and CHLP North CGUs were based on value-in-use ['VIU'] calculations. Management's VIU calculations – subject to certain estimates as described in Note 2(d)(iv) – are based on discounted future cash inflows to be earned under each CGUs' 40-year HESOP contract, while the cash outflows are based on management's industry experience and third party input; taking into account the estimated cost to complete the refurbishment projects. The key assumption in each VIU calculation was a weighted average cost of capital ['WACC'] of 4.4% [2022 – 4.2%].

The Corporation's impairment test at December 31, 2023 performed in light of the circumstances disclosed in Note 2(d)(viii) was based on a VIU calculation. Management's VIU calculation involved third-party forecasts of New York energy prices and supplementary revenue. Other key assumptions in the VIU calculation were a discount rate via a weighted average cost of capital ['WACC'] of 7.6% [2022 – 7.1%], a US inflation rate of 2.4% [2022 – 2.5%], and a terminal capitalization rate of 8.4% [2022 – 8.3%]. Historical production and future capital and maintenance plans were also important assumptions in the VIU analysis. After conducting its impairment test, management concluded that the value-in-use recoverable amount exceeded the carrying value of the aforementioned generating assets.

Management has identified that a reasonable possible change in one key assumption could cause the carrying value to exceed the recoverable amount. The following table shows the amount by which one assumption would need to change individually for the carrying amount to exceed the estimated recoverable amount.

	Increase (decrease)	Revised rate
Assumption		
Discount rate [WACC]	1.5%	7.8%
20-year forecasted market pricing: Mohawk Valley Zone E	(0.6%)	-

[in thousands of Canadian dollars]

8. INVESTMENTS IN JOINT VENTURES

(a) Investment in joint ventures summary

	2023 $	2022 $
Moose Creek LP [50.05%]		
Investment in joint venture, beginning of year	**5,831**	6,192
Share of (loss) profit	**(6)**	240
Distributions declared and paid	**(351)**	(601)
Investment in joint venture, end of year	**5,474**	5,831
PowerTrail [60%]		
Investment in joint venture, beginning of year	**4,163**	4,668
Share of profit, net of tax	**241**	95
Dividends received	**(540)**	(600)
Investment in joint venture, end of year	**3,864**	4,163
Zibi Community Utility LP [50%]		
Investment in joint venture, beginning of year	**8,492**	9,268
Share of loss	**(967)**	(783)
Other adjusting items related to loss	**(14)**	7
Investment in joint venture, end of year	**7,511**	8,492
Total investments in joint ventures	**16,849**	18,486

(b) Balance sheet and statement of income summary

	2023 $	2022 $
Moose Creek LP		
Current assets	**949**	813
Non-current assets	**11,063**	11,583
Total assets	**12,012**	12,396
Current liabilities	**832**	504
Total liabilities	**832**	504
Revenue	**3,532**	3,473
Net (loss) income	**(12)**	478

[in thousands of Canadian dollars]

8. INVESTMENTS IN JOINT VENTURES [CONTINUED]

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

	2023 $	2022 $
PowerTrail		
Current assets	**1,111**	710
Non-current assets	**8,712**	9,423
Total assets	**9,823**	10,133
Current liabilities	**1,020**	634
Non-current liabilities	**2,052**	2,249
Total liabilities	**3,072**	2,883
Revenue	**3,865**	3,391
Net income	**401**	159

	2023 $	2022 $
Zibi Community Utility LP		
Current assets	**3,889**	3,450
Non-current assets	**36,446**	35,638
Total assets	**40,335**	39,088
Current liabilities	**1,045**	1,475
Non-current liabilities	**24,032**	20,394
Total liabilities	**25,077**	21,869
Revenue	**1,514**	1,295
Net loss	**(1,933)**	(1,566)

(c) Credit facility

PowerTrail has an operating revolving line of credit totaling $1,000 for general business purposes and bears an annual interest at the prime rate. At December 31, 2023, PowerTrail had no amount outstanding on this line of credit. PowerTrail also has a credit facility of $200 [2022 – $200] to provide standby letters of credit to the IESO. At December 31, 2023, PowerTrail had drawn an amount of $133 [December 31, 2022 – $133] in standby letters of credit against this facility. Both of the above facilities contain customary covenants and events of default, including a covenant to maintain a tangible net worth of $1,000 [2022 – $1,000]. At December 31, 2023, PowerTrail is in compliance with these customary covenants [December 31, 2022 – in compliance].

Moose Creek LP maintains an operating revolving line of credit of $1,000 for general business purposes that bears annual interest at the prime rate. At December 31, 2023, Moose Creek LP had no outstanding balances drawn against its operating revolving line of credit [December 31, 2022 – $nil]. The facility contains customary covenants and events of default. At December 31, 2023, Moose Creek LP is in compliance with these customary covenants [December 31, 2022 – in compliance].

8. INVESTMENTS IN JOINT VENTURES [CONTINUED]

(c) Credit facility [continued]

ZCU maintains an operating revolving line of credit of $1,000 for general business purposes that bears annual interest at the prime rate plus 1.25% or the banker's acceptance rate plus 2.75%. At December 31, 2023, ZCU had no outstanding balances drawn against its operating revolving line of credit [December 31, 2022 – $nil]. The facility contains customary covenants and events of default. At December 31, 2023, ZCU is in compliance with these customary covenants [December 31, 2022 – in compliance]. The facility is secured by a second ranking general security agreement and guaranteed by the Corporation up to its ownership share of the ZCU joint venture.

9. NOTES RECEIVABLE FROM RELATED PARTIES

(a) Zibi Community Utility LP

On January 22, 2021, the Corporation entered into a mirror loan agreement with ZCU to flow through funds received from Federation of Canadian Municipalities ['FCM'] to its joint venture to fund an ongoing green district energy construction project undertaken by ZCU. The agreement mirrors the terms of the FCM loan and grant agreement discussed in Note 14, which allows ZCU to borrow the lesser of $20,000 and 69.6% of eligible project expenditures, repayable over a term of 20 years and receive a non repayable grant based on the total eligible project expenditures incurred.

The loan, bearing interest of 4.66% [December 31, 2022 – 4.48%], was issued to ZCU on February 18, 2021 and as at December 31, 2023 has an outstanding balance of $20,000 [December 31, 2022 – $17,625]. Interest payments are due semi-annually on the principal amount outstanding, with principal payments beginning on December 16, 2026 and ending on February 18, 2041.

In addition, the mirror agreement also includes a loan arrangement fee payable by ZCU to the Corporation at a rate of 1.1% per annum on the initial principal amount of the loan. As at December 31, 2023, the Corporation has received $900 [December 31, 2022 – $900] in loan arrangement fees and is included in deferred revenue and amortized over the term of the loan.

(b) Moose Creek LP

As at December 31, 2022, the note receivable from Moose Creek LP was fully received.

(c) City of Ottawa

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

While quarterly payments due under the S/L maintenance contract are under standard 30-day terms, amounts with respect to the S/L conversion contract are facilitated through an interest-bearing long-term open note at a fixed rate of 3%. Amounts billed to the City of Ottawa under the S/L conversion contract are added to the note receivable as progress towards ultimate completion occurs. As stipulated in the S/L conversion contract, the City of Ottawa is to make quarterly payments to the Corporation based on a combination of electricity savings, maintenance savings and capital expenditure savings the City of Ottawa has realized as result of the more efficient LED streetlights installed to date, until the note is repaid in full.

The outstanding note receivable was repaid in full in 2022 by the City of Ottawa and as at December 31, 2023, the outstanding balance was $nil [December 31, 2022 – $nil]. While the Corporation continues to provide streetlight conversion services to the City of Ottawa, new contracts are entered into under standard payment terms of 30-days.

10. SHORT-TERM BORROWINGS

During the year, the Corporation renewed its credit facility in an amount of $500,000 and US$200 at December 31, 2023 [December 31, 2022 – $441,000 and US$200]. The facility is structured into three types of credit availability and consists of a $500,000 [2022 – $440,000] revolving operating line maturing on August 1, 2026 and commercial card facilities of $1,000 and US$200 [2022 – $1,000 and US$200]. The revolving operating lines are committed and unsecured and can be drawn for prime rate loans, bankers' acceptances, letter of credit and other bank guarantee issuances and to backstop the Corporation's Commercial Paper Program as discussed below. Generally, the need to use these forms of credit is based on Hydro Ottawa Holding Inc.'s consolidated cash position and therefore any drawings outstanding may not necessarily coincide with the amount of outstanding amounts on the working capital facility presented on the Corporation's consolidated balance sheet. This credit facility contains customary covenants and events of default including a covenant that requires the debt to capitalization ratio to be at or below 75% on a consolidated basis.

The Corporation has a Commercial Paper Program permitting the issuance of up to $400,000 of unsecured short-term promissory notes to be issued in various maturities of no more than one year. Proceeds from the issuance of commercial paper are used to fund general corporate purposes. The Commercial Paper Program is backstopped by the Corporation's credit facility and reduces the credit facility capacity, at any given time, by the total amount of commercial paper issued and outstanding. Borrowings under the Commercial Paper Program bear interest based on the prevailing market conditions at the time of issuance and had a weighted average interest rate of 5.09% during the 2023 year [2022 – 2.40%]. As at December 31, 2023, the Corporation had $338,105 in commercial paper outstanding consisting of three tranches: $138,980, $99,775, and $99,350 maturing on January 2, 2024, January 17, 2024, and February 16, 2024, respectively [December 31, 2022 – $276,390, three tranches: $126,954, $74,853, and $74,583 maturing on January 4, 2023, January 18, 2023, and February 16, 2023, respectively].

At December 31, 2023, the Corporation had drawn $7,400 in direct advances against the revolving operating line of credit [2022 – $10,600] and $nil in bankers' acceptances against the $500,000 revolving operating line [2022 – $nil and $440,000].

At December 31, 2023, the Corporation has drawn $10,134 [2022 – $10,134] against its facilities in standby letters of credit. Drawings include a $10,000 [2022 – $10,000] letter of credit to cover its prudential support obligation as described in Note 25; and a letter of credit to Her Majesty the Queen on behalf of ZCU of $134 [2022 – $134].

On October 14, 2021, CFLP signed a new 3 year $14,526 working capital facility to fund working capital needs and/or letter of credit bond indenture requirements of CFLP, CHLP North and Hull Energy LP. The borrowers may draw from the facility by way of prime rate loans, banker acceptances or letter of credit issuances. During 2023, pursuant to the terms of the CFLP Trust Indenture, standby letters of credit were issued for the Debt Service Reserve Account ['DSRA'] as described in Note 14 in the amount of $5,120 [December 31, 2022 – $5,120], the Major Maintenance Reserve Accounts ['MMRA'] for CHLP North and Hull Energy LP in the amount of $311 and $1,716 respectively [December 31, 2022 – $520 and $1,040]. As at December 31, 2023, direct borrowings of $nil were outstanding and the facility had $7,379 available for general business purposes [December 31, 2022 – $nil and $7,846].

[in thousands of Canadian dollars]

11. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2023 **$**	2022 $
Purchased power payable	**87,382**	70,404
Trade accounts payable and accrued liabilities	**49,259**	49,256
Customer deposits	**43,470**	35,433
Customer credit balances	**14,451**	13,137
Accrued interest on long-term debt	**13,230**	13,246
Due to related parties [Note 27]	**206**	259
	207,998	181,735

In 2019, the Corporation conducted a true-up calculation in connection with one of its cost recovery agreements with HONI as described in Note 25. The Corporation determined that it was obligated to make up a shortfall and accordingly set-up a provision. As at December 31, 2021, the Corporation maintained a provision of $3,400, which was included in accounts payable and accrued liabilities. In 2022, the Corporation received the final CCRA calculation from HONI, which required it to pay $2,509. The Corporation paid the $2,509 in 2022.

12. DEFERRED REVENUE

	2023 **$**	2022 $
Capital contributions from customers	**128,645**	112,116
Capital contributions from developers	**151,884**	132,838
Loan arrangement fee received [Note 9(a)]	**900**	900
Loan arrangement fee recognized to income [Note 9(a)]	**(129)**	(73)
Other deferred revenue	**19**	120
	281,319	245,901
Less: current portion	**9,604**	7,458
	271,715	238,443

13. 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, 2023 amounted to $6,652 [2022 – $6,801]. The Corporation also provides retirement benefits to certain employees through the Chaudiere Hydro Pension Plan.

[in thousands of Canadian dollars]

13. EMPLOYEE FUTURE BENEFITS [CONTINUED]

(a) Pension plans [continued]

Information about the Chaudiere Hydro Pension Plan is as follows:

(i) Defined benefit obligation

	2023 **$**	2022 $
Balance, beginning of year	**5,621**	8,168
Current service cost	**59**	109
Interest cost	**278**	242
Benefits paid	**(318)**	(951)
Employee contributions	**87**	68
Actuarial loss (gain)	**644**	(2,015)
Balance, end of year	**6,371**	5,621

(ii) Plan assets

	2023 **$**	2022 $
Fair value, beginning of year	**5,421**	7,562
Interest credit	**288**	227
Employer contributions	**214**	248
Benefits paid	**(318)**	(951)
Non-investment expenses	**(80)**	(80)
Employee contributions	**87**	68
Actuarial gain (loss)	**196**	(1,653)
Fair value, end of year	**5,808**	5,421

(iii) Funded status

	2023 **$**	2022 $
Net defined benefit liability, beginning of year	**(260)**	(606)
Change in net defined benefit liability	**(303)**	406
Funding deficit	**(563)**	(200)
Impacts on minimum funding requirements	**60**	(60)
Net defined benefit liability, end of year	**(503)**	(260)

[in thousands of Canadian dollars]

13. EMPLOYEE FUTURE BENEFITS [CONTINUED]

(a) Pension plans [continued]

The assets of the Chaudiere Hydro Pension Plan are held and managed by an independent custodian and accounted for separately in the Corporation's pension plan. The asset allocation structure is subject to diversification requirements and constraints which reduce risk by limiting exposure to individual equity investments, credit rating categories and foreign currency exposures. Based on the fair value of assets held as at December 31, 2023, the Chaudiere Hydro Pension Plan's assets were comprised of 72.9% [2022 – nil%] fixed income Canadian bonds, 24.6% [2022 – nil%] Canadian and international equities and 2.5% [2022 – 100%] in cash. 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% [2022 – 2.0%], an inflation rate of 2.0% [2022 – 2.0%] and a discount rate of 4.7% [2022 – 5.1%]. The valuations also include several other economic and demographic assumptions including mortality rates, which are based on the Canadian Pensioners' Mortality report published by the Canadian Institute of Actuaries in February 2014. An actuarial extrapolation was performed at December 31, 2023 and December 31, 2022. The last actuarial valuation was performed at January 1, 2023.

Significant actuarial assumptions for defined benefit obligation measurement purposes are discount rate and salary scale. The following sensitivities are based on reasonable changes of the assumptions, in isolation of one another, occurring at the end of the reporting period. A 1.0% decrease in discount rate would increase the defined benefit obligation by $420 or 12.5% [2022 – $683 or 12.1%], while a 1.0% increase in salary scale would increase the defined benefit obligation by $38 or 1.1% [2022 – $165 or 2.9%].

(b) Other post-employment benefits

The Corporation provides life, health and dental benefits to certain employees. Employee future benefits are calculated using an annual compensation rate increase of 2.0% [2022 – 2.0%] and a discount rate of 4.7% [2022 – 5.0%]. Cost trends for health are estimated to increase [at a declining rate from 6.0% 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:

	2023 **$**	2022 $
Defined benefit obligation, beginning of year	**12,382**	15,625
Current service costs	**507**	798
Interest on defined benefit obligation	**671**	480
Past service cost	**6**	-
Remeasurement of the defined benefit obligation	**-**	(557)
Benefits paid	**(893)**	(814)
Actuarial loss (gain)	**481**	(3,150)
Defined benefit obligation, end of year	**13,154**	12,382

An actuarial extrapolation was performed as at December 31, 2023. As a result of this exercise, the Corporation increased the accumulated liability by $772 [December 31, 2022 – decreased by $3,243 based on an actuarial valuation].

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

[in thousands of Canadian dollars]

14. LONG-TERM DEBT

	2023 $	2022 $
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	**200,274**	202,630
Series 2019-1, 3.53%, due December 31, 2059	**290,514**	290,514
Note payable		
4.26% loan, due February 18, 2041	**20,000**	17,625
	1,085,788	1,085,769
Less: current portion	**(3,796)**	(2,356)
Less: unamortized debt-issuance costs	**(7,429)**	(7,765)
	1,074,563	1,075,648

(a) Senior unsecured debentures

Interest payments on each of the above debentures are payable semi-annually in arrears in equal installments. Each debenture contains customary covenants and events of default, including a covenant to ensure that the aggregate principal amount of the consolidated funded obligations does not exceed 75% of the total consolidated capitalization. Interest payments on these debentures will be $20,067 in 2024, $17,453 in 2025, and $14,839 in 2026 and 2027.

(b) Senior secured amortizing bonds

The Series 2019-1 senior secured amortizing green bonds [the '2019-1 bonds'] totalling $290,514 were issued on behalf of Hull Energy LP and CHLP North [refurbishment 'project owners'] in 2019. The Series 2019-1 bonds carry an interest rate of 3.53% and mature on December 31, 2059. Equal semi-annual interest-only payments are due and payable on June 30 and December 31 each year until and including June 30, 2024. Thereafter, semi-annual blended repayments of principal and interest will be due and payable on June 30 and December 31 each year commencing on December 31, 2024 until and including the maturity date. In addition, a balloon payment of $43,577 [15% of the principal] will be due and payable on the maturity date. The 2019-1 bonds are secured by the total refurbishment project assets, where the project assets of Hull Energy LP and CHLP North represent 76.8% and 23.2% of the security, respectively.

The Corporation's senior secured amortizing bonds [the '2016-1 bonds'] carry an interest rate of 4.08% and mature on March 31, 2057. Equal semi-annual interest-only payments were 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 2016-1 bonds are secured by a first-charge interest on the assets of CHLP.

[in thousands of Canadian dollars]

14. LONG-TERM DEBT [CONTINUED]

(b) Senior secured amortizing bonds [continued]

In accordance with the Trust Indenture, CFLP was required to maintain in a DSRA [classified as restricted cash on the consolidated balance sheet], an amount equal to the next six months of interest and principal, funded in accordance with Chaudiere North LP's Pro Rata Portion of the DSRA. During 2022, the DSRA has been fully funded with a standby letter of credit as described in Note 10.

As required by the applicable Trust Indenture, CHLP is to maintain in a DSRA an amount equal to the next six months of interest and principal and payments due under the bonds; during the year CHLP maintained a deposit of $5,330 [December 31, 2022 – $5,330] in the DSRA [classified as restricted cash on the consolidated balance sheet] to replace a standby letter of credit as described in Note 10. CHLP also maintained, in a Major Maintenance Reserve Account ['MMRA'], an amount that covers a portion of the projected major maintenance expenditures in the coming three years [2023 – $1,830 and 2022 – $2,280] which is also classified as restricted cash on the consolidated balance sheet.

During the year, CHLP North withdrew $2,560 in the Over Production Sharing Reserve Account ['OPSRA'; classified as restricted cash on the consolidated balance sheet] pursuant to the terms of the Trust Indenture and the applicable Power Purchase Agreement.

The Corporation is required to maintain a minimum debt-coverage service ratio ['DCSR'] for both CFLP and CHLP. Both CFLP and CHLP's DCSR's divides the sum of the respective entities net operating and investing cash flows [as defined by their respective Trust Indentures] by the applicable interest and principal repayments due within the next calendar year. The Corporation was in compliance with all financial covenants associated with the 2019-1 and 2016-1 bonds at December 31, 2023 and 2022, as applicable.

(c) Note payable

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

The loan, bearing interest of 4.26% [December 31, 2022, 4.08%], was issued from FCM to the Corporation on February 18, 2021 and has an outstanding balance of $20,000 as at December 31, 2023 [December 31, 2022 – $17,625]. Interest payments are payable semi-annually on the principal amount outstanding, with principal payments beginning on December 16, 2026 and ending on February 18, 2041. Interest payments on the loan will be $810 in 2024, $850 in 2025, $850 in 2026, $828 in 2027, and $772 in 2028. In addition, the Corporation received grant funds of $356 [2022 – $283] from FCM.

The Corporation has a mirror loan agreement with ZCU to flow through the above loan and grant funds received from FCM to its joint venture as discussed in Note 9(a).

15. OTHER LIABILITIES

	2023	2022
	$	$
Lease liabilities	**1,654**	1,667
Other	**337**	411
	1,991	2,078

[in thousands of Canadian dollars]

15. OTHER LIABILITIES [CONTINUED]

The Corporation's lease liabilities are calculated under the assumption that all applicable renewal periods at the Corporation's option will be exercised, and thus have lease terms ranging between 2033 and 2043.

16. CAPITAL DISCLOSURES

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

– Ensure continued access to funding to maintain and improve the operations and infrastructure of the Corporation;

– Ensure compliance with covenants related to the credit facilities and its long-term debt; and

– Align the capital structure of the Corporation's regulated subsidiary, Hydro Ottawa, with the debt to equity structure recommended by the OEB.

The Corporation's capital consists of the following:

	2023 **$**	2022 $
Commercial paper	**338,105**	276,390
Long-term debt	**1,078,359**	1,078,004
Total debt	**1,416,464**	1,354,394
Equity	**529,669**	526,944
Total capital	**1,946,133**	1,881,338

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

As at December 31, 2023, the Corporation's debt to capitalization ratio, the calculation of which takes into account outstanding letters of credit, was 72.9% [2022 – 72.5%]. The Corporation's debt to capitalization ratio excluding non-recourse debt is 64.0% [2022 – 62.5%]. The Corporation is in compliance with all financial covenants and limitations associated with its credit facilities and its long-term debt.

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

[in thousands of Canadian dollars]

17. 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

	2023	2022
	$	$
214,901,003 Class A common shares	**228,453**	228,453

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

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

On April 20, 2023, the Board of Directors declared a $20,000 dividend to the City of Ottawa, which was paid in increments of $5,000, $5,000, $5,000, and $5,000 on April 27, 2023, July 4, 2023, October 3, 2023 and December 1, 2023, respectively [April 14, 2022 the Board of Directors declared a $23,700 dividend to the City of Ottawa, which was paid in increments of $8,700, $5,000, $5,000, and $5,000 on April 21, 2022, July 4, 2022, October 3, 2022 and December 1, 2022, respectively].

Subsequent to year-end, the Board of Directors declared a $20,000 dividend on April 23, 2024 on the common shares of the Corporation outstanding on December 31, 2023.

18. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

(a) Fair value disclosures

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

The Corporation has estimated the fair value of the note receivable from its joint venture, ZCU, as at December 31, 2023 as amounting to $18,041 [2022 – $16,850]. The fair value has been determined based on discounting all estimated future repayments of principal and interest required to fully repay the loans at the estimated interest rate of 6.0% [2022 – 5.0%] that would be available to ZCU on December 31, 2023.

18. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT [CONTINUED]

(a) Fair value disclosures [continued]

The Corporation has estimated the fair value of the senior unsecured debentures and note payable as at December 31, 2023 as amounting to $555,125 [2022 – $523,894]. The fair value has been determined based on discounting all future repayments of principal and interest between February 3, 2025 and February 2, 2045 at the estimated interest rate of 4.6% for the senior unsecured debentures and 5.6% for the note payable [2022 – 5.0% for the senior unsecured debentures and note payable] that would be available to the Corporation on December 31, 2023.

The Corporation has estimated the fair value of its senior secured amortizing bonds as at December 31, 2023 as amounting to $406,503 [2022 – $392,761]. The fair value has been determined based on discounting all estimated future repayments of principal and interest required to fully repay the bonds at the estimated interest rate of 5.1% [2022 – 5.4%] that would be available to the Corporation at December 31, 2023.

(b) Market risk

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

(i) Interest rate risk

The Corporation is exposed to interest rate risk on its borrowings. Under the Corporation’s credit facility, advances on its credit lines expose it to fluctuations in short-term interest rates related to prime rate loans and bankers' acceptances. In addition, the fees payable on bankers' acceptances via the operating and capital lines are based on a margin determined by reference to the Corporation's credit rating. The Corporation is also exposed to fluctuations in short term interest rates in connection with outstanding issuances under its Commercial Paper Program. Given the fact that the borrowing requirements on the credit lines are typically for a short duration [i.e., to bridge gaps between the cash outflows related to the Corporation's monthly power bill and the inflows related to settlements with customers, or the cash outflows related to significant capital acquisitions and the inflows related to the issuance of additional long-term fixed-interest-rate debt], and the Corporation incorporates a mix of fixed and floating rate instruments, there is limited exposure to interest rate risk.

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

A sensitivity analysis was conducted to examine the impact of a change in the prime rate on the Corporation’s outstanding drawings on its credit facility. A variation of 1% [100 basis points], with all other variables held constant, would increase or decrease the annual interest expense by approximately $3,455.

(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 CDN $1 equals U.S $0.76 as at December 31, 2023 would increase [or decrease] the equity of the Corporation by approximately $2,846.

[in thousands of Canadian dollars]

18. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT [CONTINUED]

(c) Credit risk

Credit risk is the risk that a counterparty will default on its obligations, causing a financial loss to the Corporation. Concentration of credit risk associated with electricity-related accounts receivable is limited due to the large number of customers the Corporation services. The Corporation has approximately 364,000 customers served by Hydro Ottawa, the majority of which are residential. As a result, the Corporation did not earn a significant amount of electricity-related revenue and does not have a significant electricity-related receivable from any individual customer. The Corporation is exposed to a concentration of credit risk in generation-related accounts receivable due to the small number of entities the Corporation services. The Corporation relies on its power purchase agreements with the IESO and the Niagara Mohawk Power Corporation to support its Canadian and U.S. generation operations.

The Corporation performs ongoing credit evaluations of its customers serviced by Hydro Ottawa and requires collateral to support non-residential customer accounts receivable on specific accounts to mitigate significant losses in accordance with OEB legislation. As at December 31, 2023, the Corporation held security deposits related to power recovery and distribution revenue in the amount of $14,336 [2022 – $14,533] with respect to these customers. The Corporation's other subsidiaries limit credit risk by dealing with customers that are considered to be of high credit quality. These customers include government agencies, utilities, municipalities, universities, school boards, hospitals, and customers with investment grade credit ratings.

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

The Corporation applies the *IFRS 9 – Financial Instruments* simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade and other receivables. The expected loss rates for trade receivables are based on the payment profiles of sales over a period of twelve months before December 31, 2023 or December 31, 2022 respectively and the corresponding historical credit losses experienced within this period and other information. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

On that basis, the loss allowance as at December 31, 2023 and December 31, 2022 was determined as follows for trade and other receivables.

	Gross carrying amount $	Weighted average loss rate	Loss allowance $	Net carrying amount $
December 31, 2023				
Outstanding for 30 days or less	**106,894**	0.00 %	-	106,894
Outstanding for more than 30 days but no more than 120 days	**8,407**	13.94 %	1,172	7,235
Outstanding for more than 120 days	**5,492**	40.48 %	2,223	3,269
Unbilled receivables relating to electricity	**86,259**	0.91 %	784	85,475
	207,052		4,179	202,873
December 31, 2022				
Outstanding for 30 days or less	**87,014**	0.00 %	-	87,014
Outstanding for more than 30 days but no more than 120 days	**9,501**	12.69 %	1,206	8,295
Outstanding for more than 120 days	**3,441**	62.45 %	2,149	1,292
Unbilled receivables relating to electricity	**84,948**	0.79 %	675	84,273
	184,904		4,030	180,874

[in thousands of Canadian dollars]

18. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT [CONTINUED]

(c) Credit risk [continued]

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

	2023 $	2022 $
Balance, beginning of year	**4,030**	3,139
Net remeasurement of loss allowance	**2,338**	2,454
Write-offs	**(2,344)**	(1,709)
Recoveries of amounts previously written-off	**155**	146
Balance, end of year	**4,179**	4,030

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

As at December 31, 2023, 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 10, are maintained to meet obligations as they come due while minimizing standby fees and interest.

[in thousands of Canadian dollars]

18. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT [CONTINUED]

(d) Liquidity risk [continued]

Liquidity risks associated with financial commitments are as follows:

	2023		
	Due within one year $	Due between one and five years $	Due after five years $
Bank indebtedness	**7,822**	**-**	**-**
Commercial paper [(1)]	**338,105**	**-**	**-**
Accounts payable and accrued liabilities	**207,998**	**-**	**-**
Senior unsecured debentures			
Series 2006-1, 4.97%, due December 19, 2036	**-**	**-**	**50,000**
Series 2013-1, 3.99%, due May 14, 2043	**-**	**-**	**150,000**
Series 2015-1, 2.61%, due February 3, 2025	**-**	**200,000**	**-**
Series 2015-2, 3.64%, due on February 2, 2045	**-**	**-**	**175,000**
Senior secured amortizing bonds			
Series 2016-1, 4.08%, due March 31, 2057	**2,449**	**11,165**	**186,660**
Series 2019-1, 3.53%, due December 31, 2059	**1,347**	**11,066**	**278,101**
Loan			
4.26% loan, due February 18, 2041	**-**	**3,333**	**16,667**
Interest to be paid on long-term debt	**39,265**	**137,008**	**561,181**
	596,986	**362,572**	**1,417,609**

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

[in thousands of Canadian dollars]

19. REVENUE FROM CONTRACTS WITH CUSTOMERS AND OTHER SOURCES

The Corporation's revenue breakdown is as follows:

	2023	2022
	$	$
Revenue from contracts with customers		
Power recovery and distribution		
Residential service [1]	**420,648**	422,311
General service [2]	**604,514**	587,499
Large users [3]	**61,513**	63,576
	1,086,675	1,073,386
Generation	**48,073**	45,336
Commercial services		
Lighting	**11,199**	9,862
Buildings	**6,044**	7,366
Electrical	**10,025**	6,491
Service work related to distribution operations	**5,335**	6,164
Pole attachment and duct rental	**3,874**	3,689
	36,477	33,572
Other		
Account-related charges and miscellaneous	**5,101**	4,636
Capital contributions from customers amortized to revenue	**3,693**	3,301
	8,794	7,937
	1,180,019	1,160,231
Revenue from other sources		
Other		
Investment property rentals	**1,462**	1,675
Capital contributions from developers amortized to revenue	**4,126**	3,579
	5,588	5,254
	1,185,607	1,165,485

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

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

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

[in thousands of Canadian dollars]

20. OPERATING COSTS

	2023 **$**	2022 $
Salaries, wages and benefits	**90,056**	92,660
Contracted services - distribution system maintenance	**21,032**	15,133
Contracted services - customer owned plant	**6,493**	6,015
Contracted services - other	**26,236**	19,159
General and administrative	**49,982**	44,702
Other electricity distribution costs	**13,242**	9,238
Inventory expensed as cost of goods sold and other	**1,740**	2,349
Capital recovery	**(26,508)**	(28,632)
	182,273	160,624

21. FINANCING COSTS

	2023 **$**	2022 $
Interest on long-term debt	**39,590**	39,635
Short-term interest and fees relating to credit facility	**16,895**	6,154
Interest on lease liabilities	**109**	86
Less: capitalized borrowing costs	**(694)**	(849)
	55,900	45,026

22. INCOME TAXES

Income tax expense recognized in net income comprises the following:

	2023 **$**	2022 $
Current tax (recovery) expense		
Current income tax (recovery) expense	**(54)**	1,467
Deferred income tax expense		
Origination and reversal of temporary differences	**10,566**	19,500
Income tax expense recognized in net income	**10,512**	20,967

[in thousands of Canadian dollars]

22. INCOME TAXES [CONTINUED]

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

	2023 $	2022 $
Income tax effect on exchange differences on translation of foreign subsidiary	**(363)**	1,032
Other	**(239)**	1,137
Income tax (recovery) expense recognized in other comprehensive income	**(602)**	2,169

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:

	2023 $	2022 $
Federal and Ontario statutory income tax rate	**26.50 %**	26.50 %
Income attributable to equity shareholder before income taxes	**34,616**	60,641
Income taxes at statutory rate	**9,173**	16,070
Increase (decrease) in income taxes resulting from:		
Permanent differences	**2,341**	2,374
Tax rate differential on net capital loss carryforwards and other	**73**	1,900
Impact on foreign exchange translation on subsidiary	**9**	25
Foreign tax rate differential	**8**	2
Provision to return adjustment	**(533)**	(212)
Change in unrecognized tax benefit	**969**	514
Tax impact on joint venture	**2**	(89)
Current tax recovery from loss carryback	**(888)**	-
Other	**(642)**	383
	10,512	20,967
Effective income tax rate	**30.37 %**	34.57 %

[in thousands of Canadian dollars]

22. INCOME TAXES [CONTINUED]

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

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

	2023 **$**	2022 $
Property, plant and equipment and intangible assets	**757**	2,900
Employee future benefits	**245**	139
Non-capital loss carryforwards	**7,523**	4,281
Other temporary differences	**(83)**	(588)
	8,442	6,732

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

	2023 **$**	2022 $
Property, plant and equipment and intangible assets	**(128,361)**	(114,647)
Tax recognized in OCI	**(1,372)**	(1,885)
Non-capital loss carryforwards	**42**	29
Net capital loss carryforwards	**-**	1,961
Employee future benefits	**4,179**	4,142
Other	**6,905**	3,528
	(118,607)	(106,872)

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

	2023 **$**	2022 $
Deferred income tax asset, beginning of year	**6,732**	6,923
Impact of foreign exchange rate change on opening deferred income tax asset	**(61)**	239
Recognized in net income	**1,732**	(354)
Recognized in OCI	**39**	(76)
Deferred income tax asset, end of year	**8,442**	6,732

[in thousands of Canadian dollars]

22. INCOME TAXES [CONTINUED]

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

	2023	2022
	$	$
Deferred income tax liability, beginning of year	**(106,872)**	(85,633)
Recognized in net income	**(12,298)**	(19,145)
Recognized in OCI	**563**	(2,094)
Deferred income tax liability, end of year	**(118,607)**	(106,872)

The Corporation's regulatory deferral account debit balance for the amounts of deferred income taxes expected to be collected from customers in future electricity rates is $82,622 [2022 – $74,239].

As at December 31, 2023, the Corporation had Canadian capital losses of $1,415 [2022 – $1,415] and Canadian non-capital losses of $6,937 [2022 – $3,373] for which the tax benefit has not been recognized in these consolidated financial statements.

As at December 31, 2023, the Corporation had Canadian non-capital losses of $17,790 [2022 – $10,023] for tax purposes for which the tax benefit has been recognized in these consolidated financial statements. As at December 31, 2023, the Corporation had Canadian capital losses of $nil [2022 – $7,816].

As at December 31, 2023, the Corporation has U.S. federal losses carried forward of $11,388 [December 31, 2022 – $6,763] and New York losses carried forward of $8,939 [December 31, 2022 – $4,509] that can be carried forward indefinitely. These losses are considered more likely than not to be realized, resulting in a recognized deferred income tax asset of $2,850 at December 31, 2023 [December 31, 2022 – $1,652].

Deferred income tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax assets and unused tax losses can be utilized. Net deferred income tax assets of $2,839 [2022 – $2,389] have been recognized in EONY as there is sufficient positive evidence to demonstrate that it is probable that a net deferred income tax asset will be realized. Factors considered include: historic and expected future taxable income and the nature, amount and expected timing of reversal of taxable temporary differences.

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

[in thousands of Canadian dollars]

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

	2023 **$**	2022 $
Accounts receivable	**(21,734)**	(8,154)
Prepaid expenses	**(4,004)**	(1,486)
Note receivable from parent	**-**	19
Accounts payable and accrued liabilities	**26,720**	(16,420)
Inventory	**(4)**	(344)
Customer deposits in accounts receivable	**(7,915)**	3,194
Net change in accruals related to property, plant and equipment	**(941)**	7,073
	(7,878)	(16,118)

24. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

	2023 **$**	2022 $
Long-term debt, beginning of year	**1,075,648**	1,075,790
Proceeds from issuance of long-term debt	**2,375**	1,884
Current portion of long-term debt	**(3,796)**	(2,356)
Amortization of debt-issuance costs expensed	**336**	330
Long-term debt, end of year	**1,074,563**	1,075,648

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, 2023, the Corporation had drawn standby letters of credit in the amount of $10,000 [2022 – $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.

25. CONTINGENT LIABILITIES [CONTINUED]

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

The Corporation is contingently liable for its contractor’s obligations relating to the performance and completion of a project. As a result, the Corporation has provided its customer, the City of Ottawa, with surety performance bonds in connection with a project to design, procure and install charging and electrical infrastructure at one of its OC Transpo facilities. Surety bonds do not transfer risk, but instead provide a financial guarantee to the customer that the Corporation and its subcontractors will fulfill their obligations under the original contract. As at December 31, 2023, management does not foresee any possible issues relating to the performance and completion of the contract.

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, 2023, the Corporation has $167,673 in total open commitments spanning between 2024 and 2030. These include commitments relating to a call centre services agreement, distribution-related construction projects, overhead and underground services and other services relating to the Corporation's operations.

The Corporation maintains leases with various entities for the rights to certain lands, waterways, buildings and other generating assets at its generating stations in Ontario, Québec and New York. These leases are in place through various dates, ranging between September 30, 2022 and December 13, 2116. Certain leases have annual payments which have a fixed and contingent portion, the latter of which is based on either annual gross revenues or power generation levels and are not factored in the calculation of the Corporation's lease liability or effective lease term. The Corporation's anticipated future minimum lease payments will be: 2024 to 2028 – $746 and $38,023 thereafter.

27. RELATED PARTY TRANSACTIONS

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

(a) Transactions and balances outstanding with parent

During the year, the Corporation earned power recovery and distribution revenue from the City of Ottawa and its other subsidiaries, which was billed at prices and terms approved by the OEB. In addition, the Corporation earned commercial services revenue from the City of Ottawa and its other subsidiaries totaling $294 [2022 – $364] via its regulated subsidiary, Hydro Ottawa, and $18,922 [2022 – $18,336] via Envari. During the year, the Corporation also received $4,235 [2022 – $6,055] in contributions relating to the upgrade and/or expansion of the Corporation's existing electricity distribution infrastructure; earned $nil [2022 – $19] in interest revenue with respect to the note receivable from the City of Ottawa; incurred $32 [2022 – $33] in lease interest expense and made $52 [2022 – $52] in lease liability repayments with respect to a long-term lease outstanding with the City of Ottawa at December 31, 2023.

The Corporation incurred $4,393 [2022 – $4,998] of operating costs to the City of Ottawa. The Corporation also incurred $55 [2022 – $846] in building permit costs and development charges, which are included in property, plant and equipment.

As at December 31, 2023, the Corporation's accounts receivable and customer deposits include $16,725 [2022 – $15,857] and $1,866 [2022 – $1,711], respectively, while the Corporation's accounts payable and accrued liabilities include $206 [2022 – $259] 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 9 of these consolidated financial statements and the Corporation's long-term lease liability to the City of Ottawa included in Note 15 at December 31, 2023 is $748 [2022 – $776].

(b) Transactions and balances outstanding with joint ventures

(i) Moose Creek LP

During the year, the Corporation earned interest income in the amount of $nil [2022 – $2] on its settled note receivable from the Moose Creek LP joint venture as disclosed in Note 9, as well as $44 [2022 – $43] in other revenue for the provision of administrative services. As at December 31, 2023, the Corporation's accounts receivable include $nil [2022 – $4] due in respect of the transactions described for balances paid on behalf of Moose Creek LP.

(ii) PowerTrail

During the year, the Corporation earned other revenue of $44 [2022 – $43] for the provision of administrative services. As at December 31, 2023, the Corporation's accounts receivable include $nil [2022 – $36] due in respect of the transactions described.

(iii) ZCU

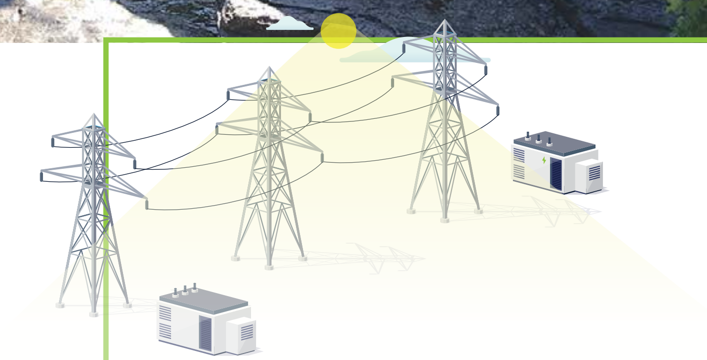
During the year, the Corporation earned interest income in the amount of $804 [2022 – $758] on its note receivable from ZCU disclosed in Note 9 of these consolidated financial statements. At December 31, 2023, accounts receivable includes $338 due from ZCU with respect to the transactions described [2022 – $303 with respect to amounts paid on the joint venture's behalf].

[in thousands of Canadian dollars]

27. RELATED PARTY TRANSACTIONS [CONTINUED]

(c) Compensation of key management personnel

	2023	2022
	$	$
Salaries, director fees and other short-term benefits	**1,975**	1,906
Employee future benefits	**512**	551
Other long-term benefits	**33**	33
	2,520	2,490



Governance **and executive compensation**

Corporate governance

In keeping with its commitment to robust Environmental, Social and Governance (ESG) performance, Hydro Ottawa continues to establish and maintain 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.

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 (Hydro Ottawa Holding Inc.) and its subsidiaries rests with a 13-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 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.

Appointments to the Boards of Directors

As noted above, the governance structure for the Corporation and its subsidiaries 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

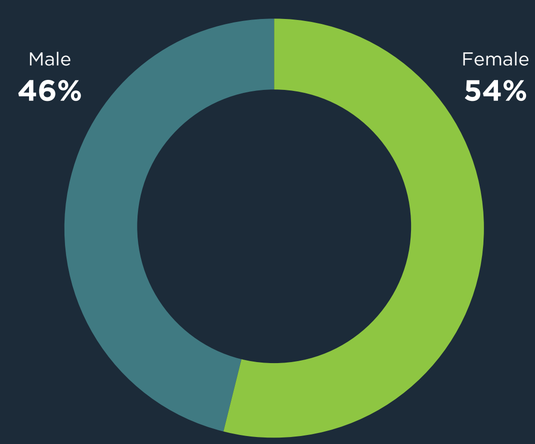
Gender diversity leadership at the board level

Hydro Ottawa is committed to building an organization — from leadership at the top to employees on the front-line — that reflects the diversity of the communities we serve.

We take great pride in the high levels of gender diversity maintained on our Board of Directors over many years. Our competitive advantage is sharpened when decision-making is enhanced by a broad spectrum of competencies, skills and backgrounds on our Board.

More than half of our Board Directors were women in 2023, which significantly exceeded the national average (as compared to publicly-traded companies). This places Hydro Ottawa in the top-tier of companies who are benefitting from more women with a seat at the boardroom table.

Board of Directors gender representation



competitive business experience and strategic planning; a strong financial background, including financial accreditation and public or private market financing experience; industry sector experience in the areas of business of the subsidiary companies; engineering experience; board experience; and merger and acquisition experience.

In step with its strong ESG culture, the Corporation seeks to establish representation on the Board that reflects the diverse population which Hydro Ottawa serves. A high level of gender diversity has been maintained on the Board over the years, with female representation consistently exceeding the national average by a significant margin (as compared to publicly-traded companies).

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 an imminent threat, natural disaster, pandemic or significant outage, 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.

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.

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.

* The Investment Review Committee was merged with the Strategic Initiatives Oversight Committee in April 2024.

Statement of executive compensation

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

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

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

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

Total cash compensation for Executives consists of two components: base salary and an at-risk performance incentive. (The President and Chief Executive Officer receives a base salary only.)

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

Executives participate in a benefits program, which includes extended health care, dental care, basic and optional life insurance, and short-term and long-term disability insurance. Executives also participate in the OMERS pension plan. This plan is a multi-employer, contributory, defined benefit pension plan established by the Province for employees of municipalities, local boards, and school boards in Ontario. Pension benefits are determined by a formula based on the highest consecutive five-year average of contributory earnings and years of service. Pension benefits are subject to Shared Risk Indexing, meaning any indexation to increases in the Consumer Price Index is conditional upon the OMERS Sponsors Corporation Board's annual assessment of the overall financial health of the plan. 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.

Compensation of officers and board members

Officers

Name and principal position[1]	Year	Base salary ($)	At risk performance incentive ($)[2]	Other compensation ($)[3]
Bryce Conrad President and Chief Executive Officer	2023	412,865	N/A	92,328
	2022	412,478	N/A	69,596
	2021	402,796	N/A	100,951
Geoff Simpson Chief Financial Officer	2023	232,489	75,932	13,791
	2022	225,776	77,387	10,551
	2021	220,043	73,630	10,698
Guillaume Paradis Chief Electricity Distribution Officer	2023	192,444	65,098	16,829
	2022	186,887	64,058	19,382
	2021	182,008	57,559	21,789
Gregory Clarke Chief Electricity Generation Officer	2023	208,089	67,963	20,622
	2022	202,081	68,081	10,451
	2021	197,337	66,305	10,432
Adnan Khokhar Chief Energy and Infrastructure Services Officer	2023	209,544	72,715	15,330
	2022	203,493	68,557	10,336
	2021	198,716	68,259	10,320

1 Officers whose earnings are reported are those who occupied the position at December 31, 2023.
2 Amounts shown in this column reflect the at-risk performance incentive for the executive in respect of the achievement of the performance objectives for the previous financial year, paid in the reporting year. These amounts have been rounded to the nearest dollar.
3 Amounts in this column include Board-approved discretionary payments such as payments of earned and unused vacation credits, car allowance, computer allowance, one-time lump sum payments and employer's share of basic life insurance premiums. These amounts have been rounded to the nearest dollar.

Board members

The remuneration of the members of the Boards of Directors of Hydro Ottawa Holding Inc. and Hydro Ottawa Limited is 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 committee meeting 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.

Board and committee meeting attendance

The following tables illustrate the attendance of members at meetings of the Boards of Directors and their committees in 2023.

Hydro Ottawa Holding Inc.

Director	Board meetings	Committee meetings
Bernie Ashe (Chair)[1]	7/7	7/8
Jim Durrell (Past Chair)[2]	5/5	8/8
Bryce Conrad (President and CEO)	7/7	11/11
Yaprak Baltacioglu[2]	5/5	1/3
Kim Butler	7/7	6/6
Catherine Clark	6/7	3/3
Cathy Curry	6/7	3/4
Matt Davies	7/7	8/9
Laura Dudas	7/7	3/4
Cyril Leeder[2]	5/5	4/4
Paul McCarney	5/7	3/3
Madeleine Meilleur[3]	2/2	1/1
Lynn Norton[3]	2/2	1/2
Cyrus Reporter	5/7	4/5
Rumina Velshi[3]	1/2	2/2

Hydro Ottawa Limited

Director	Board meetings	Committee meetings
Bernie Ashe (Chair)[1]	1/1	N/A
Jim Durrell (Past Chair)[2]	3/3	N/A
Bryce Conrad (President and CEO)	4/4	N/A
Guillaume Paradis	4/4	N/A

1 Bernie Ashe's term as Chair of the Board took effect on October 26, 2023.
2 Denotes outgoing Board member whose term ended on October 25, 2023.
3 Denotes incoming Board member whose term took effect on October 26, 2023.

Note:

Jim Durrell was appointed to the Hydro Ottawa Holding Inc. and the Hydro Ottawa Limited Boards of Directors effective July 1, 2012. He served as Chair of both Boards from July 1, 2013 until the end of his term on October 25, 2023.

Yaprak Baltacioglu was appointed to the Hydro Ottawa Holding Inc. Board of Directors effective July 1, 2018. She served as Chair of the Governance & Management Resources Committee and a member of the Strategic Initiatives Oversight Committee until the end of her term on October 25, 2023.

Cyril Leeder was appointed to the Hydro Ottawa Holding Inc. Board of Directors effective July 1, 2017. He served as Chair of the Audit Committee and member of the Strategic Initiatives Oversight Committee until the end of his term on October 25, 2023.

We wish to convey our sincere appreciation to Jim Durrell, Yaprak Baltacioglu and Cyril Leeder for their dedicated service.

Members of the Boards of Directors

HYDRO OTTAWA HOLDING INC.


Bernie Ashe (Chair)


Bryce Conrad


Kim Butler


Catherine Clark


Cathy Curry


Matt Davies


Laura Dudas


Jacqueline Gauthier


Paul McCarney


Madeleine Meilleur

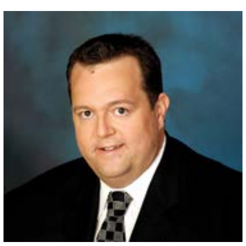

Lynn Norton


Cyrus Reporter


Rumina Velshi

HYDRO OTTAWA LIMITED


Bernie Ashe (Chair)


Bryce Conrad


Guillaume Paradis

This list comprises the members of the Boards of Directors as of December 31, 2023.

Canadian Apprenticeship Forum Top Employer Award

Best Practices Awards, Silver — Outage Communications Category

HRD Canada Innovative Human Resources Team Award

IES Ottawa Best Green Lighting and Design Award

Company of the Year Award

Ottawa Fire Chief's Award

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

La version française du présent rapport annuel est affichée sur le site https://hydroottawaholding.com/RapportAnnuel2023

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